ABSA

Today, tomorrow, together.

Financial results

for the reporting period ended 31 December 2012

Member of BARCLAYS

Contents

The report is printed on recycled paper that is 100% post-consumer waste sourced from either office or printing waste with no harmful chemicals used during the bleaching process. The by-products of production of the paper are recycled into fertilizer, building materials and heat.

Group performance

Contents

Group performance overview
31 December

> "While headline earnings for 2012 did not meet our expectations, we made significant changes to the Group, creating a solid platform for growth. Momentum in our underlying businesses has improved, our balance sheet remains strong and we are well positioned to execute our One Africa strategy."

Maria Ramos, *Group Chief Executive*

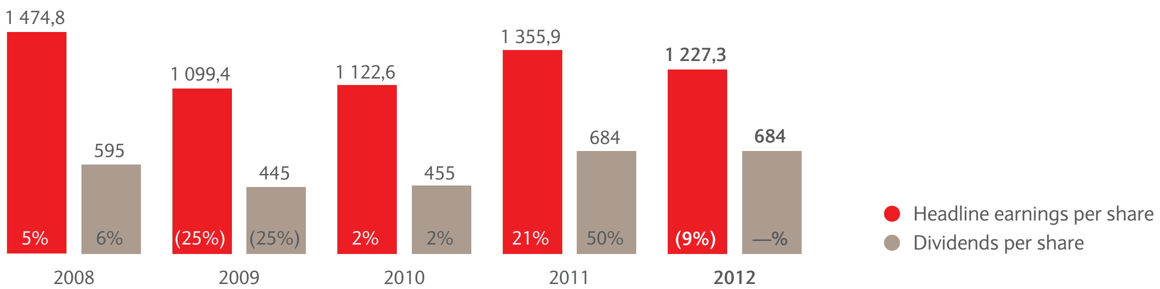
Favourable

- Pre-provision profit increased by **3%** to **R21 billion**.
- Final dividend of **684** cents per share, stable compared to the previous reporting period.
- Non-interest income increased by **6%** to **R23 billion** and accounted for **48,5%** of total revenue.
- Cost-to-income ratio improved to **55,2%** (2011: 55,5%) due to the containment of operating expenses growth.
- Loans and advances to customers increased by **5%** to **R528 billion**.
- Net asset value (NAV) per share increased by **7%** to **9 319 cents** (2011: 8 690 cents).
- Core Tier 1 capital adequacy ratio remained **13%**, well above regulatory and board requirements.

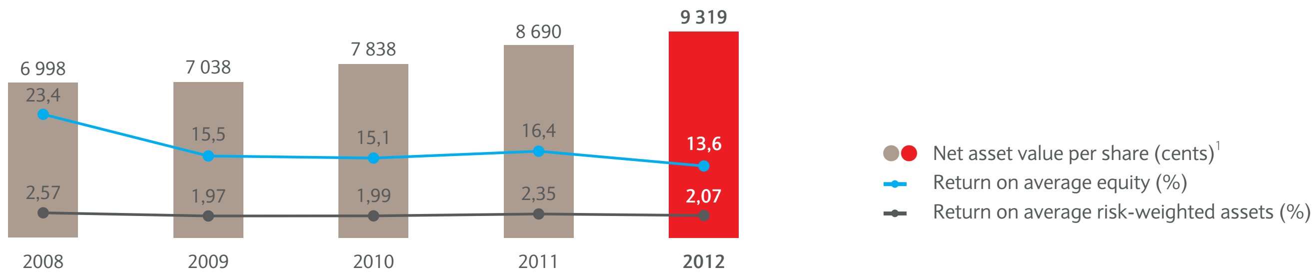
Unfavourable

- Headline earnings per share (HEPS) declined by **9%** to **1 227,3 cents** (2011: 1 355,9 cents).
- Return on average equity (RoE) decreased to **13,6%** (2011: 16,4%) in line with cost of equity (CoE) of **13,5%** (2011: 14,0%).
- Impairment losses on loans and advances increased by **63%** to **R8 billion**, resulting in a **1,59%** impairment losses ratio (2011: 1,01%).
- Return on average risk-weighted assets (RoRWA) declined to **2,07%** and return on average assets (RoA) to **1,09%** (2011: 2,35% and 1,32% respectively).

Headline earnings per share and dividends per share (cents and change %)



NAV per share, RoE and RoRWA (cents and %)



Note

[1]The five-year compound annual growth rate (CAGR) is calculated at **11%** (2011: 13%).

Growing sustainably

The choices made today will affect the world's future sustainability. Sustainability encompasses not only environmental issues, but also broader issues of a social, economic and financial nature. Absa follows a balanced approach and focuses on all areas to ensure the future sustainability of its business.

One Absa

The One Absa strategy changes the way Absa does business and how it collaborates internally. Absa's strategy aims to achieve sustainable growth in targeted markets, optimise its balance sheet and strengthen its risk management, standardise and streamline the Group for customer delivery and create a customer- and people-centred organisation.

Sustainable growth in targeted markets

Become the leading financial services group in South Africa and selected African countries, while improving profitability and returns

9%	↓	Headline earnings
6%	↑	Non-interest income growth
13,6%	↓	Return on average equity
2,07%	↓	Return on average risk-weighted assets

Simple and streamlined Group for customer delivery

Instilling a culture of operating as a fully integrated organisation, in a manner that generates efficiencies and places the customer at the centre of everything the Group does

55,2%	↓	Cost-to-income ratio
32%	↑	**R206 million** invested in delivery footprint
7%	↓	Five-year CAGR for operating expenses
972	↑	Staffed outlets[1]
9 929	↑	ATMs[1]

Note
[1]Includes African operations.

Balance sheet optimisation and proactive risk management

To maintain a strong balance sheet that can withstand economic and financial shocks

17,4%	↑	Total capital adequacy ratio
13%	→	Core Tier 1 capital adequacy ratio
3%	↑	Risk-weighted assets of **R438 billion**
1,59%	↑	Impairment losses ratio

Customer- and people-centred organisation

The most talented and motivated people delivering leading-edge customer service

10%[1,2]	↓	Banking customer base of **10,9 million**
2%[1]	↑	Internet banking users totalling **1,2 million**
32%	↑	Cellphone banking customers totalling **4,2 million**

One Africa

The One Africa strategy focuses on broadening Absa's services in leading markets and investing in new geographies. Absa uniquely positions itself as a fully global and fully local bank to deliver a superior customer and client experience in Africa.

Absa is a well-capitalised and strong bank with significant scale in South Africa. Barclays Africa is a leading, well established Africa franchise. The proposed combination of Absa with Barclays Africa operations will create a leading pan-African financial services business with a compelling platform for further growth. The transaction aims to accelerate Barclays and Absa's One Africa strategy for the benefit of shareholders, customers, colleagues and communities.

Absa's goal is simple – the Group aims to become the Go To bank in Africa. Put differently, the intention is for Absa and Barclays Africa to be the instinctive partners of choice.

Notes
[1] Includes African operations.
[2] Decrease mainly attributable to dormant account closures.

Consolidated salient features

31 December

	2012	2011[1]	Change %
Statement of comprehensive income (Rm)			
Headline earnings[2]	**8 807**	9 719	(9)
Profit attributable to ordinary equity holders	**8 393**	9 674	(13)
Statement of financial position			
Total assets (Rm)	**807 939**	786 719	3
Loans and advances to customers (Rm)	**528 191**	504 925	5
Deposits due to customers (Rm)	**477 427**	440 960	8
Loans-to-deposits ratio (%)	**90,2**	88,4	
Off-statement of financial position (Rm)			
Assets under management and administration	**246 950**	213 186	16
Financial performance (%)			
Return on average equity (RoE)	**13,6**	16,4	
Return on average assets[3] (RoA)	**1,09**	1,32	
Return on average risk-weighted assets[3] (RoRWA)	**2,07**	2,35	
Operating performance (%)			
Net interest margin on average interest-bearing assets[3]	**3,87**	4,11	
Impairment losses on loans and advances as % of average loans and advances to customers[3]	**1,59**	1,01	
Non-performing loans as % of loans and advances to customers[3]	**5,8**	6,9	
Non-interest income as % of total operating income	**48,5**	46,7	
Cost-to-income ratio	**55,2**	55,5	
Effective tax rate, excluding indirect taxation	**27,9**	28,3	
Share statistics (million)			
Number of ordinary shares in issue	**718,2**	718,2	
Number of ordinary shares in issue (excluding treasury shares)	**717,7**	717,0	
Weighted average number of ordinary shares in issue	**717,6**	716,8	
Diluted weighted average number of ordinary shares in issue	**719,2**	719,9	
Share statistics (cents)			
Headline earnings per share	**1 227,3**	1 355,9	(9)
Diluted headline earnings per share	**1 224,6**	1 350,0	(9)
Basic earnings per share	**1 169,6**	1 349,6	(13)
Diluted earnings per share	**1 167,0**	1 343,8	(13)
Dividends per ordinary share relating to income for the reporting period	**684**	684	—
Dividend cover (times)	**1,8**	2,0	
Net asset value per share	**9 319**	8 690	7
Tangible net asset value per share	**8 962**	8 392	7
Capital adequacy (%)[3, 4]			
Absa Group	**17,4**	16,7	
Absa Bank	**17,5**	16,2	

Notes

[1]Comparatives have been reclassified. Refer to pages 121 to 123.

[2]After allowing for **R295 million** (2011: R284 million) profit attributable to preference equity holders of Absa Bank Limited.

[3]These ratios are unaudited.

[4]Refer to pages 93 to 118 for the risk management section.

Consolidated salient features by segment

31 December

	2012	2011[1]	Change %
Headline earnings (Rm)[3]			
Retail and Business Banking (RBB)	**4 346**	6 106	(29)
Retail Markets	**3 436**	4 243	(19)
Business Markets	**910**	1 863	(51)
Corporate, Investment Banking and Wealth (CIBW)	**2 810**	2 230	26
Investment Bank	**1 898**	1 359	40
Corporate	**831**	822	1
Wealth	**81**	49	65
Financial Services	**1 338**	1 375	(3)
Life Insurance	**676**	727	(7)
Investments	**334**	312	7
Short-term insurance	**254**	301	(16)
Fiduciary services	**76**	83	(8)
Other	**(2)**	(48)	>100
Head office, inter-segment eliminations and Other	**313**	8	>100
Return on average risk-weighted assets (%)[2, 3]			
RBB	**1,52**	1,97	
Retail Markets	**1,82**	2,69	
Business Markets	**0,84**	1,56	
CIBW	**2,06**	1,80	
Impairment losses on loans and advances as % of average loans and advances to customers (%)[2]			
RBB	**1,98**	1,16	
Retail Markets	**1,89**	1,23	
Business Markets	**2,28**	0,93	
CIBW	**0,12**	0,05	
Financial Services	**12,37**	1,80	
Loans and advances to customers (Rm)[3]			
RBB	**419 644**	412 595	2
Retail Markets	**328 684**	318 734	3
Business Markets	**90 960**	93 861	(3)
CIBW	**107 907**	91 889	17
Financial Services	**296**	137	>100
Head office, inter-segment eliminations and Other	**344**	304	13
Deposits due to customers (Rm)[3]			
RBB	**216 309**	207 574	4
Retail Markets	**131 714**	126 210	4
Business Markets	**84 595**	81 364	4
CIBW	**261 317**	233 702	12
Head office, inter-segment eliminations and Other	**(199)**	(316)	37

Notes

[1]Comparatives have been reclassified. Refer to pages 121 to 123.

[2]These ratios are unaudited.

[3]The following segment reclassifications have taken place during the current reporting period (2010 comparatives have not been reclassified for these changes):

- As part of the One Absa strategy, the segments of Retail Markets (previously known as Retail Banking) and Business Markets (previously known as Absa Corporate and Business Bank) were merged into the RBB segment.
- Absa Cash Solutions Group Processing Centre and Integrated Processing Services were moved from the Corporate Centre (included in Head office, inter-segment eliminations and Other) to RBB.
- Absa Development Company Holdings Proprietary Limited, a subsidiary of the Group, was segmented into Retail Markets and Business Markets. Its results were previously reported in Retail Markets.
- The Group's corporate customers and products were transferred from Business Markets to CIBW following an initiative to optimise product delivery to its corporate customers.
- Foreign Exchange and Group Payments were moved from Corporate Centre to CIBW.
- Support Services was renamed to Enterprise Core Services, which consists of a significant division namely, the Corporate Centre.

Profit and dividend announcement

31 December 2012

Salient features

- Diluted headline earnings per share (HEPS) declined 9% to 1 224,6 cents.
- Pre-provision profit increased 3% to R21,0 billion.
- Maintained dividend per share (DPS) of 684 cents.
- Revenue grew 2% to R46,9 billion.
- Net interest margin on average interest-bearing assets narrowed to 3,87% from 4,11%.
- Non-interest income increased 6% to R22,7 billion and accounted for 48,5% of total revenue.
- With operating expenses growth contained to 2%, Absa's cost-to-income ratio improved to 55,2% (2011: 55,5%).
- Loans and advances to customers grew 5% to R528,2 billion.
- Credit impairments increased 63% to R8,3 billion, resulting in a 1,59% credit loss ratio (2011: 1,01%).
- Return on average equity (RoE) decreased to 13,6% (2011: 16,4%).
- Return on average risk-weighted assets (RoRWA) declined to 2,07% and return on average assets to 1,09% (2011: 2,35% and 1,32% respectively).
- Net asset value (NAV) per share grew 7% to 9 319 cents.
- Absa Group's Core Tier 1 capital adequacy ratio remained 13,0%, well above regulatory requirements and Board targets.

Overview of results

Absa Group's headline earnings decreased 9% to R8 807 million (2011: R9 719 million). Diluted HEPS also declined 9% to 1 224,6 cents (2011: 1 350,0 cents). Our RoE decreased to 13,6% (2011: 16,4%), marginally above our internal cost of equity. We maintained a total DPS of 684 cents, after considering regulatory changes, our strong capital position, strategy, growth plans, and near-term business objectives.

Higher credit impairments, particularly in retail mortgages and commercial property finance, were the principal reason for lower earnings. Pre-provision profit increased 3% to R21,0 billion, largely due to continued focus on sustainable operating model changes.

Retail and Business Banking's (RBB) headline earnings fell 29%, due to substantial credit impairments and large commercial property equity investment write downs. Corporate, Investment Banking and Wealth's (CIBW) headline earnings increased 26%, given strong Markets growth, while Financial Services' decreased 3%.

Operating environment

Global growth remained subdued in 2012. Central banks in advanced economies injected liquidity into the financial system, helping to improve market sentiment and investor risk appetite. South Africa's growth slowed sharply in the third quarter to 1,2% from 3,4% the previous quarter, the lowest growth rate since emerging from recession in 2009. Household consumption expenditure continued to slow, reflecting subdued consumer confidence, moderating real wage growth, a lacklustre job market and higher inflation. While private sector credit extension gained traction in 2012, it was mostly in non-asset backed categories. Inflation moderated in the early part of the year to a low of 4,9%, but has since started to rise steadily, driven by food and petrol prices.

Group performance

Statement of financial position

Total Group assets increased 3% to R807,9 billion on 31 December 2012, largely due to 5% growth in loans and advances to customers and 10% higher statutory liquid assets. Loans and advances to banks decreased 22%.

Loans and advances to customers

Gross loans and advances to customers increased 5% to R542,2 billion, almost all in the second half of 2012, in part due to acquiring Edcon's book, which saw credit cards increase 54% to R32,8 billion. Retail Markets' gross loans increased 3%, despite 2% lower mortgages, given this growth in credit cards and 9% higher vehicle finance. New retail volumes improved materially in the second half. Gross Business Markets loans declined 2%, after 9% lower commercial property finance. Gross CIBW loans grew 17%, as overnight finance and foreign currency loans increased 65% and 36% respectively.

Group performance *(continued)*

Statement of financial position *(continued)*

Deposits due to customers

We maintained our strong liquidity position, growing customer deposits 8% or by R36,5 billion to R477,4 billion. Our funding tenor also remained robust with an average long-term funding ratio of 26,2% for 2012 from 26,8% in 2011. The weighted average life of wholesale funding at 31 December 2012 was 17,6 months from 15,3 months the previous year. Deposits due to customers contributed 76,8% of total funding from 72,3% in 2011, while the proportion of debt securities in issue dropped to 17% from 21%. Retail Markets' deposits increased 4% to R131,7 billion to maintain its leading market share. Business Markets' deposits rose 4%, due to 9% growth in cheque accounts. CIBW's deposits increased 12%, mainly due to a significant R27,3 billion rise in notice deposits.

Our loans-to-deposits ratio increased to 90% from 88%.

Net asset value

The Group's NAV increased 7% to R66,9 billion, as we generated retained earnings of R3,1 billion. Absa's NAV per share grew 7% to 9 319 cents.

Capital to risk-weighted assets

After implementing Basel II.5 and the AIRB approach on our wholesale book, and growing loans and advances to customers 5% in 2012, the Group's risk-weighted assets increased 3% to R438,2 billion (2011: R424,5 billion). We maintained our strong capital levels, which remain above board targets and regulatory requirements. At 31 December 2012, Absa Group's Core Tier 1 and Tier 1 capital adequacy ratios were steady at 13,0% and 14,0% respectively (2011: 13,0% and 14,1%). The Group's total capital ratio improved to 17,4% (2011: 16,7%). Maintaining our 684 cent total DPS is well considered, based on our strong capital position, internal capital generation, strategy and growth plans. With strong free cash flow generation, our leverage remains low at 12,5 times.

Statement of comprehensive income

Net interest income

Net interest income decreased 1% to R24 111 million (2011: R24 429 million), despite 5% higher average interest earning assets. Our net interest margin declined to 3,87% from 4,11%, largely because of a lower margin in CIBW. Higher average foreign currency loans and reverse repos with banks, which have narrow margins, was the main cause for this decline, although it was offset by related foreign currency hedging gains in non-interest income. Our deposit margins decreased and liquidity costs increased. These outweighed our improved margin from loan mix and better Home Loan pricing.

Credit losses

Credit impairments rose 63% to R8 290 million (2011: R5 081 million), resulting in a credit loss ratio of 1,59% from 1,01%. Retail Market's charge grew 53% to R6,1 billion, increasing its credit loss ratio to 1,89% from 1,23%.

Our Home Loans credit impairments rose to R4,5 billion from R2,2 billion following a thorough review of our mortgage provisioning. Higher provisioning for our legal book, particularly insolvencies, increased our Home Loans non-performing loan (NPL) coverage to 28,5% from 17,1% in December 2011 and 22,6% last June. We moved more mortgages into legal during the second half, necessitating a higher charge due to lower expected recoveries. Our mortgage collections processes were strengthened, which reduced the age of our legal portfolio in the second half. We also provided an additional R145 million for performing mortgages given a more conservative approach to restructured accounts.

Vehicle and Asset Finance's credit loss ratio improved to 0,64% from 1,88%, reflecting improved collections, while Personal Loans increased, in line with expectations, to 4,68% from 3,87%. Early arrears continue to improve across most portfolios.

Business Markets' R2,1 billion charge increased its credit loss ratio to 2,28% from 0,93%, including commercial property finance which rose to R979 million (2011: R219 million) due to one large exposure and lower expected collateral realisation values.

Our total NPLs declined 11% or by R4,1 billion to R31,5 billion. Retail Markets' NPLs fell by 20% to R24,0 billion. Group NPLs coverage improved to 37,0% from 27,8%, given the significant rise in our mortgage cover. NPLs as a percentage of customer loans and advances improved to 5,8% from 6,9% in December 2011 and 6,4% last June, despite a large increase in Business Markets' NPLs.

Non-interest income

Non-interest income increased 6% to R22 741 million (2011: R21 403 million). Net fee and commission income rose 1%, as 17% higher fee and commission expenses offset 8% growth in cheque accounts fees and an 11% increase in merchant income.

Retail Markets' non-interest income was flat at R10,8 billion, largely due to R0,4 billion lower AllPay revenue after it lost a government tender. Excluding AllPay, its non-interest income grew 4%, with 11% growth in Card and 24% in Vehicle and Asset Finance. Net retail fee and commission income declined 1% to R10,4 billion, reflecting increased competition and changing customer transactional behaviour.

Business Markets' net fee and commission income increased 11%, due to enhanced transactional capabilities, introducing new products and reducing revenue leakage. Its equities revaluations were negative R318 million. Financial Services' net revenue grew marginally to R4,0 billion, driven by 8% growth in net insurance premium income, despite higher claims. CIBW's non-interest income increased 31%, mainly due to a 64% increase in net trading.

Group performance *(continued)*

Statement of comprehensive income *(continued)*

Operating expenses

Operating expenses increased 2% to R25 874 million (2011: R25 458 million). Excluding higher investment property charges it was flat. Staff costs decreased 4% to R13,1 billion, reflecting 23% lower bonuses and continued focus on operational efficiencies. Non-staff expenses grew 8%, due to 13% higher property costs and a 49% rise in other operating expenses. The latter included R150 million in costs for our proposed Barclays Africa transaction and higher costs for frauds and losses. Professional fees declined 20%. Total IT-related spend, which declined 7% to R5,1 billion, accounted for 20% of Group costs. Amortisation of intangible assets decreased 12% to R255 million. Retail Markets' operating expenses declined 1% and Financial Services' were flat, while CIBW grew 2%. Business Markets' costs rose 13% due to a large negative change in fair value of investment property. Absa's cost-to-income ratio improved to 55,2% from 55,5%. Our burden (non-interest income over costs) improved to 88% from 84%.

Taxation

Our taxation decreased 16% to R3 377 million, as our effective tax rate declined to 27,9% from 28,3%. The lower rate was mainly due to replacing secondary tax on companies with dividend withholding tax.

Segment performance

Retail Markets

Headline earnings fell 19% to R3 436 million (2011: R4 243 million), due to 53% higher credit impairments of R6,1 billion. However, pre-provision profits grew 6% to R11,4 billion, as 2% revenue growth exceeded 1% lower expenses. Retail Markets' cost-to-income ratio improved to 54,0% from 55,6%. Excluding AllPay's lower contribution, non-interest income grew 4%. A R4,5 billion credit impairment produced a R992 million loss in Home Loans, despite 7% lower costs and an improved margin. Vehicle and Asset Finance earnings grew 96%, due to far lower credit impairments and 24% higher non-interest revenue. Card earnings increased 19% to R2,1 billion and represent 24% of Group headline earnings, with Edcon contributing R141 million. Personal Loans earnings declined 18%, reflecting lower revenue. Lower costs helped Retail Bank's earnings increase 47% to R0,9 billion. Retail Markets' return on regulatory capital (RoRC) decreased to 20,1% from 27,5%. We maintained our leading share of retail deposits, customers, branches and ATMs.

Business Markets

Headline earnings dropped 51% to R910 million (2011: R1 863 million). The decline reflects a R1 152 million pre-tax loss on our equity investment portfolio, lower commercial property finance advances and significantly higher credit impairments in commercial property and the rest of Africa. Customer loans and advances declined 3%, largely due to lower commercial property finance. New business volumes improved during the period, however. Net fees and commissions increased 11% and deposits 4%, in line with our strategy. Although underlying local costs rose only 2%, Business Markets' cost-to-income ratio increased to 67,9% from 58.8%. RoRC declined to 8,2% from 15,6%.

CIBW

Headline earnings grew 26% to R2 810 million (2011: R2 230 million), as 9% higher net revenue was well above expenses growth. Markets revenue increased 19% to R3 843 million largely due to growth in Fixed Income and Credit and Africa desk of 35% and 36% respectively. Corporate net revenue decreased 2%, as increased impairments in trade and working capital solutions offset growth in cash management, payments and liquidity revenue. Investment Banking's net revenue increased 8% to R1 365 million. Private Equity and Infrastructure revenue grew 25% to R397 million, given revaluations on improved underlying company performance. Wealth's net revenue increased 9% mainly on improved investment management and advisory activities. Containing operating expenses growth to 2% improved CIBW's cost-to-income ratio to 54,1% from 58,8%. CIBW's RoRC increased to 20,1% from 18,0%.

Financial Services

Headline earnings decreased 3% to R1 338 million (2011: R1 375 million), due mainly to lower life and short-term insurance earnings. Net operating income declined 7% to R1 564 million. Life premiums grew 12%, but due to a strengthening of the policyholder reserves, profits declined 7% to R676 million. Net short-term insurance premiums grew 5% and short term insurance profit for the period decreased 16% to R254 million. However, our South African operations' underwriting margin of 4,3% is satisfactory in a year where the industry was impacted by significant claims from weather and fire-related events. Absa Investments' assets under management grew 14% and its profit for the period increased 6% to R331 million. Net premium income from the rest of Africa increased more than 100% to R369 million and net operating income was R27 million. Financial Services' RoE declined to 28,2% from 32,0%.

Prospects

Fiscal austerity measures across most advanced economies are the main drag facing the global economy in 2013. Emerging markets are expected to perform better, supported by fiscal stimulus and monetary easing. Global growth is expected to remain subdued at 3,3% in 2013 from around 3,0% last year. We expect Sub-Saharan Africa to grow 5,7% this year.

South Africa's strong links with advanced economies are a headwind to growth in 2013, even as trade with the rest of Africa and other emerging markets grow robustly. Growth in household consumption (albeit muted) and a rebound in mining production following labour unrest late last year, should boost growth. We expect 2,8% growth in 2013 from last year's estimated 2,5%. Given the moderate growth in household consumption expenditure, we expect limited demand pressures on inflation in 2013. Our base case for the next upward move in rates is in early 2014.

Against this backdrop, we expect mid-single digit loan growth this year. Improved momentum in our revenue growth and continued focus on efficiency should reduce our cost to income ratio again. Our credit loss ratio is expected to improve materially from last year's elevated levels. Together with capital management initiatives, these drivers should increase our RoE. We are excited by our proposed Barclays Africa transaction and the opportunity it offers to increase our exposure to higher growth economies in the rest of Africa.

Basis of presentation

The Group's condensed consolidated financial results have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRS), Interpretations issued by the IFRS Interpretations Committee and AC 500 standards as issued by the South African Accounting Practices Board or its successor. The presentation and disclosure complies with International Accounting Standard (IAS) 34.

The preparation of financial information requires the use of estimates and assumptions about future conditions. The accounting policies that are deemed critical to the Group's results and financial position and which involve a high degree of judgement including the use of assumptions and estimation, are impairment of loans and advances, goodwill impairment, valuation of financial instruments, impairment of available-for-sale financial assets, impairment of investments in associates and joint ventures, deferred tax assets, post-retirement benefits, provisions, share-based payments, liabilities arising from claims made under short-term insurance contracts, liabilities arising from claims made under life-term insurance contracts, income taxes and offsetting of financial assets and liabilities.

Accounting policies

The accounting policies applied in preparing the financial results during the reporting period are the same as the accounting policies in place for the year ended 31 December 2011. Amendments and changes to IFRS that are mandatory for 31 December 2012 financial year are specified in the most recent audited annual consolidated financial statements. These amendments resulted in additional disclosures being presented but had a minimal impact on the financial results during the reporting period.

Change in accounting estimate – Policyholder liabilities under insurance contracts

Policyholder liabilities under insurance contracts are valued using Standard of Actuarial Practices (SAP) 104, issued by the Actuarial Society of South Africa. SAP104 allows for additional margins if the Statutory Actuary believes that the compulsory margins are insufficient for prudent provisioning and/or to defer the release of profits in line with policy design and Company practice. These margins are incorporated into the liability calculations.

It is the Company's policy that profit margins contained in the premium basis, which are expected to be released in future as the business runs off, should not be capitalised and recognised prematurely. Such margins should only be released to profits once premiums have been received and the risk cover has been provided.

Management considered it appropriate to provide for these margins as a result of not having sufficiently large volumes of business and accompanying data. As a result there were random fluctuations in the policyholder liabilities and the discretionary margins provided to some extent a buffer against these fluctuations. However the volumes of business have shown positive growth over the past reporting periods and a more credible volume of data has emerged. Management have set the margins to 0% (2011: 0%). The only remaining discretionary margin is to hold a liability equal to the surrender value of a policy and the elimination of all negative liabilities. This margin mainly represents a mass lapse scenario to ensure that solvency is maintained if all in-force policies are cancelled.

Reclassifications

- During the current reporting period, the Group reclassified certain initial margins placed as collateral which were previously disclosed as 'Other assets' to 'Loans and advances to banks' and 'Loans and advances to customers' in order to better reflect the true nature of these balances as collateralised loans. This has resulted in comparatives being reclassified for 31 December 2011 (loans and advances to banks R67 million, other assets (R1 489 million) and loans and advances to customers R1 422 million) and 31 December 2010 (loans and advances to banks R77 million, other assets (R895 million) and loans and advances to customers R818 million).
- During the current reporting period, the Group refined the elimination of funding interest between 'Interest and similar income' and 'Interest expense and similar charges' on the trading book. This has resulted in comparatives being reclassified for the 2011 reporting period (interest and similar income R30 million, and interest expense and similar charges (R30 million)).

Profit and dividend announcement
31 December 2012

Auditors' report

Ernst & Young Inc. and PricewaterhouseCoopers Inc., Absa Group Limited's independent auditors, have audited the consolidated annual financial statements of Absa Group Limited from which management prepared the condensed consolidated financial results. The auditors have expressed an unqualified audit opinion on the consolidated annual financial statements. The condensed consolidated financial results comprise the condensed consolidated statement of financial position at 31 December 2012, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the year then ended, and selected explanatory notes, excluding items not indicated as audited. The audit report of the consolidated annual financial statements is available for inspection at Absa Group Limited's registered office.

Events after the reporting period

The directors are not aware of any events occurring between the reporting date of 31 December 2012 and the date of authorisation of these condensed consolidated financial results as defined in IAS 10.

On behalf of the board

G Griffin
Group Chairman

M Ramos
Group Chief Executive

Johannesburg
12 February 2013

Declaration of final ordinary dividend number 53

Shareholders are advised that a final ordinary dividend of **369** cents per ordinary share was declared today, 12 February 2013, for the year ended 31 December 2012. This brings the total dividend for the year ended 31 December 2012 to 684 cents per share. The ordinary dividend is payable to shareholders recorded in the register of members of the Company at the close of business on 5 April 2013. The directors of Absa Group confirm that the Group will satisfy the solvency and liquidity test immediately after completion of the dividend distribution.

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

- The dividend has been declared out of income reserves.
- The local dividend tax rate is fifteen percent (15%).
- The gross local dividend amount is **369** cents per ordinary share for shareholders exempt from the dividend tax.
- The net local dividend amount is 313,65000 cents per ordinary share for shareholders liable to pay for the dividend tax.
- Absa Group currently has 718 210 043 ordinary shares in issue (includes 547 750 treasury shares).
- Absa Group's income tax reference number is 9150116714.

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

Last day to trade cum dividend	Wednesday, 27 March 2013
Shares commence trading ex dividend	Thursday, 28 March 2013
Record date	Friday, 5 April 2013
Payment date	Monday, 8 April 2013

Share certificates may not be dematerialised or rematerialised between Thursday, 28 March 2013 and Friday, 5 April 2013, both dates inclusive.

On Monday, 8 April 2013, the dividend will be electronically transferred to the bank accounts of certificated shareholders who use this facility. In respect of those who do not, cheques dated 8 April 2013 will be posted on or about that date. The accounts of those shareholders who have dematerialised their shares (which are held at their participant or broker) will be credited on Monday, 8 April 2013.

On behalf of the board

NR Drutman
Company Secretary

Johannesburg
12 February 2013

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

Consolidated profit analysis – banking and Financial Services

for the reporting period ended 31 December

	Note	2012 Rm	2011[1] Rm	Change %
Income from banking and other activities		**42 836**	41 817	2
Net interest income	2	**24 105**	24 408	(1)
Non-interest income	4	**18 731**	17 409	8
Net fee and commission income		**14 539**	14 332	1
Gains and losses from banking and trading activities		**3 670**	2 594	41
Other income		**522**	483	8
Income from Financial Services		**7 649**	7 371	4
Net interest income	2	**6**	21	(71)
Non-interest income	4	**7 643**	7 350	4
Net fee and commission income		**896**	961	(7)
Net insurance premium income		**5 423**	5 030	8
Gains and losses from investment activities		**1 324**	1 359	(3)
Total operating income		**50 485**	49 188	3
Impairment losses on loans and advances		**(8 290)**	(5 081)	(63)
Banking and other activities	3	**(8 266)**	(5 077)	(63)
Financial Services	3	**(24)**	(4)	>(100)
Benefits due to policyholders from Financial Services	4	**(3 633)**	(3 356)	(8)
Net insurance claims and benefits paid		**(2 716)**	(2 533)	(7)
Changes in investment and insurance contract liabilities		**(980)**	(912)	(7)
Other operating income		**63**	89	(29)
Operating income before operating expenditure		**38 562**	40 751	(5)
Operating expenditure in banking and other activities		**(24 538)**	(24 454)	(0)
Operating expenses	5	**(23 847)**	(23 438)	(2)
Other impairments		**(89)**	(50)	(78)
Indirect taxation		**(602)**	(966)	38
Operating expenditure in Financial Services		**(2 155)**	(2 127)	(1)
Operating expenses	5	**(2 027)**	(2 020)	(0)
Other impairments		**(24)**	(2)	>(100)
Indirect taxation		**(104)**	(105)	1
Share of post-tax results of associates and joint ventures[2]		**249**	40	>100
Banking and other activities		**239**	40	>100
Financial Services		**10**	0	>100
Operating profit before income tax		**12 118**	14 210	(15)
Taxation expense		**(3 377)**	(4 026)	16
Profit for the reporting period		**8 741**	10 184	(14)
Profit attributable to:				
Ordinary equity holders		**8 393**	9 674	(13)
Non-controlling interest – ordinary shares		**53**	226	(77)
Non-controlling interest – preference shares		**295**	284	4
		8 741	10 184	(14)
Headline earnings	1	**8 807**	9 719	(9)

Notes

[1]Comparatives have been reclassified. Refer to pages 121 to 123.

[2]For the purpose of providing additional information, the current reporting period's results include a cumulative correction of earnings from previous reporting period of R139 million that have been considered by management to be quantitatively and qualitatively immaterial in terms of IAS 8 to require restatement of comparative numbers.

Condensed consolidated statement of comprehensive income

for the reporting period ended 31 December

	Note	2012 (Audited) Rm	2011[1] (Audited) Rm	Change %
Net interest income	2	**24 111**	24 429	(1)
Interest and similar income		**50 766**	51 191	(1)
Interest expense and similar charges		**(26 655)**	(26 762)	0
Impairment losses on loans and advances	3	**(8 290)**	(5 081)	(63)
Net interest income after impairment losses on loans and advances		**15 821**	19 348	(18)
Non-interest income	4	**22 741**	21 403	6
Net fee and commission income		**15 435**	15 293	1
Fee and commission income		**17 936**	17 422	3
Fee and commission expense		**(2 501)**	(2 129)	(17)
Net insurance premium income		**5 618**	5 209	8
Net insurance claims and benefits paid		**(2 719)**	(2 517)	(8)
Changes in investment and insurance contract liabilities		**(980)**	(914)	(7)
Gains and losses from banking and trading activities		**3 670**	2 594	41
Gains and losses from investment activities		**963**	966	(0)
Other operating income		**754**	772	(2)
Operating income before operating expenditure		**38 562**	40 751	(5)
Operating expenditure		**(26 693)**	(26 581)	(0)
Operating expenses	5	**(25 874)**	(25 458)	(2)
Other impairments		**(113)**	(52)	>(100)
Indirect taxation		**(706)**	(1 071)	34
Share of post-tax results of associates and joint ventures		**249**	40	>100
Operating profit before income tax		**12 118**	14 210	(15)
Taxation expense		**(3 377)**	(4 026)	16
Profit for the reporting period		**8 741**	10 184	(14)
Profit attributable to:				
Ordinary equity holders		**8 393**	9 674	(13)
Non-controlling interest – ordinary shares		**53**	226	(77)
Non-controlling interest – preference shares		**295**	284	4
		8 741	10 184	(14)
Earnings per share:				
Basic earnings per share (cents)	1	**1 169,6**	1 349,6	(13)
Diluted earnings per share (cents)	1	**1 167,0**	1 343,8	(13)

Note

[1]Comparatives have been reclassified. Refer to page121 to 123.

Condensed consolidated statement of comprehensive income

for the reporting period ended 31 December

	2012 (Audited) Rm	2011 (Audited) Rm	Change %
Profit for the reporting period	**8 741**	10 184	(14)
Other comprehensive income			
Foreign exchange differences on translation of foreign operations	**140**	522	(73)
Movement in cash flow hedging reserve	**405**	(237)	>100
Fair value gains arising during the reporting period	**2 650**	1 972	34
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income	**(2 088)**	(2 300)	9
Deferred tax	**(157)**	91	>(100)
Movement in available-for-sale reserve	**1 109**	(17)	>100
Fair value gains/(losses) arising during the reporting period	**1 532**	(58)	>100
Amortisation of government bonds – release to the profit and loss component of the statement of comprehensive income	**10**	20	(50)
Deferred tax	**(433)**	21	>(100)
Movement in retirement benefit fund asset and liabilities	**(242)**	(51)	>(100)
Decrease in retirement benefit surplus	**(279)**	(66)	>(100)
Increase in retirement benefit deficit	**(59)**	(5)	>(100)
Deferred tax	**96**	20	>100
Total comprehensive income for the reporting period	**10 153**	10 401	(2)
Total comprehensive income attributable to:			
Ordinary equity holders	**9 812**	9 791	0
Non-controlling interest – ordinary shares	**46**	326	(86)
Non-controlling interest – preference shares	**295**	284	4
	10 153	10 401	(2)

Condensed consolidated statement of financial position

as at 31 December

	Note	2012 (Audited) Rm	2011[1] (Audited) Rm	Change %
Assets				
Cash, cash balances and balances with central banks		**26 221**	26 997	(3)
Statutory liquid asset portfolio		**63 020**	57 473	10
Loans and advances to banks		**44 649**	57 499	(22)
Trading portfolio assets		**87 203**	84 623	3
Hedging portfolio assets		**5 439**	4 299	27
Other assets		**14 189**	14 730	(4)
Current tax assets		**304**	288	6
Non-current assets held for sale		**4 052**	35	>100
Loans and advances to customers	6	**528 191**	504 925	5
Reinsurance assets		**1 003**	1 009	(1)
Investment securities		**20 555**	21 182	(3)
Investments in associates and joint ventures		**569**	420	35
Investment properties		**1 220**	2 839	(57)
Property and equipment		**8 397**	7 996	5
Goodwill and intangible assets		**2 561**	2 135	20
Deferred tax assets		**366**	269	36
Total assets		**807 939**	786 719	3
Liabilities				
Deposits from banks		**36 035**	38 339	(6)
Trading portfolio liabilities		**51 684**	55 960	(8)
Hedging portfolio liabilities		**3 855**	2 456	57
Other liabilities		**18 215**	14 695	24
Provisions		**1 681**	1 710	(2)
Current tax liabilities		**59**	267	(78)
Non-current liabilities held for sale		**1 480**	—	100
Deposits due to customers	7	**477 427**	440 960	8
Debt securities in issue	7	**108 044**	130 262	(17)
Liabilities under investment contracts		**13 609**	15 233	(11)
Policyholder liabilities under insurance contracts		**3 550**	3 183	12
Borrowed funds	8	**17 907**	14 051	27
Deferred tax liabilities		**1 599**	1 198	33
Total liabilities		**735 145**	718 314	2
Equity				
Capital and reserves				
Attributable to ordinary equity holders:				
Share capital	8	**1 435**	1 434	0
Share premium	8	**4 604**	4 676	(2)
Retained earnings		**56 903**	53 813	6
Other reserves		**3 941**	2 385	65
		66 883	62 308	7
Non-controlling interest – ordinary shares		**1 267**	1 453	(13)
Non-controlling interest – preference shares		**4 644**	4 644	—
Total equity		**72 794**	68 405	6
Total liabilities and equity		**807 939**	786 719	3

Note

[1]Comparatives have been reclassified. Refer to pages 121 to 123.

Condensed consolidated statement of financial position – IAS 39 classification

as at 31 December

	2012 (Audited) Assets Rm	2012 (Audited) Liabilities and equity Rm	2011[1] (Audited) Assets Rm	2011[1] (Audited) Liabilities and equity Rm
Fair value through profit or loss	**135 015**	**102 927**	130 009	106 371
Designated at fair value	**42 846**	**47 388**	41 301	47 955
Cash, cash balances and balances with central banks	**2 507**	**—**	3 112	—
Statutory liquid asset portfolio	**800**	**—**	804	—
Loans and advances to banks	**9 728**	**—**	7 886	—
Other assets	**16**	**—**	17	—
Loans and advances to customers	**11 941**	**—**	10 198	—
Investment securities	**17 854**	**—**	19 284	—
Deposits from banks	**—**	**11 132**	—	9 673
Other liabilities	**—**	**8**	—	16
Deposits due to customers	**—**	**18 663**	—	20 500
Debt securities in issue	**—**	**3 198**	—	1 762
Liabilities under investment contracts	**—**	**13 609**	—	15 233
Borrowed funds	**—**	**778**	—	771
Held for trading	**86 730**	**51 684**	84 409	55 960
Trading portfolio assets	**86 689**	**—**	84 380	—
Investment securities	**41**	**—**	29	—
Trading portfolio liabilities	**—**	**51 684**	—	55 960
Hedging instruments	**5 439**	**3 855**	4 299	2 456
Hedging portfolio assets	**5 439**	**—**	4 299	—
Hedging portfolio liabilities	**—**	**3 855**	—	2 456
Available-for-sale	**64 946**	**—**	58 636	—
Designated as available-for-sale	**37 773**	**—**	35 294	—
Cash, cash balances and balances with central banks	**537**	**—**	523	—
Statutory liquid asset portfolio	**35 047**	**—**	33 327	—
Investment securities	**2 189**	**—**	1 444	—
Hedged items				
Statutory liquid asset portfolio	**27 173**	**—**	23 342	—
Amortised cost	**585 902**	**620 806**	579 170	602 998
Designated at amortised cost	**579 092**	**606 912**	573 824	586 717
Cash, cash balances and balances with central banks	**22 442**	**—**	22 832	—
Loans and advances to banks	**34 921**	**—**	49 613	—
Other assets	**12 289**	**—**	11 998	—
Loans and advances to customers	**509 440**	**—**	489 381	—
Deposits from banks	**—**	**24 903**	—	28 666
Other liabilities	**—**	**15 164**	—	12 092
Deposits due to customers	**—**	**458 764**	—	420 460
Debt securities in issue	**—**	**94 959**	—	117 726
Borrowed funds	**—**	**13 122**	—	7 773
Hedged items	**6 810**	**13 894**	5 346	16 281
Loans and advances to customers	**6 810**	**—**	5 346	—
Debt securities in issue	**—**	**9 887**	—	10 774
Borrowed funds	**—**	**4 007**	—	5 507
Held-to-maturity	**1 206**	**—**	955	—
Cash, cash balances and balances with central banks	**735**	**—**	530	—
Investment securities	**471**	**—**	425	—
Non-financial assets and liabilities	**20 870**	**11 412**	17 949	8 945
Total equity	**—**	**72 794**	—	68 405
	807 939	**807 939**	786 719	786 719

Note

[1]Comparatives have been reclassified. Refer to pages 121 to 123.

Condensed consolidated statement of changes in equity

for the reporting period ended 31 December

Balance at the beginning of the reporting period
Total comprehensive income for the reporting period
Profit for the reporting period
Other comprehensive income
Dividends paid during the reporting period
Purchase of Group shares in respect of equity-settled share-based payment schemes
Elimination of the movement in treasury shares held by Group entities
Movement in share-based payment reserve
Transfer from share-based payment reserve
Value of employee services
Movement in foreign insurance subsidiary regulatory reserve[1]
Movement in general credit risk reserve
Movement in insurance contingency reserve[2]
Share of post-tax results of associates and joint ventures
Increase in the interest of non-controlling equity holders
Disposal of interest in subsidiary without loss of control
Balance at the end of the reporting period

Balance at the beginning of the reporting period
Total comprehensive income for the reporting period
Profit for the reporting period
Other comprehensive income
Dividends paid during the reporting period
Purchase of Group shares in respect of equity-settled share-based payment schemes
Elimination of the movement in treasury shares held by Group entities
Movement in share-based payment reserve
Transfer from share-based payment reserve
Value of employee services
Movement in general credit risk reserve
Movement in insurance contingency reserve
Share of post-tax results of associates and joint ventures
Disposal of associates and joint ventures – release of reserves
Increase in the interest of non-controlling equity holders
Non-controlling interest arising from business combinations
Balance at the end of the reporting period

Notes

[1]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 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.

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

Condensed consolidated statement of changes in equity

for the reporting period ended 31 December

2012
(Audited)

Ordinary share capital Rm	Ordinary share premium Rm	Retained earnings Rm	Other reserves 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
1 434	4 676	53 813	2 385	62 308	1 453	4 644	68 405
—	—	8 151	1 661	9 812	46	295	10 153
—	—	8 393	—	8 393	53	295	8 741
—	—	(242)	1 661	1 419	(7)	—	1 412
—	—	(5 069)	—	(5 069)	(138)	(295)	(5 502)
—	(211)	—	—	(211)	—	—	(211)
1	29	—	—	30	—	—	30
0	110	—	(97)	13	—	—	13
0	110	—	(110)	—	—	—	—
—	—	—	13	13	—	—	13
—	—	(13)	13	—	—	—	—
—	—	(54)	54	—	—	—	—
—	—	324	(324)	—	—	—	—
—	—	(249)	249	—	—	—	—
—	—	—	—	—	35	—	35
—	—	—	—	—	(129)	—	(129)
1 435	4 604	56 903	3 941	66 883	1 267	4 644	72 794

2011
(Audited)

Ordinary share capital Rm	Ordinary share premium Rm	Retained earnings Rm	Other reserves 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
1 433	4 590	47 958	2 309	56 290	1 215	4 644	62 149
—	—	9 623	168	9 791	326	284	10 401
—	—	9 674	—	9 674	226	284	10 184
—	—	(51)	168	117	100	—	217
—	—	(3 744)	—	(3 744)	(173)	(284)	(4 201)
—	(281)	—	—	(281)	—	—	(281)
1	193	—	—	194	—	—	194
0	174	—	(116)	58	—	—	58
0	174	—	(174)	—	—	—	—
—	—	—	58	58	—	—	58
—	—	48	(48)	—	—	—	—
—	—	(19)	19	—	—	—	—
—	—	(40)	40	—	—	—	—
—	—	(13)	13	—	—	—	—
—	—	—	—	—	21	—	21
—	—	—	—	—	64	—	64
1 434	4 676	53 813	2 385	62 308	1 453	4 644	68 405

Condensed consolidated statement of cash flows

for the reporting period ended 31 December

	Note	2012 (Audited) Rm	2011 (Audited) Rm	Change %
Net cash generated from operating activities		**5 577**	8 305	(33)
Net cash utilised in investing activities		**(1 882)**	(511)	>(100)
Net cash utilised in financing activities		**(2 045)**	(4 143)	51
Net increase in cash and cash equivalents		**1 650**	3 651	(51)
Cash and cash equivalents at the beginning of the reporting period	1	**10 068**	6 417	57
Effect of exchange rate movements on cash and cash equivalents		**(2)**	0	>(100)
Cash and cash equivalents at the end of the reporting period	2	**11 716**	10 068	16

Notes

1. Cash and cash equivalents at the beginning of the reporting period

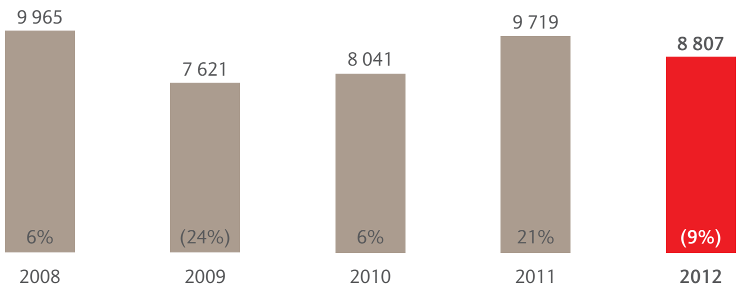
	2012 (Audited) Rm	2011 (Audited) Rm	Change %
Cash, cash balances and balances with central banks	**7 893**	4 939	60
Loans and advances to banks	**2 175**	1 478	47
	10 068	6 417	57

2. Cash and cash equivalents at the end of the reporting period

	2012 (Audited) Rm	2011 (Audited) Rm	Change %
Cash, cash balances and balances with central banks	**8 816**	7 893	12
Loans and advances to banks	**2 900**	2 175	33
	11 716	10 068	16

1. Headline earnings and earnings per share

Headline earnings (Rm and change %)



Headline earnings	2012 (Audited) Gross Rm	2012 (Audited) Net[1] Rm	2011 (Audited) Gross Rm	2011 (Audited) Net[1] Rm	Net[1] change %
Headline earnings is determined as follows:					
Profit attributable to ordinary equity holders		**8 393**		9 674	(13)
Total headline earnings adjustment:		**414**		45	>100
IAS 36 – Goodwill impairment	**18**	**18**	28	28	(36)
IAS 16 – Profit on disposal of property and equipment	**(81)**	**(63)**	(33)	(30)	>(100)
IAS 28 and 31 – Headline earnings component of share of post-tax results of associates and joint ventures	**(1)**	**(1)**	(0)	(0)	>(100)
IAS 28 and 31 – Impairment reversal of investments in associates and joint ventures	**—**	**—**	(2)	(1)	100
IAS 38 and 36 – Loss on disposal and impairment of intangible assets	**92**	**65**	2	1	>100
IAS 39 – Release of available-for-sale reserves	**10**	**7**	20	14	(50)
IAS 40 – Change in fair value of investment properties	**408**	**388**	39	33	>100
		8 807		9 719	(9)

Performance

Core drivers of headline earnings:

- Overall, impairments on loans and advances increased by 63%, mainly as a result of the higher coverage required on the mortgage legal book, as well as an increase in impairment losses for Commercial Property Finance (CPF). Overall, the impairment losses ratio deteriorated from 1,01% to 1,59%.
- The interest margin declined by 24 basis points (bps) due to pressure experienced on customer pricing, the focus on improving liquidity, the increase in average foreign currency loans and advances within investment banking and the unfavourable relative impact experienced by interest rate risk management activities.
- Loans and advances to customers increased by 5%, mainly due to strong growth in unsecured lending. Most of this growth occurred in the second half of the reporting period and was partly due to the acquisition of the Edcon Proprietary Limited (Edcon) portfolio.
- Non-interest income increased by 6% for the reporting period underpinned by a 1% growth in fee and commission income, an increase in net insurance premium income of 8% and a 64% improvement in the net trading result.
- Automation and optimisation initiatives, as well as sustainable operating model changes resulted in the growth in operating expenses being contained at 2%.

Note

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

1. Headline earnings and earnings per share *(continued)*

Performance *(continued)*

Core drivers of headline earnings *(continued)*

At a segment level

RBB

- Retail Markets' headline earnings decreased by 19%, primarily due to the impact of the increased coverage on the mortgage legal book. Retail Markets' impairment ratio increased from 1,23% to 1,89%.
- Business Markets reported a 51% decrease in headline earnings, mainly due to negative fair value adjustments on CPF equities and increases in impairment losses on loans and advances, specifically within the CPF portfolio.

CIBW

- Headline earnings increased by 26% underpinned by robust revenue growth and focused cost management.

Financial Services

- Headline earnings declined by 3%, largely due to significant weather- and fire-related claims and the strengthening of the policyholder reserves during the current reporting period.

Earnings	2012 (Audited) Rm	2011 (Audited) Rm	Change %
Profit attributable to ordinary equity holders/diluted earnings[1]	**8 393**	9 674	(13)

Per share	2012 (Audited) Number of shares (million)	2011 (Audited) Number of shares (million)	Change value %
Issued shares[2]	**718,2**	718,2	—
Treasury shares held by Group entities	**(0,6)**	(1,4)	0,8
Weighted average number of ordinary shares in issue	**717,6**	716,8	0,8
Basic earnings per share (cents)	**1 169,6**	1 349,6	(13)
Weighted average number of ordinary shares in issue	**717,6**	716,8	0,8
Adjusted for share options issued at no value	**1,6**	3,1	(1,5)
Diluted weighted average number of ordinary shares in issue	**719,2**	719,9	(0,7)
Diluted earnings per share (cents)	**1 167,0**	1 343,8	(13)

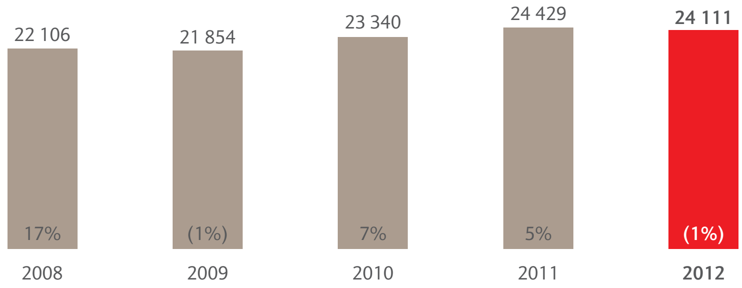
Notes

[1]There are currently no instruments in issue that will have a dilutive impact on the profit attributable to ordinary equity holders.

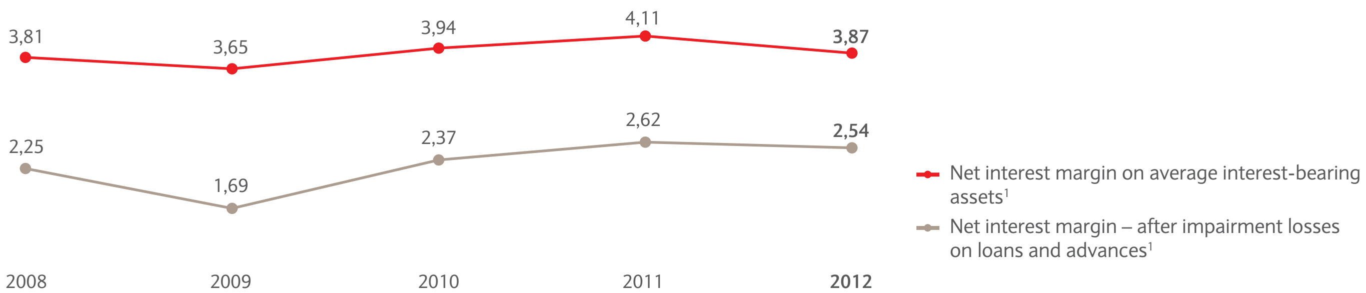
[2]Refer to page 46 for the number of ordinary shares in issue.

2. Net interest income

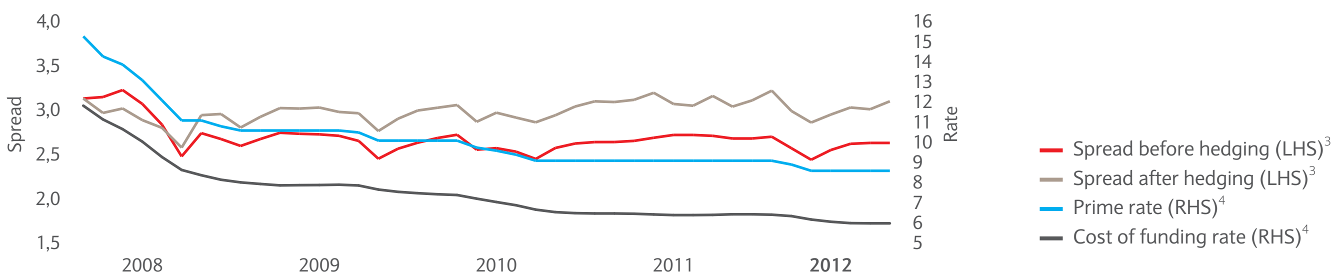
Net interest income (Rm and change %)



Net interest margin (%)



Hedging impact on net interest margin (%)[2]



Notes

[1]Calculated based on daily weighted average interest-bearing assets.

[2]Absa's hedging strategy:

- The hedging programme provides greater margin stability from an interest rate risk perspective over the entire cycle.
- In a decreasing rate scenario the hedging programme enhances the margin while the opposite is true for an increasing rate scenario.
- Basis risk still remains between prime assets and three-month Johannesburg Interbank Agreed Rate (JIBAR) repricing liabilities after hedging.

[3]Left-hand side of the 'y' axis.

[4]Right-hand side of the 'y' axis.

2. Net interest income *(continued)*

Change in net interest margin	2012 bps	2011 bps
Loans and advances to customers (i)	**2**	11
Change in customer rates	**(1)**	10
Change in composition	**3**	1
Deposits due to customers (ii)	**(3)**	(7)
Customer pricing	**(2)**	(1)
Change in composition	**(1)**	(1)
Endowment (iii)	**—**	(5)
Capital (iii)	**—**	(6)
CIBW (iv)	**(16)**	(6)
Interest rate risk management (hedging)	**(6)**	24
Hedging (iii)	**(2)**	12
Other	**(4)**	12
Other	**(1)**	1
	(24)	17

Performance

The Group's margin contracted by 24 bps during the current reporting period. The decrease in the margin is mainly attributable to the following components:

(i) Loans and advances to customers

- The improvement in Home Loans margins was offset by margin pressure within Business Markets and Vehicle and Asset Finance (VAF).

(ii) Deposits due to customers

- Continued margin pressure across most customer products due to the concerted effort to attract deposits within a competitive environment.

(iii) Hedging strategy

- Absa hedges its margin against changes in interest rates. The Group employs a hedging policy whereby structural positions (rate-insensitive assets and liabilities as well as the endowment impact on equity) are hedged on a programme basis by continuously entering into fixed swaps over the entire interest rate cycle. The hedging programme increases margin stability over an interest rate cycle, notably enhancing the margin in a low rate cycle and sacrificing the margin when rates are high. The prime/JIBAR reset risk cannot be hedged, so a degree of interest rate sensitivity will remain. The impact of reset risk is included under 'Other' within the interest rate risk management category above.
- Cash flow hedge accounting is applied to account for the interest rate swaps executed as part of the hedging programme. The change in mark-to-market value is deferred to the cash flow hedging reserve ('Other reserves'), from where it is released to the statement of comprehensive income on an accrual basis. The cash flow hedging reserve, totalling R2,4 billion after tax (2011: R2,0 billion) as at the reporting date will be released to the statement of comprehensive income over the life of the underlying hedging items should market rates prevail at current levels. In the current reporting period R2,1 billion (2011: R2,3 billion) was released through other comprehensive income.
- The hedging strategy continued to contribute significantly to the protection of the margin. The benefit realised in the current reporting period was slightly lower when compared to the previous reporting period, resulting in an overall 2 bps decline in the margin (2011: 1 bps increase).

(iv) CIBW

- Increase in average foreign currency loans and advances to banks and average foreign currency reverse repurchase agreements with banks resulting in negative margin, offset by positive gains on the foreign currency hedging instrument for these trades which is recognised in gains and losses from banking and trading activities.
- Increased contribution to the Group's composition of loans and advances to customers.

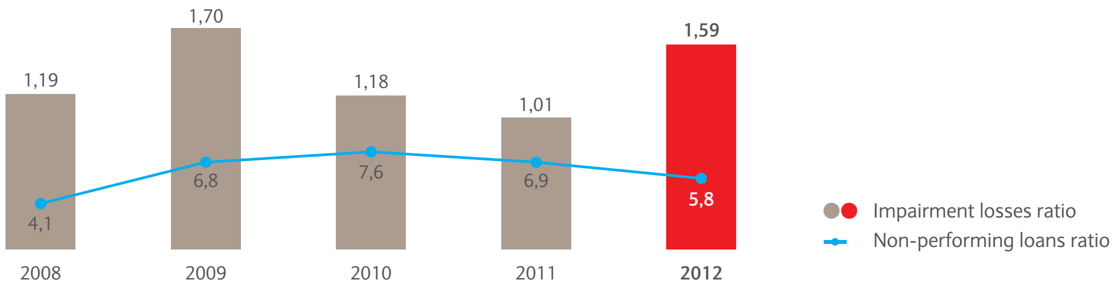
2. Net interest income *(continued)*

Group average statement of financial position	2012 Average balance[1] Rm	2012 Average rate[2] %	2012 Interest income/ (expense) Rm	2011 Average balance[1] Rm	2011 Average rate[2] %	2011 Interest income/ (expense)[3] Rm
Assets						
Cash, cash balances and balances with central banks	2 656	6,25	166	3 156	5,04	159
Statutory liquid asset portfolio	58 284	7,27	4 235	51 839	7,52	3 898
Loans and advances to banks and customers	553 178	7,93	43 850	529 446	8,44	44 710
Investment securities	8 540	2,37	202	10 468	3,73	390
Other interest[4]	—	—	2 313	—	—	2 034
Interest-bearing assets	622 658	8,15	50 766	594 909	8,60	51 191
Non-interest-bearing assets	183 735	—	—	142 652	—	—
Total assets	806 393	6,30	50 766	737 561	6,94	51 191
Liabilities						
Deposits from banks and due to customers	449 045	(4,14)	(18 577)	402 620	(4,23)	(17 048)
Debt securities in issue	112 443	(7,19)	(8 083)	146 216	(6,67)	(9 751)
Borrowed funds	14 256	(9,18)	(1 308)	13 839	(9,47)	(1 311)
Other interest[4]	—	—	1 313	—	—	1 348
Interest-bearing liabilities	575 744	(4,63)	(26 655)	562 675	(4,76)	(26 762)
Non-interest-bearing liabilities	161 054	—	—	111 086	—	—
Total liabilities	736 798	(3,62)	(26 655)	673 761	(3,97)	(26 762)
Total equity	69 595	—	—	63 800	—	—
Total liabilities and equity	806 393	(3,31)	(26 655)	737 561	(3,63)	(26 762)
Net interest margin on average interest-bearing assets		3,87			4,11	

Notes
[1]Comparatives have been reclassified. Refer to pages 121 to 123.
[2]Calculated based on daily weighted average balances.
[3]The average prime rate for the reporting period was **8,77%** (2011: 9,00%).
[4]Includes fair value adjustments on hedging instruments and hedged items.

3. Impairment losses on loans and advances

Impairment losses and non-performing loans ratio (%)



Statement of comprehensive income charge	2012 (Audited) Rm	2011 (Audited) Rm	Change %
Impairments raised	**9 258**	5 894	57
Identified impairments	**9 100**	6 015	51
Unidentified impairments	**158**	(121)	>100
Recoveries of loans and advances previously written off	**(968)**	(813)	(19)
	8 290	5 081	63

Impairment losses on loans and advances by segment	2012 Rm	2011[1] Rm	Change %
RBB			
Total charge	**8 153**	4 868	67
Impairment losses ratio (%)	**1,98**	1,16	
Retail Markets			
Home Loans	**4 453**	2 160	>100
Vehicle and Asset Finance	**283**	774	(63)
Card	**391**	213	84
Personal Loans	**573**	479	20
Retail Bank	**361**	339	6
Total charge	**6 061**	3 965	53
Impairment losses ratio (%)	**1,89**	1,23	
Business Markets			
Business Markets	**2 088**	906	>100
Business Markets Equities	**4**	(3)	>100
Total charge	**2 092**	903	>100
Impairment losses ratio (%)	**2,28**	0,93	
CIBW			
Total charge	**117**	39	>100
Impairment losses ratio (%)	**0,12**	0,05	
Financial Services			
Total charge	**24**	4	>100
Impairment losses ratio (%)	**12,37**	1,80	
Head office, inter-segment eliminations and Other			
Total charge	**(4)**	170	>(100)
Impairments losses ratio (%)	**n/a**	n/a	
Charge to the statement of comprehensive income	**8 290**	5 081	63
Impairment losses ratio (%)	**1,59**	1,01	

Note
[1]Comparatives have been reclassified. Refer to pages 121 to 123.

3. Impairment losses on loans and advances *(continued)*

Performance

Impairment losses on loans and advances increased by 63% to R8 290 million (2011: R5 081 million). This resulted in an increase in the impairment loss ratio to 1,59% (2011: 1,01%) for the current reporting period.

Retail Markets (↑53%)

- The impairment loss ratio for Retail Markets increased from 1,23% to 1,89%.
- Mortgage loan impairments increased significantly due to higher coverage required on the legal portfolio.
  - Contributing factors included high inflows into the legal portfolio and a rapid change in the portfolio composition, with high concentrations of vintage accounts reaching the write-off stage as well as collections operational issues. This resulted in loss severity estimates being refined and an increase in impairment losses on loans and advances of greater than 100% (2011: 2% decrease).
  - While the overall flow of loans into the NPL portfolio decreased, demonstrating the impact of improved origination strategies, 47% of accounts (2011: 22%) that were previously classified as pre-legal have been transferred into legal recoveries. While this transfer highlights the increased risk of loss, at an operational level, it provides the Group with opportunities to utilise alternative customer-focused strategies, such as the help-u-sell and help-u-stay initiatives, to reduce this portfolio.
  - The mortgages portfolio decreased by 2% with the overall proportion of performing loans increasing 1% on the previous reporting period from 90% to 91%. This is evident by the lower inflow of exposures into the non-performing portfolio, which has shown a decrease of 20% on the previous reporting period (2011: 8% decrease). The mortgages legal portfolio predominantly consists of loans originated between 2006 and 2008. Further information on non-performing loans (NPLs) within this portfolio can be found on page 28.
  - An operational restructure has been implemented to improve the amounts recovered, reduce costs and improve collection time. The benefits from these changes are likely to be realised over subsequent reporting periods.
  - Impairment losses in Card and Personal Loans increased by 84% and 20% respectively, offset by a 63% improvement in the impairment charge for the VAF portfolio.
  - Coverage on Retail Markets has increased to 35,5% (2011: 26,0%).

Business Markets (↑>100%)

- Business Markets' impairment losses ratio increased from 0,93% to 2,28%
- Impairment losses on loans and advances more than doubled, primarily attributable to the CPF portfolio.
  - Impairment provisions held against the CPF portfolio increased by 84% to R1 510 million (2011: R823 million), increasing the impairment losses ratio to 2,50% (2011: 0,51%).
  - The increase in impairment losses on loans and advances recognised in the current reporting period relates primarily to a small number of exposures in the retail and hotel sectors that were adversely impacted by an oversupply of properties against the backdrop of muted economic conditions.
  - Further improvements in the monitoring and collections processes have also aided in the identification of potential exposure risks earlier.
  - Following increased rigour and revised valuation assumptions applied to accounts on the early warning list (EWL), NPLs increased by 44%. Coverage on this portfolio has increased from 35,2% to 39,7%.

3. Impairment losses on loans and advances *(continued)*

Reconciliation of total impairment losses on loans and advances to customers	Opening balance Rm	Net present value unwind on non-performing book Rm	Exchange differences Rm	Amounts written off Rm	Impairment raised identified Rm	Impairment raised unidentified Rm	Closing balance Rm
	2012						
Retail Markets	9 061	(934)	(2)	(4 945)	6 657	193	10 030
Business Markets	2 376	(83)	(5)	(1 371)	2 319	(49)	3 187
CIBW	569	(5)	3	(37)	106	14	650
Other	125	4	—	(2)	18	—	145
	12 131	(1 018)	(4)	(6 355)	9 100	158	14 012

Reconciliation of total impairment losses on loans and advances to customers	Opening balance Rm	Net present value unwind on non-performing book Rm	Exchange differences Rm	Amounts written off Rm	Impairment raised identified Rm	Impairment raised unidentified Rm	Closing balance Rm
	2011						
Retail Markets	10 789	(1 048)	—	(5 318)	4 649	(11)	9 061
Business Markets	2 642	(125)	—	(1 096)	1 061	(106)	2 376
CIBW	471	(5)	1	(25)	131	(4)	569
Other	—	5	—	(54)	174	—	125
	13 902	(1 173)	1	(6 493)	6 015	(121)	12 131

Identified and unidentified impairments	2012 Rm	2011 Rm	Change %
Comprising:			
Identified impairments	13 040	11 306	15
Performing loans	1 386	1 429	(3)
Non-performing loans	11 654	9 877	18
Unidentified impairments	972	825	18
	14 012	12 131	16

Non-performing loans	Outstanding balance Rm	Expected recoveries and fair value of collateral Rm	Net exposure Rm	Total identified impairment Rm	Coverage ratio %
	2012				
RBB	30 583	19 445	11 138	11 138	36,4
Retail Markets	24 040	15 498	8 541	8 541	35,5
Cheque accounts	166	61	105	105	63,3
Credit cards	1 842	608	1 234	1 234	67,0
Instalment credit agreements	1 563	798	764	764	48,9
Microloans	410	148	262	262	63,9
Mortgages	18 798	13 445	5 353	5 353	28,5
Personal loans	1 261	438	823	823	65,3
Business Markets	6 543	3 947	2 597	2 597	39,7
Cheque accounts	1 120	716	404	404	36,1
Commercial asset finance	670	242	428	428	63,9
Commercial property finance	3 222	1 883	1 340	1 340	41,6
Term loans	1 531	1 106	425	425	27,8
CIBW	880	384	496	496	56,4
Financial Services	20	—	20	20	100,0
Non-performing loans	31 483	19 829	11 654	11 654	37,0
Non-performing loans ratio (%)	5,8				

3. Impairment losses on loans and advances *(continued)*

Non-performing loans	2011 Outstanding balance Rm	Expected recoveries and fair value of collateral Rm	Net exposure Rm	Total identified impairment Rm	Coverage ratio %
RBB	34 692	25 254	9 438	9 438	27,2
Retail Markets	30 142	22 307	7 835	7 835	26,0
Cheque accounts	184	52	132	132	71,7
Credit cards	2 013	713	1 300	1 300	64,6
Instalment credit agreements	2 645	1 370	1 275	1 275	48,2
Microloans	348	76	272	272	78,2
Mortgages	23 590	19 558	4 032	4 032	17,1
Personal loans	1 362	538	824	824	60,5
Business Markets	4 550	2 947	1 603	1 603	35,2
Cheque accounts	749	432	317	317	42,3
Commercial asset finance	932	395	537	537	57,6
Commercial property finance	1 894	1 354	540	540	28,5
Term loans	975	766	209	209	21,4
CIBW	844	405	439	439	52,0
Non-performing loans	35 536	25 659	9 877	9 877	27,8
Non-performing loans ratio (%)	6,9				

Non-performing loans – Retail Markets	2012 Rm	2011 Rm	Change %
Non-mortgages	**5 242**	6 552	(20)
Mortgages pre-legal	**4 735**	8 856	(47)
Mortgages legal	**14 063**	14 734	(5)
Total Retail Markets	**24 040**	30 142	(20)
Mortgages legal as a % of Retail Markets' NPLs (%)	**58,5**	48,9	

Performance

NPLs declined to R31 483 million as at the reporting date, resulting in a NPL ratio of 5,8% compared to a ratio of 6,9% as at the previous reporting date. The NPL ratio for Retail Markets reduced from 9,2% to 7,1%, but remains high due to the mortgages portfolio. While the mortgage NPL portfolio only decreased by R4 792 million, its composition changed substantially as the pre-legal portfolio decreased by 47%.

3. Impairment losses on loans and advances *(continued)*

Debt counselling	2012 New applications Number of accounts	2012 New applications Exposure Rm	2012 Terminations Number of accounts	2012 Terminations Exposure Rm	2012 Portfolio balance Number of accounts	2012 Portfolio balance Exposure Rm
Cheque accounts	2 371	97	2 060	152	2 828	167
Credit cards	6 094	81	6 133	76	7 776	105
Instalment credit agreements	3 061	424	4 629	585	6 364	898
Mortgages	4 467	2 029	4 030	2 135	7 469	3 496
Personal loans	7 901	379	8 940	405	9 088	394
Other	424	45	287	44	463	70
	24 318	3 055	26 079	3 397	33 988	5 130

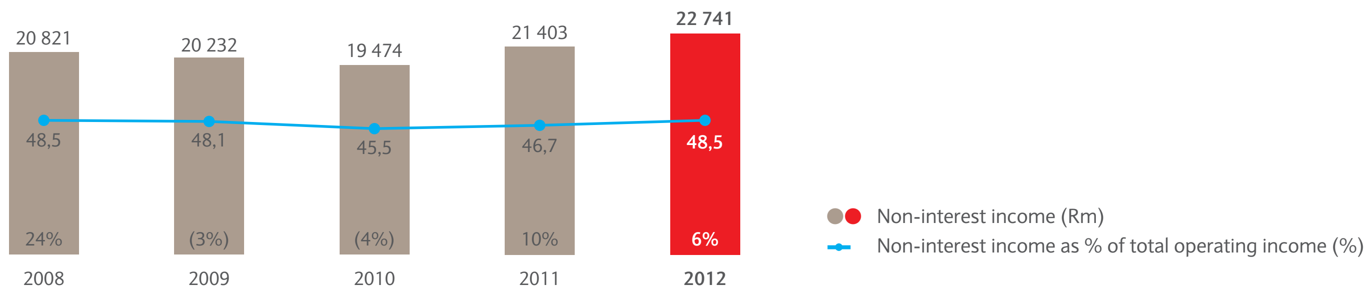
Debt counselling	2011 New applications Number of accounts	2011 New applications Exposure Rm	2011 Terminations Number of accounts	2011 Terminations Exposure Rm	2011 Portfolio balance Number of accounts	2011 Portfolio balance Exposure Rm
Cheque accounts	3 514	154	6 814	327	2 166	130
Credit cards	12 298	158	21 336	303	13 460	183
Instalment credit agreements	2 763	239	5 349	565	4 263	354
Mortgages	3 685	1 834	8 354	4 668	4 945	2 288
Personal loans	8 623	346	14 090	497	7 800	301
Other	10 847	105	12 020	196	1 102	153
	41 730	2 836	67 963	6 556	33 736	3 409

Performance

The debt counselling portfolio experienced an increase in absolute terms as a result of reinstatement of previously terminated accounts, with customers who have demonstrated the ability to pay in line with the accepted proposals or court orders. The inflow of new accounts into debt counselling continues to decrease.

4. Non-interest income

Non-interest income and non-interest income as % of total operating income (Rm, change % and %)[1]



Note
[1] Excluding impairment losses on loans and advances.

4. Non-interest income *(continued)*

Non-interest income split	2012 Rm	2012 Com-position %	2011 Rm	2011 Com-position %	Change %
Net fee and commission income	15 435	68	15 293	71	1
RBB	13 393	59	13 167	62	2
Retail Markets	10 365	46	10 438	49	(1)
Business Markets	3 028	13	2 729	13	11
CIBW – Corporate	1 002	4	945	4	6
Financial Services[1]	896	4	961	4	(7)
Other	253	3	299	1	(15)
Inter-segment eliminations[2]	(110)	(0)	(79)	(0)	(39)
Net insurance premium income and claims and benefits paid	2 899	13	2 692	13	8
RBB – Retail Markets (Woolworths Financial Services)	178	1	161	1	10
Financial Services[1]	2 707	12	2 497	12	8
Other	(26)	0	(44)	(0)	41
Inter-segment eliminations[3]	42	0	78	0	(46)
Changes in investment contract and insurance contract liabilities	(980)	(4)	(914)	(4)	(7)
Financial Services[1]	(980)	(4)	(912)	(4)	(7)
Other	—	—	(2)	(0)	—
Gains and losses from banking and trading and investment activities	4 633	20	3 560	17	31
RBB	(229)	(1)	148	1	>(100)
Retail Markets	87	0	65	0	33
Business Markets	(316)	(1)	83	1	>(100)
Equities – revaluations	(378)	(1)	6	0	>(100)
Other gains and losses	62	(0)	77	1	(19)
CIBW	3 827	17	2 509	12	53
Markets – net trading result	3 535	16	2 159	10	64
Private Equity – revaluations	318	1	240	1	33
Other gains and losses	(26)	(0)	110	1	>(100)
Financial Services[1]	1 324	6	1 359	6	(3)
Other[3]	168	1	11	0	>100
Inter-segment eliminations[4, 5]	(457)	(2)	(467)	(2)	2
Other operating income	754	3	772	3	(2)
Property-related	494	2	461	2	7
RBB	317	1	325	1	(2)
Retail Markets	61	0	92	0	(34)
Business Markets	256	1	233	1	10
CIBW	1	0	0	0	>100
Financial Services[1]	21	0	18	0	14
Other	155	1	118	1	31
Other operating income	344	1	353	2	(3)
RBB	190	1	115	1	65
Retail Markets	125	1	61	1	>100
Business Markets	65	0	54	0	19
CIBW	33	0	115	1	(71)
Financial Services[1]	42	0	71	0	(41)
Other	79	0	52	0	52
Inter-segment eliminations[6]	(84)	0	(42)	(1)	(99)
	22 741	100	21 403	100	6

Notes

[1]Financial Services recorded non-interest income of **R4 010 million** (2011: R3 994 million). Refer to the segment performance on pages 81 to 90.

[2]Includes a debit of **R101 million** (2011: R71 million debit) eliminated against gains and losses from banking and trading activities, and a debit of **R9 million** (2011: R8 million debit) eliminated against operating expenses.

[3]Includes a credit of **R42 million** (2011: R78 million credit) eliminated against operating expenses.

[4]Includes the revaluation of an investment in Visa incorporated in the previous reporting period of R30 million.

[5]Includes a debit of **R558 million** (2011: R538 million debit) eliminated against net interest income and a credit of **R101 million** (2011: R71 million credit) eliminated against net fee and commission income.

[6]Includes a debit of **R84 million** (2011: R42 million debit) eliminated against operating expenditure.

4. Non-interest income *(continued)*

Performance

Non-interest income increased by 6% to R22 741 million (2011: R21 403 million) for the reporting period.

Banking operations (↑8%)

Net fee and commission income, which constitutes approximately 68% of non-interest income, increased by 1% to R15 435 million for the reporting period.

- The net trading result for CIBW increased by 64% while Markets revenue increased by 19%. These movements differ as Markets revenue includes fee and commission income and net interest margin whereas the net trading result comprises gains and losses from banking and trading activities. Investments held in Private Equity and Infrastructure Investments experienced positive revaluations in the current reporting period with a fair value increase of R318 million compared to a fair value increase of R240 million in the previous reporting period. Net gains on investments included income from realisations, dividends and fair value movements on investments.
- Net fee and commission income for Retail Markets decreased by 1%. This performance was characterised by limited transactional volume growth and the continued migration of customers from traditional banking to electronic channels.
- The improved transactional banking offering of Business Markets contributed to a 11% increase in its net fee and commission income.
- The Business Markets equity investments portfolio reduced by 37%, mainly due to disposals and negative revaluations. The listed property portfolio, with a net carrying value of R211 million was disposed of together with other non-listed vacant land exposures. Lower property valuations and unfavourable market conditions resulted in negative fair value adjustments of R378 million, which were recognised in 'Gains and losses from banking and trading activities'.

Financial Services operations (→0%)

Included in the Group's non-interest income is the revenue from insurance on a net basis, i.e. gross revenue net of reinsurance, claims movement in policyholder liabilities and investment returns as well as acquisition cost. Net premiums in Life and Insurance increased by 8%, while revenue from the non-insurance businesses remained flat. The claims ratio was negatively impacted by high weather- and fire-related claims and as a result, the claims ratio increased to 68,8% for the reporting period. Investment returns on shareholder funds increased by 43% to R283 million, mainly due to improved bond and equity market performance.

	2012 (Audited) Rm	2011 (Audited) Rm	Change %
Fee and commission income			
Asset management and other related fees	**158**	129	22
Consulting and administration fees	**566**	520	9
Credit-related fees and commissions	**12 404**	12 051	3
Cheque accounts	**3 589**	3 334	8
Credit cards[1,2]	**617**	473	30
Electronic banking	**4 068**	4 095	(1)
Savings accounts	**2 488**	2 387	4
Other[3]	**1 642**	1 762	(7)
Insurance commission received	**1 077**	901	20
Investment banking fees	**252**	222	14
Merchant income[2]	**2 013**	1 806	11
Pension fund payment services[4]	**122**	484	(75)
Trust and other fiduciary services	**1 120**	1 053	6
Portfolio and other management fees	**870**	801	9
Trust and estate income	**250**	252	(1)
Other	**224**	256	(13)
	17 936	17 422	3

Notes

[1]Includes acquiring and issuing fees.

[2]During the current reporting period, certain clearing fees were reclassified from 'Credit cards' to 'Merchant income' to more accurately present Card non-interest income. This resulted in a reclassification of comparative information.

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

[4]During the current reporting period, the net fee and commission income for AllPay reduced significantly due to the termination of the South African Social Security Agency contract.

4. Non-interest income *(continued)*

	2012 (Audited) Rm	2011 (Audited) Rm	Change %
Fee and commission expense			
Cheque processing fees	**(161)**	(171)	6
Insurance commission paid	**(943)**	(877)	(8)
Transaction-based legal fees	**(313)**	(229)	(37)
Trust and other fiduciary service fees	**(44)**	(51)	14
Valuation fees	**(127)**	(142)	11
Other	**(913)**	(659)	(39)
	(2 501)	(2 129)	(17)
Net insurance premium income			
Gross insurance premiums	**7 073**	6 182	14
Premiums ceded to reinsurers	**(1 455)**	(973)	(50)
	5 618	5 209	8
Net insurance claims and benefits paid			
Gross claims and benefits paid on insurance contracts	**(3 657)**	(3 076)	(19)
Reinsurance recoveries	**938**	559	68
	(2 719)	(2 517)	(8)
Changes in investment and insurance contract liabilities			
Increase in insurance contract liabilities	**(344)**	(8)	>(100)
Increase in investment contract liabilities	**(636)**	(906)	30
	(980)	(914)	(7)
Gains and losses from banking and trading activities			
Net gains on investments[1, 2]	**93**	437	(79)
Debt instruments designated at fair value through profit or loss	**179**	215	(17)
Equity instruments designated at fair value through profit or loss	**(76)**	242	>(100)
Available-for-sale unwind from reserves	**(10)**	(20)	50
Net trading result[2]	**3 566**	2 271	57
Net trading income excluding the impact of hedge accounting	**3 544**	2 245	58
Ineffective portion of hedges	**22**	26	(15)
Cash flow hedges	**45**	33	36
Fair value hedges	**(23)**	(7)	>(100)
Other gains/(losses)	**11**	(114)	>100
	3 670	2 594	41

Notes

[1]In order to provide for improved disclosure, revaluations between debt and equity instruments have been reclassified.

[2]Due to structure changes, certain revenue streams have been reclassified from 'Markets' to 'Corporate'. This also resulted in a reclassification from 'Net trading result' to 'Net gains on investments'.

4. Non-interest income *(continued)*

	2012 (Audited) Rm	2011 (Audited) Rm	Change %
Gains and losses from banking and trading activities by segment[1, 2, 3]			
RBB	**(242)**	104	>(100)
Retail Markets	**87**	65	34
Business Markets	**(329)**	39	>(100)
CIBW	**3 827**	2 506	53
Head office and Other	**143**	(26)	>100
Inter-segment eliminations	**(58)**	10	>(100)
	3 670	2 594	41
Gains and losses from investment activities[1]			
Available-for-sale unwind from reserves	**2**	1	100
Net gains on investments from insurance activities[4]	**913**	886	3
Policyholder – insurance contracts	**329**	173	90
Policyholder – investment contracts	**313**	511	(39)
Shareholder funds	**271**	202	34
Other gains	**48**	79	(39)
	963	966	(0)
Gains and losses from investment activities by segment[1, 2, 3]			
RBB – Business Markets	**13**	44	(70)
CIBW	**—**	3	(100)
Financial Services	**1 324**	1 359	(3)
Head office and Other	**25**	37	(32)
Inter-segment eliminations	**(399)**	(477)	16
	963	966	(0)
Other operating income			
Exchange differences	**41**	59	(31)
Income from investment properties	**30**	19	58
Change in fair value	**—**	2	(100)
Rentals	**30**	17	76
Income from maintenance contracts	**25**	15	67
Loss on disposal of computer software development costs	**(3)**	(2)	(50)
Profit on disposal of developed property	**81**	33	>100
Profit on disposal of developed properties	**32**	48	(33)
Profit on disposal of repossessed properties	**14**	24	(42)
Rental income	**312**	324	(4)
Sundry income[5]	**222**	252	(12)
	754	772	(2)
Total non-interest income	**22 741**	21 403	6

Notes

[1]Refer to the segment performance on pages 51 to 90.

[2]Comparatives have been reclassified. Refer to pages 121 to 123.

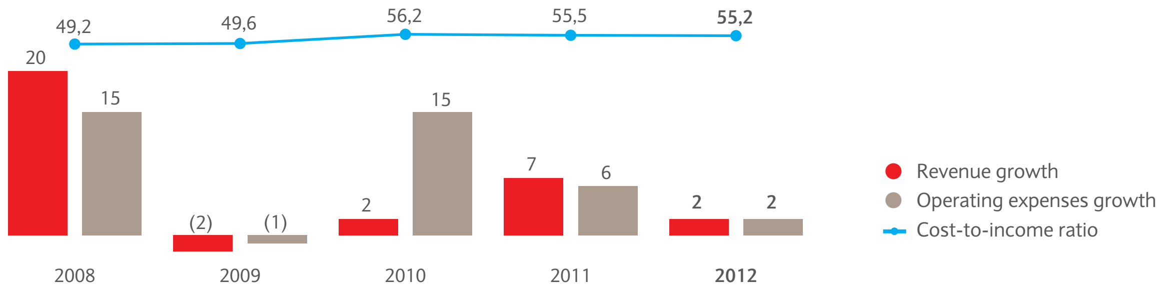
[3]The segmentation of gains and losses from banking and trading and investment activities is unaudited.

[4]Includes treasury shares held by Group entities, which are eliminated on consolidation.

[5]Includes service fees levied on sundry non-core business activities.

5. Operating expenses

Growth and cost-to-income ratio (%)



Operating expenses breakdown	2012 (Audited) Rm	2011 (Audited) Rm	Change %
Amortisation of intangible assets	**255**	289	(12)
Auditors' remuneration	**176**	166	6
Cash transportation	**646**	726	(11)
Depreciation	**1 303**	1 261	3
Equipment costs	**287**	224	28
Information technology (IT)[1]	**2 134**	2 241	(5)
Investment properties charges – change in fair value	**408**	41	>100
Marketing costs	**1 024**	1 036	(1)
Operating lease expenses on properties	**1 058**	1 018	4
Other property costs	**399**	286	40
Printing and stationery	**220**	253	(13)
Professional fees[1]	**862**	1 076	(20)
Property costs	**1 270**	1 120	13
Staff costs	**13 078**	13 642	(4)
Bonuses	**985**	1 285	(23)
Current service costs on post-retirement benefits	**640**	772	(17)
Salaries	**10 308**	10 379	(1)
Share-based payments	**463**	467	(1)
Training costs	**212**	252	(16)
Other[2]	**470**	487	(3)
Telephone and postage	**794**	803	(1)
Other[3]	**1 960**	1 276	54
	25 874	25 458	2

Performance

Continued focus on the One Absa strategy and integration of the new Africa Target Operating Model resulted in the removal of certain duplicate processes, supplier rationalisation and other business rationalisation and efficiencies. These benefits were offset by inflationary cost growth mainly driven by increases in utility costs and property execution costs as the Group streamlines its footprint and renews operating leases. This resulted in a modest cost growth of 2%.

Other costs grew by 54% which primarily relates to:

- specific one-off costs relating to the due diligence work associated with the proposed combination of the Absa business with that of Barclays Africa (R150 million);
- new operating costs associated with the integration of the Edcon portfolio; and
- an increase in fraud losses and reduced recovery from fraud losses.

Taking into account the specific costs on the due diligence work performed during the reporting period and the downward revaluations on the investment properties, would have resulted in a 1% decline in operating expenses compared with the previous reporting period.

Notes

[1]'Information technology expenses' and 'Professional fees' include research and development costs totalling **R113 million** (2011: R101 million).
[2]Includes recruitment costs, membership fees to professional bodies, staff parking, redundancy fees, study assistance, staff relocation and refreshment costs.
[3]Includes fraud losses, travel and entertainment costs and collection costs.

5. Operating expenses *(continued)*

Breakdown of IT-related spend included in operating expenses	**2012 Rm**	2011 Rm	Change %
Amortisation of intangible assets and depreciation of equipment	**836**	946	(12)
Information technology	**2 134**	2 241	(5)
Staff costs[1]	**1 165**	1 293	(10)
Other	**968**	983	(2)
	5 103	5 463	(7)

Performance

An important part of the revised operating model was the optimisation of the Group's IT environment. The benefits associated with this reduced the Group's spend in investment projects. This was largely due to:

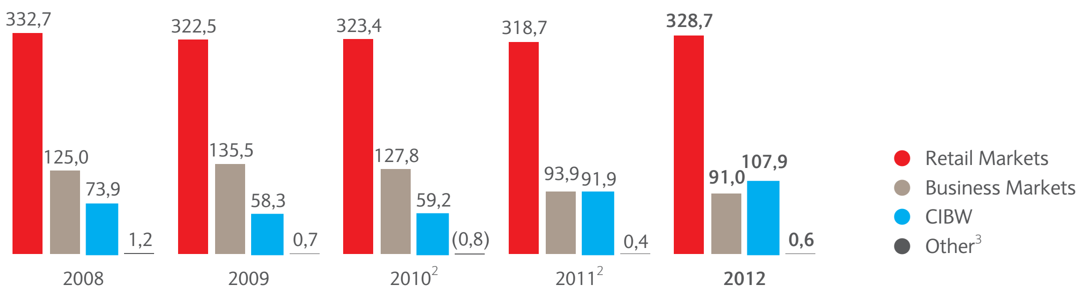
- optimising the IT infrastructure by taking advantage of unused capacity and rationalising the technology footprint and telecommunications;
- reorganising and streamlining the IT change enablement teams that were centralised; and
- fewer core replacement and upgrade requirements for computer software development.

Further cost savings were realised through focused investment spend, reducing the outlay on peripheral items, leveraging Barclays system solutions, and reducing regulatory requirements compared to previous reporting periods.

Current levels of investment spend are anticipated to increase over the short to medium term. This will largely be driven by strategic projects for growth and continued expansion into Africa. Regulatory requirements are also anticipated to increase. Absa will continue to invest in its business at appropriate levels.

6. Loans and advances to customers

Loans and advances to customers by segment (Rbn)



Loans and advances mix	**2012 %**	2011[2] %
RBB	**79,4**	81,7
Retail Markets	**62,2**	63,1
Business Markets	**17,2**	18,6
CIBW	**20,4**	18,2
Financial Services	**0,1**	0,0
Head office, inter-segment eliminations and Other	**0,1**	0,1
	100,0	100,0

Notes
[1]During the reporting period, staff costs for the IT change team were moved from RBB to Enterprise Core Services. This resulted in a reclassification of the comparative information.
[2]Comparatives have been reclassified. Refer to pages 121 to 123. 2010 comparatives have not been reclassified for any structure changes made during the reporting period.
[3]Includes loans and advances to customers for Financial Services. Refer to segment performance on pages 81 to 90.

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

Loans and advances to customers by segment	2012 Rm	2011[1] Rm	Change %
RBB			
Gross loans and advances to customers	**432 861**	424 032	2
Impairment losses on loans and advances	**(13 217)**	(11 437)	(16)
	419 644	412 595	2
Retail Markets			
Cheque accounts	**2 340**	2 714	(14)
Credit cards[2]	**32 803**	21 371	54
Instalment credit agreements	**42 321**	38 954	9
Loans to associates and joint ventures	**6 634**	4 836	37
Mortgages	**237 073**	242 719	(2)
Personal loans	**17 482**	17 138	2
Other loans and advances	**61**	63	(3)
Gross loans and advances to customers	**338 714**	327 795	3
Impairment losses on loans and advances	**(10 030)**	(9 061)	(11)
	328 684	318 734	3
Business Markets			
Cheque accounts and specialised finance[3]	**20 243**	20 198	0
Foreign currency loans	**987**	702	41
Instalment credit agreements	**18 059**	18 338	(2)
Loans to associates and joint ventures	**2 385**	2 048	16
Mortgages (including commercial property finance)	**38 706**	42 380	(9)
Term loans	**13 216**	12 002	10
Other loans and advances	**551**	569	(3)
Gross loans and advances to customers	**94 147**	96 237	(2)
Impairment losses on loans and advances	**(3 187)**	(2 376)	(34)
	90 960	93 861	(3)
CIBW			
Cheque accounts	**12 813**	11 242	14
Corporate overdrafts	**38 626**	37 684	2
Foreign currency loans	**12 151**	8 918	36
Mortgages	**6 613**	7 138	(7)
Overnight finance	**18 314**	11 127	65
Preference shares	**6 342**	7 727	(18)
Reverse repurchase agreements	**4 698**	1 613	>100
Other loans and advances	**9 000**	7 009	28
Gross loans and advances to customers	**108 557**	92 458	17
Impairment losses on loans and advances	**(650)**	(569)	(14)
	107 907	91 889	17

Notes
[1]Comparatives have been reclassified. Refer to pages 121 to 123.
[2]Includes a balance of **R5 965 million** (2011: R5 479 million) relating to Woolworths Financial Services Proprietary Limited and **R9 358 million** to Edcon's portfolio.
[3]Includes corporate and wholesale overdrafts.

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

Loans and advances to customers by segment *(continued)*	**2012 Rm**	2011[1] Rm	Change %
Financial Services			
Mortgages	**316**	150	>100
Gross loans and advances to customers	**316**	150	>100
Impairment losses on loans and advances	**(20)**	(13)	(54)
	296	137	>100
Head office, inter-segment eliminations and Other			
Other loans and advances	**469**	416	13
Gross loans and advances to customers	**469**	416	13
Impairment losses on loans and advances	**(125)**	(112)	(12)
	344	304	13
Gross loans and advances to customers	**542 203**	517 056	5
Impairment losses on loans and advances	**(14 012)**	(12 131)	(16)
Net loans and advances to customers	**528 191**	504 925	5

Performance

Loans and advances to customers increased by 5% to R528 billion. Most of the growth took place in the second half of the reporting period, partly due to the acquisition of the Edcon portfolio and a 17% increase in CIBW's loans and advances to customers. The increase in CIBW's loans and advances to customers resulted in an increase in the contribution from CIBW to 20,4%.

At a segment level

RBB

Net loans and advances to customers grew by 2% to R420 billion.

Retail Markets (↑3%)

- Mortgages declined by 2% during the reporting period. The decision to engage a broader origination channel strategy and an improvement in the process of converting applications to registered loans resulted in a 40% increase in new business production in the second half of the reporting period. Specific focus was placed on growing the book in a responsible manner while maintaining acceptable levels of risk appetite.
- Instalment credit agreement balances increased by 9% as the higher levels of early settlements by customers were offset by an increase in production levels during the second half of the reporting period.
- Card recorded acceptable growth of 54% for the reporting period as a result of higher consumer appetite for unsecured loans and the acquisition of the Edcon portfolio.

Edcon acquisition

The Group acquired a portfolio of active store cards and store card receivables from Edcon on 1 November 2012. The portfolio consists of approximately four million active store cards and receivables with a gross value of R9,6 billion.

The receivables acquired were recognised at fair value on the date of acquisition in accordance with IAS 39. The receivables have been classified as loans and receivables and will accordingly be accounted for at amortised cost subsequent to initial recognition. The fair value of receivables recognised was R8,3 billion. The difference between the gross value of the receivables and the fair value of the receivables related primarily to the estimated impairment provisions on the portfolio that occurred prior to the acquisition.

Note
[1]Comparatives have been reclassified. Refer to pages 121 to 123.

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

Performance *(continued)*

Business Markets (↓3%)

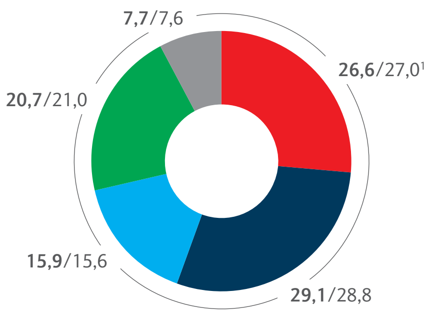
- Commercial property finance loans declined by 9% during the reporting period, with high levels of repayments.
- Instalment credit agreements declined by 2% due to a reduction in Absa Technology Finance Solutions (ATFS), despite the production levels for the Commercial Asset Finance (CAF) business increasing by 9% compared to the previous reporting period.
- Term loans reflected positive growth of 10% attributable to companies gearing for future growth by investing in long-term projects with increased capital expenditure requirements.

CIBW

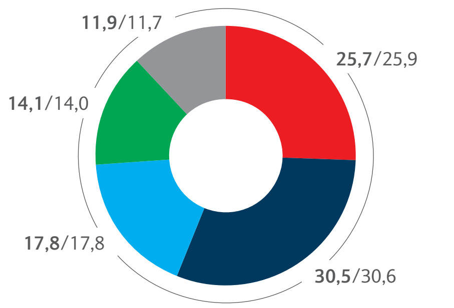
- Net loans and advances to customers increased by 17% to R108 billion.
- The increase is largely driven by growth in overnight finance (65%), foreign currency loans (36%) and term loans within the Investment Banking division as well as an increase in reverse repurchase agreements within Markets.

Loans and advances to customers – Market share (%)

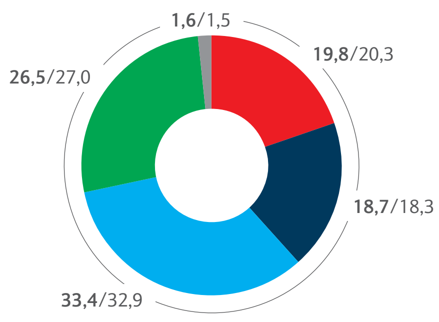
Mortgages



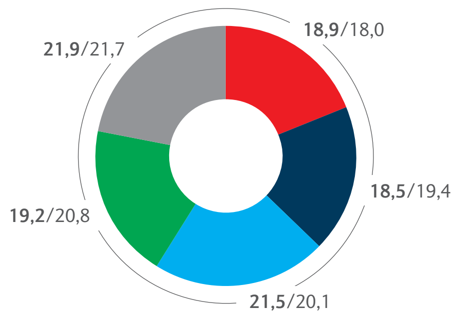
Credit cards



Instalment credit agreements



Overdrafts and other loans



- Absa Group
- Standard Bank
- FirstRand
- Nedbank
- Other

November 2012[2]/December 2011

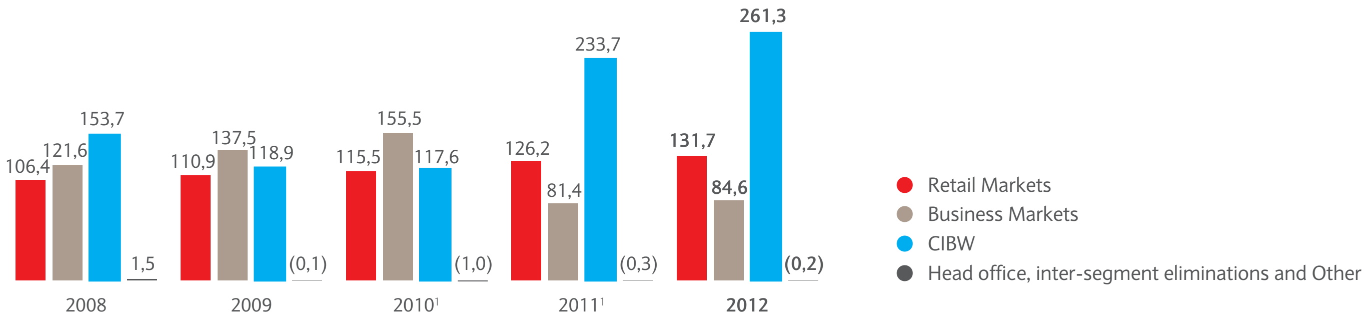
Notes

[1]Securitisation of **R4 652 million – 0,4% of market share** (2011: R4 980 million – 0,5% of market share) has been excluded from the Absa mortgages book.

[2]At the date of publishing, the market share information for December 2012 was not available.

7. Deposits due to customers and debt securities in issue

Deposits due to customers by segment (Rbn)



Total funding mix	2012 %	2011[1] %
Deposits due to customers	**76,8**	72,3
RBB	**34,8**	34,1
Retail Markets	**21,2**	20,7
Business Markets	**13,6**	13,4
CIBW	**42,0**	38,3
Head office, inter-segment eliminations and Other	**(0,0)**	(0,1)
Deposits from banks	**5,8**	6,3
Debt securities in issue	**17,4**	21,4
	100,0	100,0

Total funding composition	2012 Rm	2011[1] Rm	Change %
Retail deposits	**131 714**	126 210	4
Low margin	**60 427**	57 304	5
High margin	**71 287**	68 906	3
Commercial deposits	**84 595**	81 364	4
Corporate and institutional funding[2]	**405 197**	401 987	1
	621 506	609 561	2

Notes
[1]Comparatives have been reclassified. Refer to pages 121 to 123. 2010 comparative have not been reclassified for any structural changes made during the reporting period.
[2]Comprises deposits from banks, debt securities in issue as well as deposits due to customers of CIBW.

7. Deposits due to customers and debt securities in issue *(continued)*

Deposits due to customers by segment	2012 Rm	2011[1] Rm	Change %
RBB	**216 309**	207 574	4
Retail Markets			
Call deposits	**425**	474	(10)
Cheque account deposits	**19 442**	18 455	5
Credit card deposits	**1 934**	1 880	3
Fixed deposits	**30 636**	28 655	7
Investment products	**28 748**	27 337	5
Notice deposits	**11 308**	11 206	1
Savings and transmission deposits	**38 178**	36 891	3
Other deposits	**1 043**	1 312	(21)
	131 714	126 210	4
Business Markets			
Call deposits	**11 582**	11 701	(1)
Cheque account deposits	**42 337**	38 770	9
Fixed deposits	**16 864**	17 969	(6)
Foreign currency deposits	**1 960**	1 447	35
Investment products	**6 538**	6 467	1
Notice deposits	**1 633**	1 789	(9)
Savings and transmission deposits	**3 524**	3 193	10
Other deposits	**157**	28	>100
	84 595	81 364	4
CIBW			
Call deposits	**44 661**	43 609	2
Cheque account deposits	**82 082**	77 280	6
Fixed deposits	**78 300**	78 750	(1)
Foreign currency deposits	**9 519**	6 518	46
Notice deposits	**42 787**	15 504	>100
Repurchase agreements with non-banks	**1 503**	8 734	(83)
Other deposits	**2 465**	3 307	(25)
	261 317	233 702	12
Head office, inter-segment eliminations and Other			
Other deposits	**(199)**	(215)	7
Inter-segment eliminations	**—**	(101)	100
	(199)	(316)	37
Deposits due to customers	**477 427**	440 960	8

Note
[1]Comparatives have been reclassified. Refer to pages 121 to 123.

7. Deposits due to customers and debt securities in issue *(continued)*

Debt securities in issue	2012 (Audited) Rm	2011 (Audited) Rm	Change %
Credit linked notes	**9 800**	8 976	9
Floating rate notes	**53 903**	69 553	(23)
Liabilities arising from securitised special purpose entities (SPEs)	**2 391**	4 218	(43)
Negotiable certificates of deposits	**17 575**	30 214	(42)
Promissory notes	**1 378**	1 550	(11)
Structured notes and bonds	**1 098**	1 451	(24)
Senior notes	**21 892**	14 300	53
Other	**7**	—	100
	108 044	130 262	(17)

Performance

The growth in the Group's funding balance is largely driven by the growth in deposits due to customers. As at the reporting date, the contribution from deposits due to customers increased to 76,8% (2011: 72,3%). The 8% growth in deposits due to customers resulted in less reliance on wholesale funding.

At a segment level

RBB

Deposits due to customers for RBB increased by 4% due to solid growth from cheque account deposits, investment products and fixed deposits.

Retail Markets (↑4%)

- Savings products contributed to deposits growth, with increases of 5% in cheque accounts, 7% in fixed deposits and 3% in savings and transmissions.
- Investment products recorded solid growth of 5% on the previous reporting period, primarily due to the strong performance of the Investment Advantage offering.
- The Group remains the market leader in individual deposits.

Business Markets (↑4%)

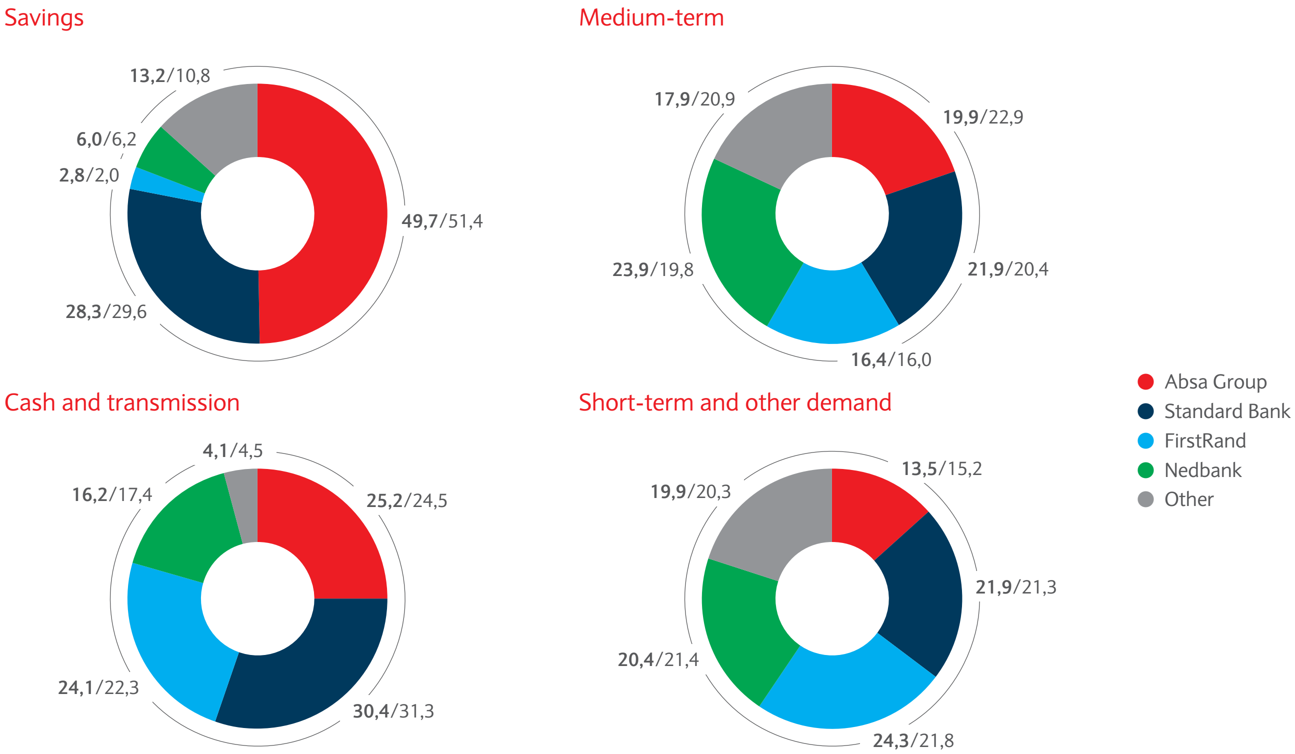
- An enhanced attorney offering as well as the introduction of new term deposits attracted additional depositors.

CIBW

- CIBW's customer deposits increased by 12%, mainly attributable to the 32-day notice and ratchet deposits.

7. Deposits due to customers and debt securities in issue *(continued)*

Deposits due to customers – Market share (%)



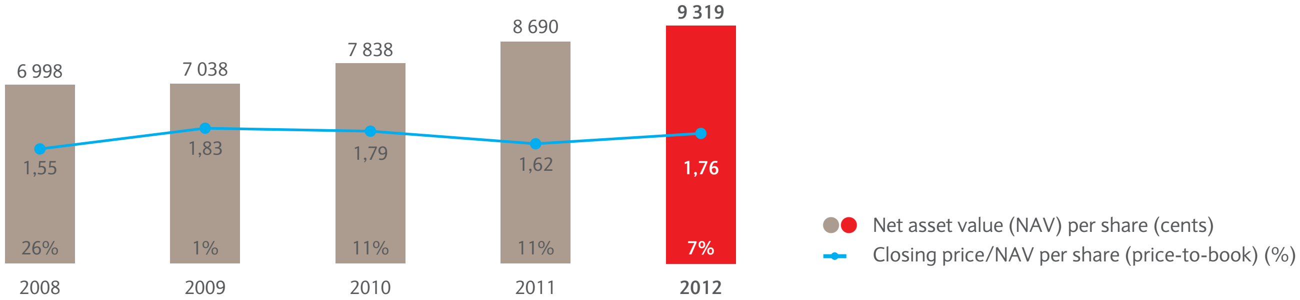
November 2012[2]/December 2011

Note

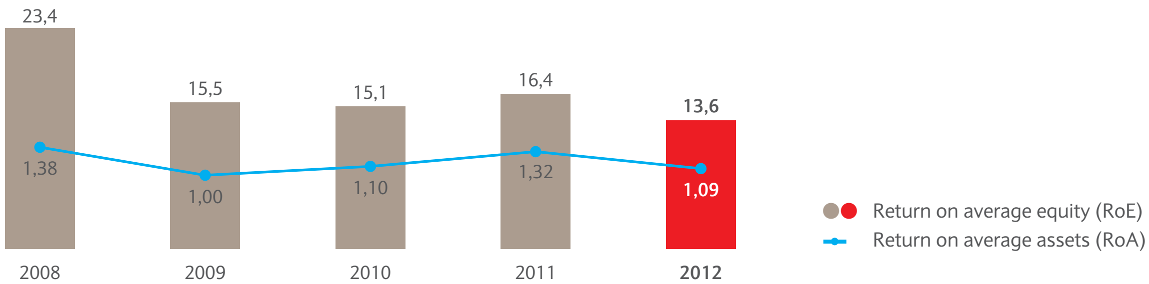
[1]At the date of publishing, the market share information for December 2012 was not available.

8. Equity and borrowed funds[1]

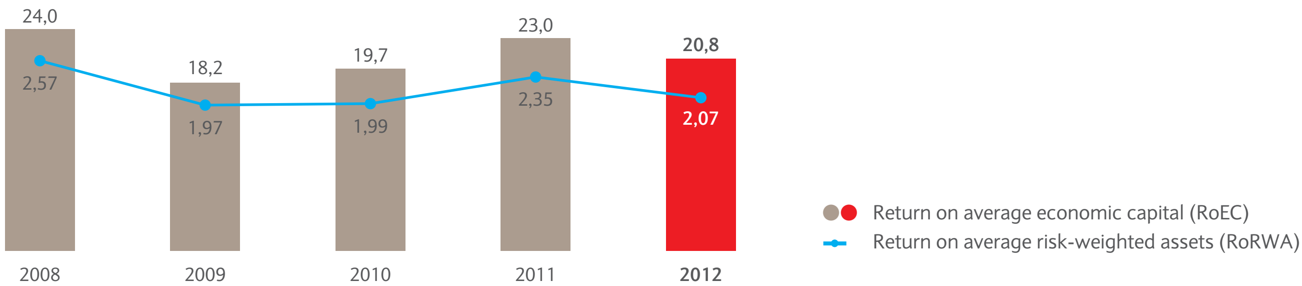
NAV per share and closing price/NAV per share (cents, change % and %)



Return on average equity and assets (%)



Return on average economic capital and risk-weighted assets (%)



Performance

The Group's RoE declined to 13,6% (2011: 16,4%) compared to the previous reporting period. This remains in line with the Group's internal CoE of 13,5% (2011: 14,0%).

RoA declined to 1,09% from 1,32% due to the reduction in headline earnings. The leverage ratio of 12,5 times remained fairly stable over the reporting period.

RoEC declined to 20,8%, compared to the 23,0% recorded in the previous reporting period.

Note

[1]Refer to pages 93 to 118 for risk management section.

8. Equity and borrowed funds[1] *(continued)*

Total qualifying capital	2012 Shareholders' equity Rm	2012 Economic capital[2] Rm	2012 Tier 1 regulatory capital[2] Rm	2011 Shareholders' equity Rm	2011 Economic capital[2] Rm	2011 Tier 1 regulatory capital[2] Rm
Ordinary share capital and share premium	6 039	6 039	6 039	6 110	6 110	6 110
Preference share capital and share premium		4 644	4 644	—	4 644	4 644
Retained earnings	56 903	56 902	53 394	53 813	53 813	50 605
Other reserves	3 941	618	—	2 385	578	—
Non-controlling interest – ordinary shares	—	—	1 268	—	—	1 453
Expected loss adjustment	—	—	(1 401)	—	—	(1 352)
Other deductions	—	(2 561)	(2 283)	—	(2 135)	(1 840)
	66 883	65 642	61 661	62 308	63 010	59 620
Average capital for the reporting period	64 595	64 326[3]	60 641	59 315	42 890[3]	56 841

Capital demand – closing balance	2012 Risk-weighted assets[2] Rm	2012 Economic capital[2,3] Rm	2011 Risk-weighted assets[2] Rm	2011 Economic capital[2,3] Rm
Credit risk	321 500	28 895	317 920	29 375
RBB	228 887	20 901	224 512	21 976
CIBW	87 716	7 806	91 268	7 291
Other	4 897	188	2 140	108
Equity investment risk	22 735	3 059	22 168	3 007
Market risk	13 797	1 700	8 357	978
Operational risk	62 385	4 094	59 460	4 090
Other	17 799	5 862	16 584	6 564
	438 216	43 610	424 489	44 014

Share capital and share premium	2012 (Audited) Rm	2011 (Audited) Rm	Change %
Authorised			
Ordinary shares of R2,00 each	1 761	1 761	—
Issued			
Ordinary shares of R2,00 each	1 436	1 436	—
Treasury shares held by Group entities	(1)	(2)	50
	1 435	1 434	0
Total issued capital			
Share capital	1 435	1 434	0
Share premium	4 604	4 676	(2)
	6 039	6 110	(1)

Notes

[1]Refer to pages 93 to 118 for the risk management section.

[2]Unaudited.

[3]Represents average required economic capital (demand), compared to the balances that represents the total economic capital (supply).

8. Equity and borrowed funds[1] *(continued)*

Number of ordinary shares in issue (after deduction of treasury shares) – closing balance	2012 (Audited) Number of shares (million)	2011 (Audited) Number of shares (million)	Change value (million)
Ordinary shares in issue of R2,00 each	**718,2**	718,2	—
Treasury shares held by Group entities	**(0,5)**	(1,2)	0,7
	717,7	717,0	0.7

Borrowed funds		2012 (Audited) Rm	2011 (Audited) Rm	Change %
Subordinated callable notes				
Interest rate	**Final maturity date**			
8,75%	1 September 2017	**—**	1 500	(100)
8,80%	7 March 2019	**1 725**	1 725	—
8,10%	27 March 2020	**2 000**	2 000	—
10,28%	3 May 2022	**600**	600	—
8,295%	21 November 2023	**1 188**	—	100
Three-month JIBAR + 2,10%	3 May 2022	**400**	400	—
Three-month JIBAR + 1,95%	21 November 2022	**1 805**	—	100
Three-month JIBAR + 2,05%	21 November 2023	**2 007**	—	100
CPI-linked notes, fixed at the following coupon rates:				
6,25%	31 March 2018	**1 886**	1 886	—
6,00%	20 September 2019	**3 000**	3 000	—
5,50%	7 December 2028	**1 500**	1 500	—
Accrued interest		**1 462**	1 157	26
Fair value adjustment		**334**	283	18
		17 907	14 051	27

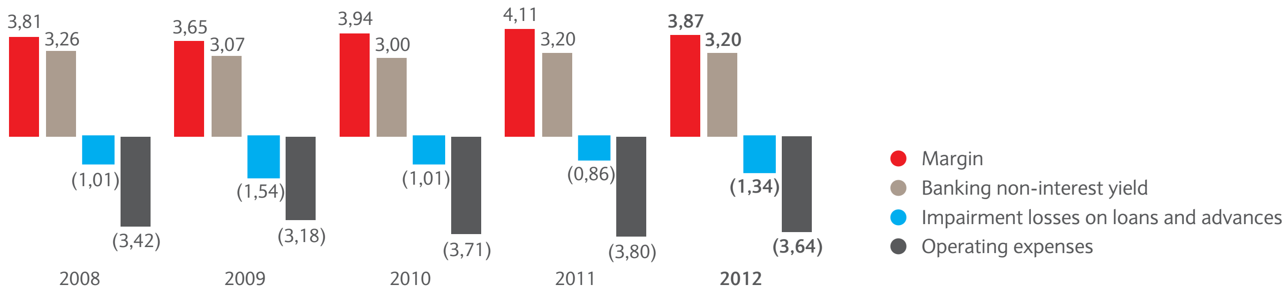
Note
[1]Refer to pages 93 to 118 for the risk management section.

9. RoE decomposition

In order to obtain a thorough understanding of factors contributing to the Group's performance, an RoE decomposition is provided below.

		2012 %		2011 %
Margin (average interest-bearing assets)		3,87	↓	4,11
Impairment losses on loans and advances/average interest-bearing assets	less	1,34	↑	0,86
Net margin (average interest-bearing assets)	equals	2,53	↓	3,25
Average interest-bearing assets/average banking assets	multiply	0,88	↓	0,89
Banking interest yield	equals	2,23	↓	2,89
Banking non-interest yield	plus	3,20	→	3,20
Banking revenue yield	equals	5,43	↓	6,09
Operating expenses/average banking assets	less	3,64	↑	3,80
Net banking return	equals	1,79	↓	2,29
Other[1]	less	0,55	↑	0,84
Banking return	equals	1,24	↓	1,45
Average banking assets/total average assets	multiply	0,88	↓	0,91
Return on average assets (RoA)	equals	1,09	↓	1,32
Leverage	multiply	12,5	↑	12,4
Return on average equity (RoE)	equals	13,6	↓	16,4

Major drivers of RoE (%)



Note
[1]Includes other impairments, indirect taxation, share of post-tax results of associates and joint ventures, and taxation expense.

10. Off-statement of financial position items

	2012 (Audited) Rm	2011 (Audited) Rm	Change %
Assets under management and administration			
Alternative asset management and exchange-traded funds	**41 957**	30 486	38
Deceased estates[1]	**2 012**	2 166	(7)
Participation bond schemes	**2 184**	2 544	(14)
Portfolio management	**44 222**	26 792	65
Private equity	**819**	728	13
Trusts[1]	**3 783**	3 343	13
Unit trusts	**138 978**	133 245	4
Other	**12 995**	13 882	(6)
	246 950	213 186	16
Financial guarantee contracts[2]			
Financial guarantee contracts	**146**	356	(59)
Commitments			
Authorised capital expenditure[3]			
Contracted but not provided for	**578**	283	>100
Contingencies			
Guarantees[4]	**16 217**	13 226	23
Irrevocable debt facilities[5]	**46 483**	46 189	1
Irrevocable equity facilities[5]	**543**	494	10
Letters of credit	**6 670**	5 190	29
Other	**6**	10	(40)
	69 919	65 109	7

Notes

[1]Unaudited. Refer to page 90 for further details.

[2]Represents the maximum exposure that is not necessarily the measurement recognised on the statement of financial position in accordance with IFRS.

[3]The Group has capital commitments in respect of computer equipment and property development. Management is confident that future net revenue and funding will be sufficient to cover these commitments.

[4]Guarantees include performance and payment guarantee contracts.

[5]Irrevocable facilities are commitments to extend credit where the Group does not have the right to terminate 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.

Segment performance

Contents

The Group's segments experienced mixed fortunes for the reporting period. CIBW performed strongly and achieved earnings growth of 26%, attributable to robust revenue growth and focused cost management. RBB saw a decline in headline earnings of 29% that can be ascribed to higher credit impairments and losses on the equity portfolio. Financial Services results were largely impacted by an improvement in new business volumes, strong net fund inflows but also higher claims. This resulted in Financial Services recording headline earnings of 3% lower than in the previous reporting period.

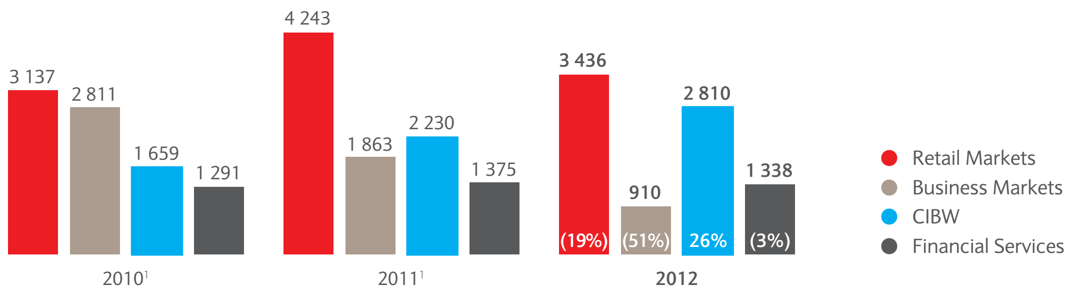
Favourable

- Deposits due to customers increased by 8%, supported by growth in individual deposits and strong growth from CIBW.
- Acquisition of the Edcon portfolio, providing access to a new customer base and a competitive advantage in the market.
- Introduction of new banking products in Africa, including mobile and Islamic banking products.
- Launched Absa Value Bundles in Retail Markets.
- Combined Retail and Business Markets into a single operation, RBB.
- Successfully implemented the integration of corporate clients and products into CIBW.
- Net investment fund inflows of R4,8 billion within Financial Services for the reporting period.
- Awarded Best Retail Bank in Africa, Best Retail Bank in South Africa and Best Credit Card Management at the 2012 Asian Banker International Awards.
- Received an Euromoney award for Best Debt House in South Africa.

Unfavourable

- Headline earnings for Retail Markets and Business Markets declined by 19% and 51% respectively.
- Significant increase in credit impairments in Retail Markets and Business Markets.
- Negative revaluations within the CPF portfolio of R787 million.
- Lower insurance earnings following crop underwriting losses, high fire-related claims experience in the commercial portfolio as well as an increase in fire- and weather-related personal lines claims in the latter months of the reporting period.

Headline earnings (Rm and change %)



Note

[1]Comparatives have been reclassified. Refer to pages 121 to 123. 2010 comparatives have not been reclassified for any structure changes made during the current reporting period.

Financial reporting structure

as at 31 December 2012

ABSA

Today, tomorrow, together.

RBB[1, 2]

Retail Markets[2]

- Retail Banking
  - Home Loans (including Repossessed Properties)
  - Vehicle and Asset Finance (VAF)
  - Card[3]
    - Woolworths Financial Services
  - Personal Loans
  - Retail Bank (including Absa Private Bank)[4]
  - Absa Development Company Holdings[5]
  - AllPay Consolidated Investment Holdings[4]

African operations[5]

- Barclays Bank Mozambique S.A. (BBM)
- National Bank of Commerce Limited (NBC) (Tanzania)

Business Markets[7]

- Absa Business Bank
  - Commercial Asset Finance (CAF)
  - Commercial Property Finance (CPF)
  - Debt products
    - Absa Technology Financial Solutions
    - Absa Vehicle Management Solutions
- Investment products
- Commercial business
- Equities
- Enterprise business
  - Absa Development Company Holdings[5]

African operations[6]

- Barclays Bank Mozambique S.A. (BBM)
- National Bank of Commerce Limited (NBC) (Tanzania)

International operations

- Absa Bank London[8]

CIBW[7, 11]

- Investment Bank
  - Markets
  - Investment Banking
  - Private Equity and Infrastructure Investments
  - Other
- Corporate
- Wealth

African operations[6]

- Absa Capital Nigeria
- Barclays Bank Mozambique S.A. (BBM)
- National Bank of Commerce Limited (NBC) (Tanzania)

International operations

- Absa Bank London[8]

Financial Services

Life

- Absa Life

Insurance

- Absa Insurance Company
- Absa *idirect*
- Absa Insurance Risk Management Services

Investments

- Absa Asset Management
- Absa Fund Managers
- Absa Investment Management Services
- Absa Mortgage Fund Managers
- Absa Portfolio Managers
- Absa Stockbrokers

Fiduciary

- Absa Consultants and Actuaries
- Absa Health Care Consultants
- Absa Trust

Distribution

- Absa Insurance and Financial Advisers

African operations[6]

- Absa Financial Services Africa Holdings
- Absa Life Botswana
- Global Alliance Seguros S.A.
- Barclays Life Zambia[9]

Other Group activities

- Corporate Real Estate Services (CRES)
- Enterprise Core Services[10, 11]
  - Corporate Centre[2]
- Capital and funding centres

International operations

- Absa Bank London[8]
- Absa Manx Insurance Company

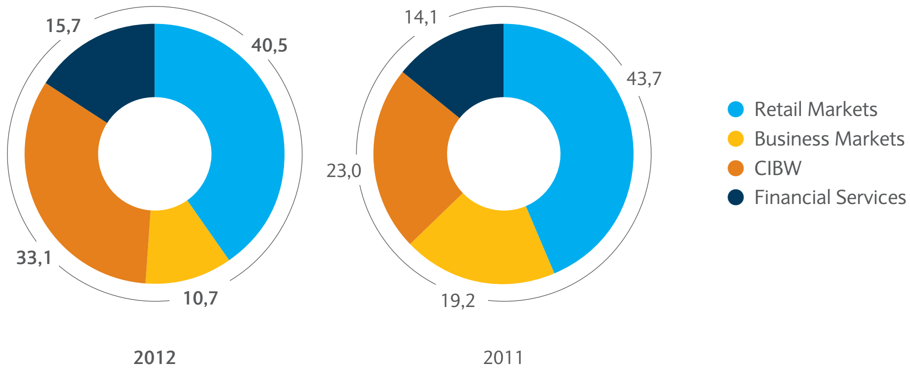
Notes

[1] As part of the One Absa strategy, the segments of Retail Markets (previously known as Retail Banking) and Business Markets (previously known as Absa Corporate and Business Bank) were merged into the RBB segment.
[2] Absa Cash Solutions Group Processing Centre and Integrated Processing Services were moved from the Corporate Centre.
[3] Includes Edcon portfolio.
[4] AllPay Consolidated Investment Holdings was moved within Retail Markets to a separately disclosed sub-segment.
[5] Absa Development Company Holdings, a subsidiary of the Group, was segmented into Retail Markets and Business Markets. Its results were previously reported in Retail Markets.
[6] The Group's African operations have been allocated to the various segments where those businesses are managed.
[7] The Group's corporate customers and products were transferred from Business Markets to CIBW following an initiative to optimise product delivery to its corporate customers.
[8] Absa Bank London's results have been allocated to the various segments where those businesses are managed.
[9] Financial Services obtained regulatory approval to start a new life insurance business in Zambia through its subsidiary Absa Financial Services Africa Holdings Proprietary Limited. This entity commenced operations in August 2012.
[10] Support Services were renamed to Enterprise Core Services, which consists of a significant division namely the Corporate Centre.
[11] Foreign Exchange Operations and Group Payments were moved from Corporate Centre to CIBW.

Profit contribution by segment

for the reporting period ended 31 December

Headline earnings (%)[1]



	2012 (Audited) Rm	2011[2] (Audited) Rm	Change %
Banking operations			
RBB	**4 346**	6 106	(29)
Retail Markets	**3 436**	4 243	(19)
Home Loans	**(992)**	516	>(100)
Vehicle and Asset Finance	**791**	403	96
Card	**2 088**	1 757	19
Personal Loans	**587**	720	(18)
Retail Bank	**947**	647	46
AllPay	**15**	200	(93)
Business Markets	**910**	1 863	(51)
CIBW	**2 810**	2 230	26
Corporate Centre	**239**	(37)	>100
Capital and funding centres	**369**	329	12
Non-controlling interest – preference shares[3]	**(295)**	(284)	(4)
Total banking	**7 469**	8 344	(10)
Financial Services	**1 338**	1 375	(3)
Headline earnings	**8 807**	9 719	(9)

Notes

[1]Calculated after the allocation of Corporate Centre, Capital and funding centres as well as non-controlling interest – preference shares.

[2]Comparatives have been reclassified. Refer to pages 121 to 123.

[3]Includes the elimination of non-controlling interest – preference shares of Retail Markets.

Segment report per market segment

31 December

	RBB			CIBW		
	2012 (Audited)	2011[1] (Audited)	Change %	**2012 (Audited)**	2011[1, 2] (Audited)	Change %
Statement of comprehensive income (Rm)						
Net interest income	**20 004**	19 598	2	**2 964**	3 483	(15)
Impairment losses on loans and advances	**(8 153)**	(4 868)	(67)	**(117)**	(39)	>(100)
Non-interest income	**13 849**	13 916	(0)	**5 664**	4 339	31
Operating expenses	**(19 535)**	(18 920)	(3)	**(4 666)**	(4 597)	(2)
Other	**(397)**	(451)	12	**21**	(104)	>100
Operating profit before income tax	**5 768**	9 275	(38)	**3 866**	3 082	25
Taxation expense	**(1 765)**	(3 013)	41	**(1 027)**	(833)	(23)
Profit for the reporting period	**4 003**	6 262	(36)	**2 839**	2 249	26
Profit attributable to:						
Ordinary equity holder	**3 961**	6 053	(35)	**2 810**	2 231	26
Non-controlling interest – ordinary shares	**42**	208	(80)	**29**	18	61
Non-controlling interest – preference shares	**—**	1	(100)	**—**	—	—
	4 003	6 262	(36)	**2 839**	2 249	26
Headline earnings	**4 346**	6 106	(29)	**2 810**	2 230	26
Operating performance (%)						
Net interest margin on average interest-bearing assets[3]	**3,75**	3,68		**n/a**	n/a	
Impairment losses on loans and advances as % of average loans and advances to customers[3]	**1,98**	1,16		**0,12**	0,05	
Non-interest income as % of total operating income	**40,9**	41,5		**65,6**	55,5	
Revenue growth[1]	**1**	(3)		**10**	42	
Cost growth[1]	**(3)**	3		**(2)**	(52)	
Cost-to-income ratio[4]	**57,7**	56,5		**54,1**	58,8	
Cost-to-assets ratio[3]	**3,3**	3,3		**1,0**	1,0	
Statement of financial position (Rm)						
Loans and advances to customers	**419 644**	412 595	2	**107 907**	91 889	17
Investment securities	**1 042**	1 647	(37)	**8 314**	7 181	16
Other assets	**194 313**	167 942	16	**357 734**	367 770	(3)
Total assets	**614 999**	582 184	6	**473 955**	466 840	2
Deposits due to customers	**216 309**	207 574	4	**261 317**	233 702	12
Debt securities in issue	**3 636**	4 256	(15)	**84 252**	107 795	(22)
Other liabilities	**387 612**	363 886	7	**122 462**	120 635	2
Total liabilities	**607 557**	575 716	6	**468 031**	462 132	1
Financial performance (%)						
Return on average economic capital[3, 5]	**16,4**	20,9		**22,4**	19,7	
Return on average risk-weighted assets[3]	**1,52**	1,97		**2,06**	1,80	
Return on average assets[3]	**0,74**	1,07		**0,52**	0,48	
Other						
Banking customer base per segment (millions)[3, 6]	**10,8**	11,2	(4)	**0,1**	0,1	0
Attributable income from business with the rest of Africa (Rm)[3]	**301**	193	56	**270**	220	23

Notes

[1]Comparatives have been reclassified for structure changes made during the reporting period, Refer to pages 122 to 123. 2010 comparatives have not been reclassified for any structure changes made during the reporting period.

[2]Comparatives have been reclassified. Refer to page 121.

[3]These ratios and numbers are unaudited.

[4]The cost-efficiency ratio of Financial Services, based on insurance industry norms, is **22,9%** (2011: 25,2%). The revenue used in this ratio for Financial Services is net of reinsurance premiums, unearned premiums, net insurance claims and benefits paid, changes in investment and insurance contract liabilities and acquisition costs. Refer to pages 81 to 90.

[5]Financial Services' RoE is **28,2%** (2011: 32,0%) and Absa Group's RoE is **13,6%** (2011: 16,4%).

[6]Includes African operations.

Segment report per market segment

31 December

Financial Services			Head office, inter-segment eliminations and Other			Group		
2012 (Audited)	2011 (Audited)	Change %	**2012 (Audited)**	2011[1,2] (Audited)	Change %	**2012 (Audited)**	2011[2] (Audited)	Change %
6	21	(71)	**1 137**	1 327	(14)	**24 111**	24 429	(1)
(24)	(4)	>(100)	**4**	(170)	>100	**(8 290)**	(5 081)	(63)
4 010	3 994	0	**(782)**	(846)	8	**22 741**	21 403	6
(2 027)	(2 020)	(0)	**354**	79	>100	**(25 874)**	(25 458)	(2)
(118)	(107)	(10)	**(76)**	(421)	82	**(570)**	(1 083)	47
1 847	1 884	(2)	**637**	(31)	>100	**12 118**	14 210	(15)
(526)	(511)	(3)	**(59)**	331	>(100)	**(3 377)**	(4 026)	16
1 321	1 373	(4)	**578**	300	93	**8 741**	10 184	(14)
1 321	1 373	(4)	**301**	17	>100	**8 393**	9 674	(13)
—	—	—	**(18)**	—	(100)	**53**	226	(77)
—	—	—	**295**	283	4	**295**	284	4
1 321	1 373	(4)	**578**	300	93	**8 741**	10 184	(14)
1 338	1 375	(3)	**313**	8	>100	**8 807**	9 719	(9)
n/a	n/a		**n/a**	n/a		**3,87**	4,11	
12,37	1,80		**n/a**	n/a		**1,59**	1,01	
99,9	99,5		**n/a**	n/a		**48,5**	46,7	
0	11		**n/a**	n/a		**2**	7	
(0)	(12)		**n/a**	n/a		**(2)**	(6)	
50,5	50,3		**n/a**	n/a		**55,2**	55,5	
7,8	8,5		**n/a**	n/a		**3,2**	3,5	
296	137	>100	**344**	304	13	**528 191**	504 925	5
15 959	17 567	(9)	**(4 760)**	(5 213)	9	**20 555**	21 182	(3)
9 597	7 939	21	**(302 451)**	(283 039)	(7)	**259 193**	260 612	(1)
25 852	25 643	1	**(306 867)**	(287 948)	(7)	**807 939**	786 719	3
—	—	—	**(199)**	(316)	37	**477 427**	440 960	8
—	—	—	**20 156**	18 211	11	**108 044**	130 262	(17)
21 081	21 044	0	**(381 481)**	(358 473)	(6)	**149 674**	147 092	2
21 081	21 044	0	**(361 524)**	(340 578)	(6)	**735 145**	718 314	2
76,9	72,8		**n/a**	n/a		**20,8**	23,0	
n/a	n/a		**n/a**	n/a		**2,07**	2,35	
5,16	5,78		**n/a**	n/a		**1,09**	1,32	
n/a	n/a	n/a	**n/a**	n/a	n/a	**10,9**	12,1	(10)
17	(18)	>100	**45**	(3)	>100	**633**	392	61

Segment report per geographical segment
31 December

	South Africa and other foreign countries		
	2012 (Audited) Rm	2011[1] (Audited) Rm	Change %
Statement of comprehensive income			
Net interest income	**23 497**	23 700	(1)
Impairment losses on loans and advances	**(8 068)**	(4 983)	(62)
Non-interest income	**22 131**	20 994	5
Operating expenses	**(24 509)**	(24 507)	(0)
Other	**(539)**	(1 059)	49
Operating profit before income tax	**12 512**	14 145	(12)
Taxation expense	**(3 435)**	(3 975)	14
Profit for the reporting period	**9 077**	10 170	(11)
Profit attributable to:			
Ordinary equity holders	**8 635**	9 700	(11)
Non-controlling interest – ordinary shares	**147**	186	(20)
Non-controlling interest – preference shares	**295**	284	4
	9 077	10 170	(11)
Headline earnings	**9 048**	9 748	(7)
Statement of financial position			
Loans and advances to customers	**522 757**	499 389	5
Investment securities	**19 754**	20 453	(3)
Other assets	**251 918**	254 514	(1)
Total assets	**794 429**	774 356	3
Deposits due to customers	**467 303**	431 647	8
Debt securities in issue	**108 044**	130 262	(17)
Other liabilities	**148 029**	145 490	2
Total liabilities	**723 376**	707 399	2

Notes

[1]Comparatives have been reclassified. Refer to pages 121 to 123.

[2]The rest of Africa includes operations whose main revenue generating operations are based outside of South Africa. This includes BBM, NBC, Absa Capital Nigeria, Absa Financial Services Africa Holdings, Absa Life Botswana, Global Alliance Seguros S.A. and Barclays Life Zambia.

Segment report per geographical segment

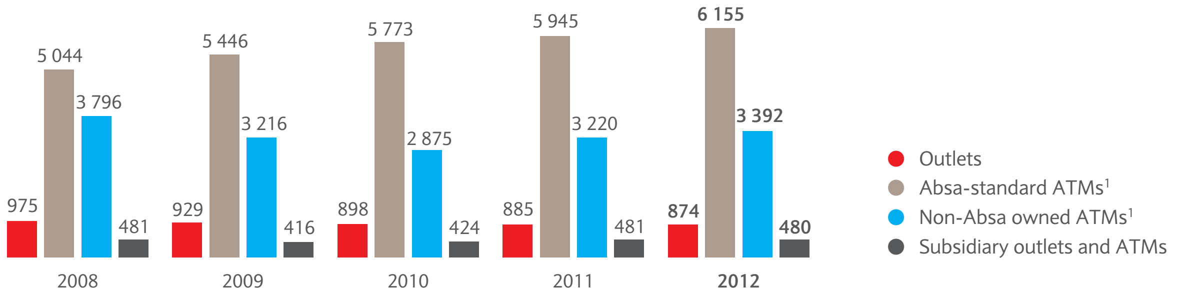
31 December

Rest of Africa[2]			Group		
2012 (Audited) Rm	2011 (Audited) Rm	Change %	**2012 (Audited) Rm**	2011[1] (Audited) Rm	Change %
614	729	(16)	**24 111**	24 429	(1)
(222)	(98)	>(100)	**(8 290)**	(5 081)	(63)
610	409	49	**22 741**	21 403	6
(1 365)	(951)	(44)	**(25 874)**	(25 458)	(2)
(31)	(24)	(29)	**(570)**	(1 083)	47
(394)	65	>(100)	**12 118**	14 210	(15)
58	(51)	>100	**(3 377)**	(4 026)	16
(336)	14	>(100)	**8 741**	10 184	(14)
(242)	(26)	>(100)	**8 393**	9 674	(13)
(94)	40	>(100)	**53**	226	(77)
—	—	—	**295**	284	4
(336)	14	>(100)	**8 741**	10 184	(14)
(241)	(29)	>(100)	**8 807**	9 719	(9)
5 434	5 535	(2)	**528 191**	504 925	5
801	729	10	**20 555**	21 182	(3)
7 275	6 099	19	**259 193**	260 612	(1)
13 510	12 363	9	**807 939**	786 719	3
10 124	9 313	9	**477 427**	440 960	8
0	—	0	**108 044**	130 262	(17)
1 645	1 602	3	**149 674**	147 092	2
11 769	10 915	8	**735 145**	718 314	2

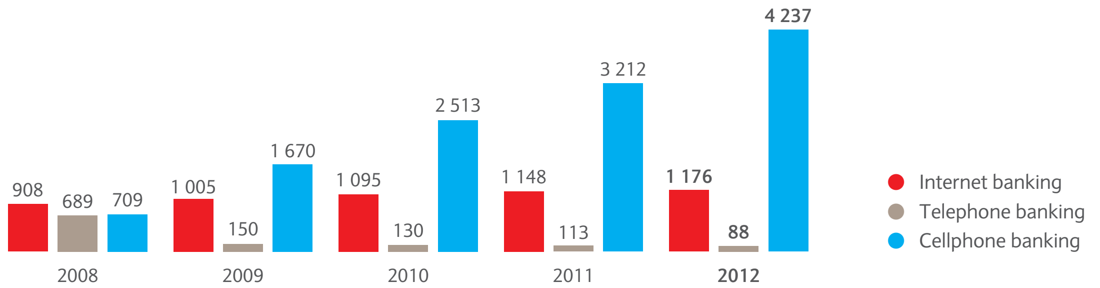
Operational key performance indicators

as at 31 December

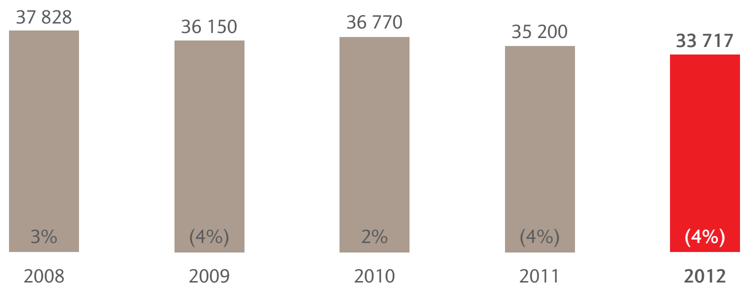
Delivery footprint (number)



Internet, telephone and cellphone banking (number of customers ('000))



Employee complement[2] (number of employees)



Notes

[1]South Africa.

[2]The employee complement figures exclude contract workers.

RBB – Retail Markets
31 December

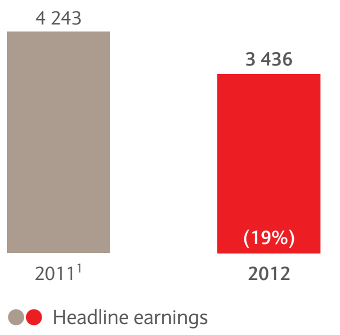
Favourable

- Improvement in the net interest margin, particularly on new business flows.
- Operating efficiencies improved throughout the business, reflected in a 1% decrease in operating expenses and a decline in the cost-to-income ratio from 55,6% to 54,0%.
- Individual deposits increased by 4%, maintaining Retail Markets' leading market position.
- Growth in loans and advances to customers (including the Edcon portfolio) of 3%, with good growth in credit cards and instalment finance.
- Sustained focus on the existing customer franchise and improvements in origination processes improved the quality of origination.
- Significant reductions in customer turnaround times as a result of an increased focus on operational business drivers and process improvements.
- Acquisition of the Edcon portfolio, which provides a significant new customer base and a competitive advantage in the market.
- Introduction of new banking products in Africa, including mobile and Islamic banking products.
- Awards for 2012:
  - Best Bank for Customer Service – Ask Africa Orange Index
  - Best Retail Bank in Africa – 2012 Asian Banker International awards
  - Best Retail Bank in South Africa – 2012 Asian Banker International awards
  - Best Credit Card Management – 2012 Asian Banker International awards
  - Best Islamic institution in the Non-Gulf Co-operation Council Middle East/Africa- 2012 Global Finance magazine awards.

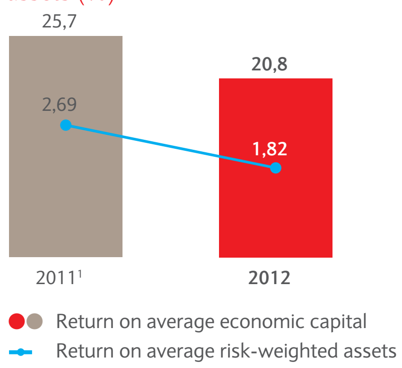
Unfavourable

- Headline earnings decreased by 19% to R3 436 million, resulting in RoRWA declining to 1,82%.
- Credit impairments increased by 53% on the previous reporting period to R6 061 million as mortgage impairments more than doubled to R4 453 million and coverage on mortgage NPLs increased to 29%.
- Fee-based revenue growth impacted by the loss of business from social grants (AllPay).
- Decline in mortgage loans and advances to customers of 4%, with a subsequent decline in market share.
- Lower interest yields resulting from a lower performing loans book in African operations.

Headline earnings (Rm and change %)



Return on average economic capital and risk-weighted assets (%)



Salient features	2012 (Audited)	2011[1] (Audited)	Change %
Revenue (Rm)	**24 855**	24 334	2
Headline earnings (Rm)	**3 436**	4 243	(19)
Attributable earnings (Rm)	**3 447**	4 243	(19)
Return on average risk-weighted assets (%)[2]	**1,82**	2,69	
Return on average regulatory capital (%)[2]	**20.1**	27,5	
Cost-to-income ratio (%)	**54,0**	55,6	
Credit loss ratio (%)[2]	**1,89**	1,23	

Notes

[1]Comparatives have been reclassified. Refer to pages 121 to 123.

[2]These ratios are unaudited.

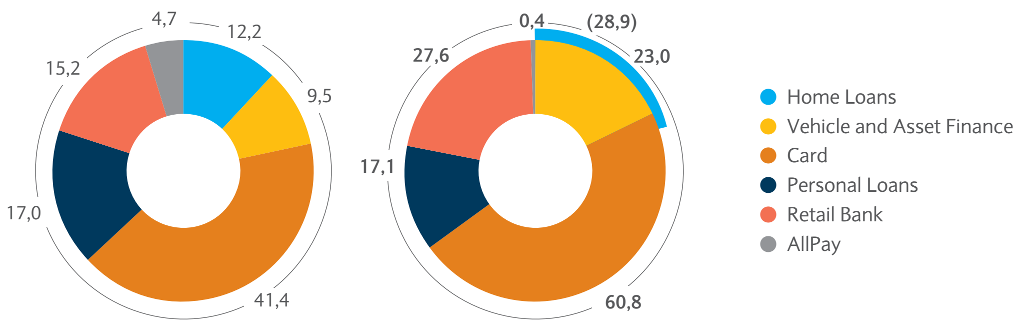
RBB – Retail Markets

31 December

	Home Loans			Vehicle and Asset Finance			Card		
	2012	2011[1,2]	Change %	**2012**	2011[1,2]	Change %	**2012**	2011[1,2]	Change %
Statement of comprehensive income (Rm)									
Net interest income	**3 954**	3 787	4	**1 885**	1 888	(0)	**2 884**	2 411	20
Impairment losses on loans and advances	**(4 453)**	(2 160)	>(100)	**(284)**	(774)	63	**(391)**	(213)	(84)
Non-interest income	**248**	342	(27)	**351**	284	24	**2 843**	2 559	11
Operating expenses	**(1 112)**	(1 181)	6	**(932)**	(892)	(4)	**(2 177)**	(1 970)	(11)
Other	**(11)**	(28)	(61)	**54**	53	2	**(46)**	(63)	27
Operating profit before income tax	**(1 374)**	760	>(100)	**1 074**	559	92	**3 113**	2 724	14
Taxation expense	**382**	(244)	>100	**(283)**	(156)	(81)	**(870)**	(854)	(2)
Profit for the reporting period	**(992)**	516	>(100)	**791**	403	96	**2 243**	1 870	20
Profit attributable to:									
Ordinary equity holders	**(992)**	516	>(100)	**791**	403	96	**2 088**	1 758	19
Non-controlling interest – ordinary shares	**—**	—	—	**—**	—	—	**155**	112	38
Non-controlling interest – preference shares	**—**	—	—	**—**	—	—	**—**	—	—
	(992)	516	>(100)	**791**	403	96	**2 243**	1 870	20
Headline earnings	**(992)**	516	>(100)	**791**	403	96	**2 088**	1 757	19
Operating performance (%)									
Impairment losses on loans and advances as % of average loans and advances to customers[4]	**2,08**	0,97		**0,64**	1,88		**1,65**	1,05	
Cost-to-income ratio	**26,5**	29,1		**41,7**	41,1		**38,0**	39,6	
Statement of financial position (Rm)									
Loans and advances to customers	**210 515**	218 337	(4)	**47 981**	42 314	13	**32 802**	21 033	56
Other	**16 623**	21 229	(22)	**3 961**	4 197	(6)	**10 929**	8 423	30
Total assets	**227 138**	239 566	(5)	**51 942**	46 511	12	**43 731**	29 456	48
Deposits due to customers	**123**	—	—	**2**	9	(78)	**1 936**	1 883	3
Other	**227 796**	239 067	(5)	**50 770**	45 922	11	**39 036**	25 910	51
Total liabilities	**227 919**	239 067	(5)	**50 772**	45 931	11	**40 972**	27 793	47
Financial performance (%)									
Return on average economic capital[4]	**(15,9)**	7,4		**25,4**	13,0		**73,3**	72,2	
Return on average risk-weighted assets[4]	**(1,62)**	0,83		**2,65**	1,42		**4,33**	6,91	

This additional information is voluntarily provided by management to supplement IFRS 8 segment information disclosed in the Group annual financial statements and is not required in terms of IFRS 8.

Headline earnings (%)



2011[1] 2012

Notes

[1]Comparatives have been reclassified. Refer to pages 121 to 123. 2010 comparatives have not been reclassified for any structure changes made during the reporting period.

[2]With the creation of the RBB segment, certain revenue and operating expenses were reallocated between the different sub-segments within Retail Markets.

[3]Comparatives have been reclassified for the move of Absa Cash Solutions Group Processing Centre and Integrated Processing Services from Head Office, inter-segment eliminations and Other to Retail Markets.

[4]These ratios are unaudited.

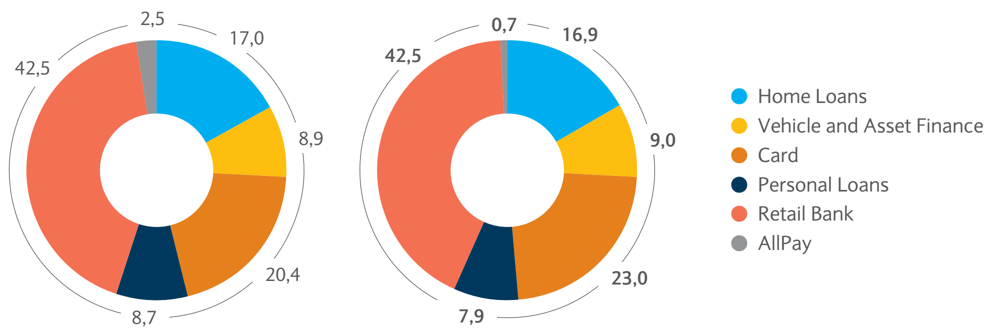
[5]Balances inclusive of Woolworths Financial Services Proprietary Limited.

RBB – Retail Markets

31 December

Card[5]			Edcon			Personal Loans			Retail Bank			Retail Markets excluding AllPay		
2012	2011[1,2]	Change %	2012	2011[1,2]	Change %	2012	2011[1,2]	Change %	2012	2011[1,2]	Change %	2012	2011[1,2]	Change %
2 579	2 411	7	305	—	100	1 672	1 779	(6)	3 625	3 615	0	14 020	13 480	4
(319)	(213)	(50)	(72)	—	(100)	(573)	(479)	(20)	(360)	(339)	(6)	(6 061)	(3 965)	(53)
2 859	2 559	12	(16)	—	(100)	299	329	(9)	6 926	6 738	3	10 667	10 252	4
(2 158)	(1 970)	(10)	(19)	—	(100)	(576)	(584)	1	(8 529)	(8 674)	2	(13 326)	(13 301)	(0)
(44)	(63)	30	(2)	—	(100)	(7)	(5)	(40)	(313)	(305)	(3)	(323)	(348)	7
2 917	2 724	7	196	—	100	815	1 040	(22)	1 349	1 035	30	4 977	6 119	(19)
(815)	(854)	5	(55)	—	(100)	(228)	(320)	29	(430)	(380)	(13)	(1 429)	(1 954)	27
2 102	1 870	12	141	—	100	587	720	(18)	919	655	40	3 548	4 164	(15)
1 947	1 758	11	141	—	100	587	720	(18)	958	644	49	3 432	4 041	(15)
155	112	38	—	—	—	—	—	—	(39)	10	>(100)	116	122	(5)
—	—	—	—	—	—	—	—	—	0	1	(100)	—	1	(100)
2 102	1 870	12	141	—	100	587	720	(18)	919	655	40	3 548	4 164	(15)
1 947	1 757	11	141	—	100	587	720	(18)	947	647	46	3 421	4 043	(15)
1,43	1,05		5,03	—	—	4,68	3,87		1,39	1,33		1,89	1,23	
39,7	39,6		6,6	—	—	29,2	27,7		80,8	83,8		54,0	56,1	
23 444	21 033	11	9 358	—	100	12 410	12 387	0	24 976	24 663	1	328 684	318 734	3
10 262	8 423	22	667	—	100	908	1 107	(18)	140 169	116 029	21	172 590	150 985	14
33 706	29 456	14	10 025	—	100	13 318	13 494	(1)	165 145	140 692	17	501 274	469 719	7
1 936	1 883	3	—	—	—	9	6	50	129 584	124 196	4	131 654	126 094	4
29 152	25 910	13	9 884	—	100	12 722	13 056	(3)	33 750	15 457	>100	364 074	339 412	7
31 088	27 793	12	9 884	—	100	12 731	13 062	(3)	163 334	139 653	17	495 728	465 506	6
73,4	72,2		71,8			43,6	51,9		32,7	17,1		20,8	23,9	
5,64	6,91		1,03			3,79	5,10		3,66	1,97		0,78	2,52	

Revenue (%)



2011[1]

2012

RBB – Retail Markets

31 December

AllPay			Total Retail Markets		
2012	2011[1,2]	Change %	**2012**	2011[1,3]	Change %
19	37	(49)	**14 039**	13 517	4
—	—	—	**(6 061)**	(3 965)	(53)
149	565	(74)	**10 816**	10 817	(0)
(98)	(217)	55	**(13 424)**	(13 518)	1
(5)	(0)	(100)	**(328)**	(348)	6
65	385	(83)	**5 042**	6 503	(22)
(41)	(118)	65	**(1 470)**	(2 072)	29
24	267	(91)	**3 572**	4 431	(19)
15	202	(93)	**3 447**	4 243	(19)
9	65	(86)	**125**	187	(33)
—	—	—	**—**	1	(100)
24	267	(91)	**3 572**	4 431	(19)
15	200	(93)	**3 436**	4 243	(19)
n/a	n/a		**1,89**	1,23	
58,3	36,0		**54,0**	55,6	
—	—	—	**328 684**	318 734	3
187	1 757	(89)	**172 777**	152 742	13
187	1 757	(89)	**501 461**	471 476	6
60	116	(48)	**131 714**	126 210	4
34	1 162	(97)	**364 108**	340 574	7
94	1 278	(93)	**495 822**	466 784	6
n/a	n/a		**20,8**	25,7	
n/a	n/a		**1,82**	2,69	

RBB – Retail Markets

31 December

Segment scope

Retail Markets offers a comprehensive suite of retail banking products and services to individual customers. It provides products and services through an extensive branch and self-service terminal network, relationship managers, call centre agents and electronic and mobile phone channels. Retail Markets caters for the full spectrum of customers, from those needing basic banking services to those requiring sophisticated financial solutions. Retail Markets focuses is on providing a consistently superior experience across each of its channels, matched closely to the needs and expectations of each customer segment.

Key business areas

- **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 customers through face-to-face engagements, call centre agents and digital channels.
- **Card** – provides credit and debit cards, and merchant acquiring. It includes the recently acquired Edcon portfolio as well as Woolworths Financial Services, which offers credit cards, personal loans and short-term insurance products.
- **Personal Loans** – offers unsecured instalment loans, including fixed and variable loans through face-to-face engagements, call centre agents as well as electronic and mobile channels.
- **Retail Bank** – offers financial solutions to individuals in South Africa and Absa's African operations in Mozambique and Tanzania, ranging from those entering the market with basic banking needs, to affluent individuals who require more sophisticated banking solutions.
- **AllPay** – participates in the social grant disbursements industry and provides bulk cash payments services. A decision has been taken to exit the business due to limited business opportunities, following the loss of a key contract.

Financial performance

Headline earnings decreased by 19% to R3 436 million (2011: R4 243 million) largely attributable to higher credit impairments. Pre-provision profits increased by 6% to R11 431 million, as total income growth of 2% exceeded the reduction of 1% in costs. Retail Markets' credit loss ratio deteriorated to 1,89% (2011: 1,23%), mainly due to the increase in impairment provisions on the mortgages legal portfolio. Focused operating expense management improved Retail Markets' cost-to-income ratio to 54,0% (2011: 55,6%).

Loans and advances to customers increased by 3% to R329 billion (2011: R319 billion). The acquisition of the Edcon portfolio and a 13% increase in loans and advances to customers from VAF largely drove this improvement. Deposits due to customers grew by 4% driven by an increase in individual deposits and, in particular, overdrafts, fixed deposits and investment products.

Retail Markets' business units experienced mixed fortunes, with Home Loans, Personal Loans and AllPay recording lower headline earnings. VAF increased headline earnings by 96% due to an increased focus on risk-based pricing and significantly lower credit impairments. Solid revenue growth resulted in a 19% increase in Card's headline earnings. The performance from Retail Markets' African operations was hampered by lower interest yields and an underperforming loan book, which placed pressure on net earnings.

Business performance

Retail Markets experienced a difficult year, in which headline earnings declined amidst strain on non-interest income, increased credit impairments relating to the legal mortgage book and a 4% reduction in the Home Loans book.

The financial performance, however, does not reflect the extent of the improvement in Retail Markets' underlying operational performance. Focus has been placed on making the lives of customers easier through a renewed focus on service, innovation and value, reduced waiting times and providing instant fulfilment related to origination processes. This, together with an expanded risk appetite and improved risk-based pricing, culminated in the transformation of customer facing processes, leading to improved conversion rates on applications. Retail Markets also improved multi-channel access through the optimisation of its existing infrastructure as well as through the use of customer-focused innovation in Absa Online. These factors contributed to an increased share of quality new business flows, evidenced through a 26% increase in new loans production in the second half of the reporting period.

Retail Markets experienced strong growth in the VAF and Card portfolios, while Personal Loans reflected marginal growth. Although this growth does not necessarily translate into market share gains at this point, the business is comfortable that production volumes are returning to targeted levels. Retail Markets is aware of concerns over the rate of growth in the unsecured lending market and, as a result, is cautious of an aggressive expansion into claiming back significant market share in this industry. The risk grades on the new book growth are well within Retail Markets' risk appetite and are appropriately priced.

Discretionary spend remained well-controlled following the sustained cost management approach.

Increased focus on Retail Markets' 'back to the floor' approach resulted in an emphasis on key aspects of new transactional account retention and origination. The business experienced early success with the launch of Value Bundles, with 120 000 Value Bundle accounts being opened to date. In Africa, new banking products were introduced and embedded, including mobile and Islamic banking products.

Retail Markets maintained its leading position in terms of individual deposits, with a view to retaining the title of Savings Bank of the Nation.

In addition, Retail Markets focused its attention on the collections processes aiming to improve their effectiveness. This resulted in a significant improvement in NPLs, particularly in mortgages, which reduced its NPLs by 20%. In addition, the property in possession portfolio decreased during the reporting period.

All key leadership positions have been filled and experienced management teams have been established across all key businesses.

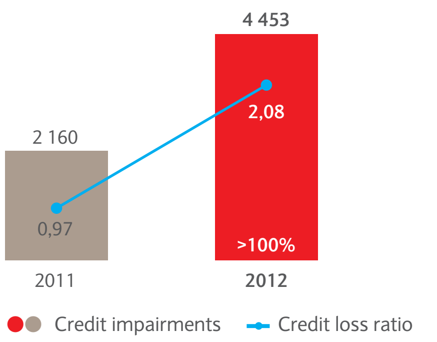
Home Loans

Home Loans experienced a headline earnings loss of R992 million (2011: R516 million profit), largely as a result of additional impairments emanating from the Home Loans legal portfolio. Home Loans experienced widening interest margins and a 6% reduction in operating expenses. Credit impairments increased by more than 100% to R4 453 million (2011: R2 160 million). This resulted in the NPL coverage ratio increasing to 28,5% (2011: 17,1%).

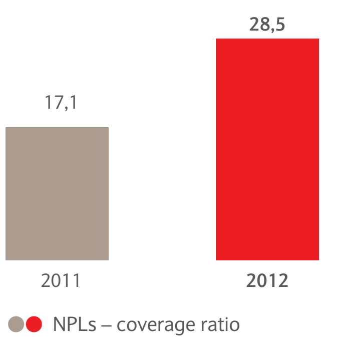
Loans and advances to customers declined by 4% as a result of a declining market share of new business. The decision to engage a broader origination channel strategy and an improvement in the processes of converting applications to registered loans resulted in a 40% increase in new business production in the second half of the reporting period compared to previous six months. The growth in the second half of the reporting period was achieved with improved margins on new business. This margin improvement, together with contained operating expenses, a well provisioned book and established origination channels, positions Home Loans well for 2013.

The enhancement of the origination process led to an improvement in the turnaround time for a home loan application from 12 to under seven days.

Credit impairments and credit loss ratio (Rm and change %)



Non-performing loans – coverage ratio[1]



Note

[1]This ratio refers to Home Loans, the business segment, and not to the mortgage product portfolio.

Business performance *(continued)*

Vehicle and Asset Finance

Headline earnings increased by 96% to R791 million (2011: R403 million) due to significantly lower credit impairments and solid non-interest income growth. The net interest margin reduced for the reporting period. This was offset by the growth in balances culminating in stable net interest income.

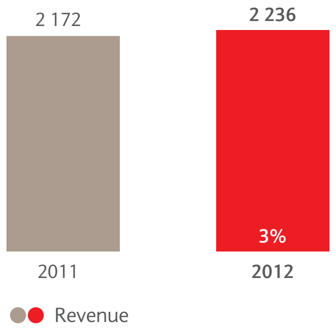
Loans and advances to customers increased by 13% despite continued high levels of early settlements. The value of new vehicle finance production accelerated by 13% for the second half of the reporting period (an increase of 32% from May 2012). The increased focus on dealer networks and the continuity of existing customer relationships, aimed at driving repeat business flows, contributed to this growth.

Credit impairments declined by 63% to R284 million (2011: R774 million). An improvement in the legal book collections processes, particularly regarding vehicle recovery and legal portfolio management, contributed to improved credit impairment levels. Arrears levels in all categories improved.

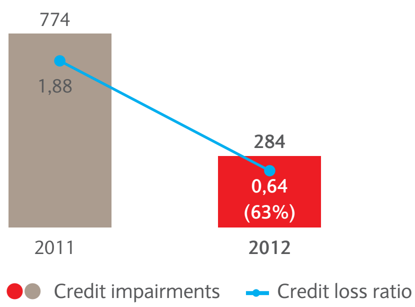
Improvements in customer service and turnaround times, as a result of the implementation of enhanced origination processes contributed to overall successful cost management, while also improving customer take-up rates. Customer satisfaction improved in all areas.

Operating expenses increased by 4%. VAF's cost-to-income ratio deteriorated marginally to 41,7%.

Revenue (Rm and change %)



Credit impairments and credit loss ratio (Rm and change %)



Card

Headline earnings increased by 19% to R2 088 million (2011: R1 757 million), mainly due to growth in targeted loans and advances to customers, strong revenue growth and the acquisition of the Edcon portfolio.

Account balances increased by 56% as new business levels increased. The increase is attributable to the acquisition of the Edcon portfolio and limit management initiatives on existing portfolios. The increased use of debit card facilities and the embedding of low value payment/contactless cards had a positive impact on volume growth, although the negative effect of this on net interest and non-interest margins is beginning to manifest.

Card experienced double-digit growth, in merchants on the back of successful collaboration with Business Markets. This collaboration resulted in an 8% growth in the number of commercial card customers as at the reporting date.

Business performance *(continued)*

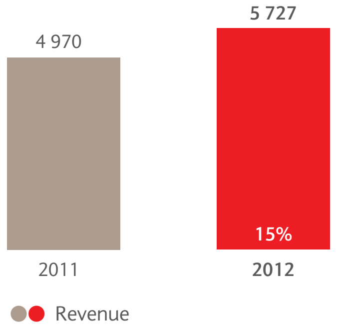
Card *(continued)*

The credit loss ratio increased to 1,65% (2011: 1,05%), mainly as a result of growth in loans and advances. This was partially offset by the improving construct of the remaining loans and advances portfolio, high customer payments and effective collections strategies. This ratio remains low and is in line with Card's risk appetite.

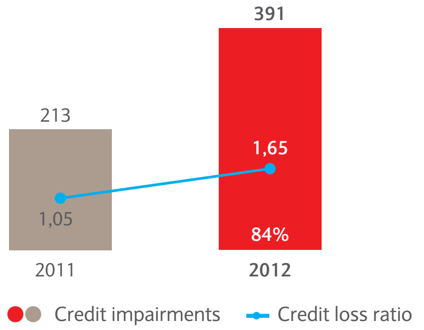
Operating expenses increased above inflation during the reporting period, primarily due to the continued roll out of Europay, Mastercard and Visa chips, higher fraud levels on debit cards, costs related to the Edcon portfolio and the replenishment of point-of-sale terminals.

In November 2012, Absa acquired Edcon's portfolio of close to four million customers. The acquisition includes the store cards for Edgars, Jet and Boardmans. The transaction, one of the largest of its kind, has given Retail Markets access to a significant customer base, a proportion of which is new to the Group. This transaction enables the provision of retail credit to Edcon customers and provides Retail Markets with a competitive advantage in this market. The Edcon portfolio recorded headline earnings of R141 million for the last two months of the reporting period.

Revenue (Rm and change %)



Credit impairments and credit loss ratio (Rm and change %)



Personal Loans

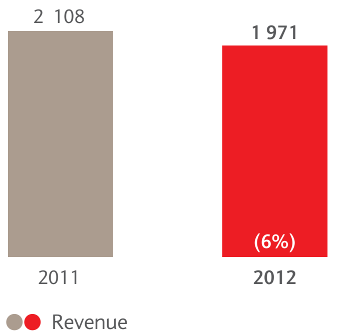
Headline earnings decreased by 18% to R587 million (2011: R720 million), largely due to lower revenue and an increase in credit impairments. The decline in revenue can be attributed to a decline in net interest margin of 60 bps primarily due to a change in the portfolio mix.

Credit impairments increased by 20% due to a conscious increase in the coverage ratio and lower recoveries on the NPL portfolio. Improved and sustained efficiencies resulted in a 1% reduction in operating expenses.

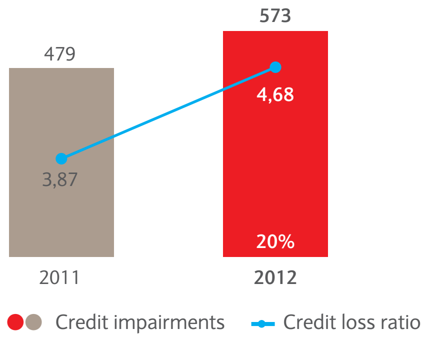
Loans and advances to customers remained unchanged from previous reporting period despite strong market growth, leading to significant losses in market share. Sales volumes remained flat as a result of prudent underwriting and some disruption caused by the transition to new and improved distribution channels.

A 22% increase in production levels was evident in the second half of the reporting period. This can be ascribed to the expansion into the short-term loan market, marketing of higher value, lower margin loans to both existing and new customers and an ongoing drive to embed the mobile channel in the customer base. Turnaround times improved to around 12 minutes for the processing of a personal loan application, assisting in growing production levels.

Revenue (Rm and change %)



Credit impairments and credit loss ratio (Rm and change %)



Business performance *(continued)*

Retail Bank

Headline earnings increased to R947 million (2011: R647 million) as a result of a 3% growth in non-interest income and lower operating expenses.

Revenue remained under pressure with marginal growth of 2%. This growth was achieved in spite of a decline in the number of transactional accounts, the migration of transactions to lower revenue generating channels, and a deliberate migration from 'pay as you transact' pricing offers to packaged offerings.

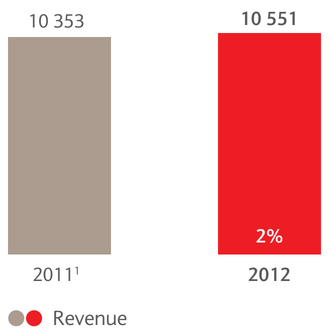
While Retail Markets maintained its position as market leader for individual deposits, growth in deposits due to customers remained under pressure in the low interest rate environment.

Retail Bank experienced slightly higher credit impairments from the previous reporting period, which is reflected in an increased credit loss ratio of 1,39%. This was positively offset by a continued focus on operating efficiency, leading to 2% lower operating expenses.

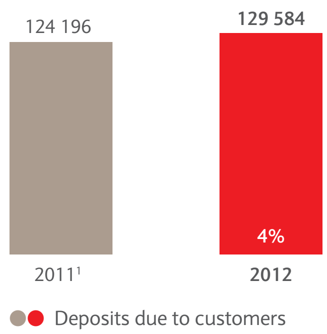
The main focus for the reporting period was on growing cheque and specifically primary accounts by building sustainable customer relationships, in line with the strategic drive to become a more customer-centred organisation. New product and pricing offerings as well as innovative solutions for customers were also aimed at capturing an increased share of wallet. These were positively received by the market, with growth in Value Bundle products exceeding expectations. This translated into a marginal growth in cheque accounts towards the end of the reporting period, arresting the decline experienced for most of the reporting period.

The Absa Rewards programme resulted in increased transaction volumes and customer retention for Rewards members. The Rewards programme membership increased by 59%. There are now in excess of one million rewards members.

Retail bank revenue (Rm and change %)



Deposits due to customers (Rm and change %)



Looking ahead

Retail Markets has taken effective steps to align its credit risk appetite and origination processes to its business strategy and will continue to optimise customer-led opportunities to grow quality assets at sustainable and profitable margins. Key to this will be Retail Markets' focus on a multi-channel strategy, origination and onboarding processes, turnaround times and immediate fulfilment, allowing for increased growth with no concomitant increase in risk appetite. Emphasis will also be placed on key third party origination relationships, particularly on vehicle dealers in the second-hand vehicle market.

There will be an intense focus on executing customer-led strategies within each of the customer segments and product markets to retain and grow Retail Markets' customer primary account base. Retail Markets will also leverage existing core and newly developed capabilities aimed at enhancing its ability to compete on value-for-customer share of wallet through the provision of a simple, yet differentiated service offering.

The improvement in transactional performance in the second half of the reporting period, founded on innovative transactional packages, competitive and transparent market pricing, an extensive footprint, guaranteeing customers access and convenience, as well as a pipeline of innovative payment solutions, will optimally position Retail Markets for a positive transactional turnaround in 2013.

Balance growth for deposits due to customers and deposit pricing optimisation will also remain high on the agenda. In Africa, Retail Markets is focusing on growing the deal pipeline on the back of new banking products.

Retail Markets' underlying operating performance was sound in the second half of the reporting period with significant positive momentum having been created going into 2013.

Note

[1]Comparatives have been reclassified. Refer to pages 121 to 123.

RBB – Business Markets

31 December

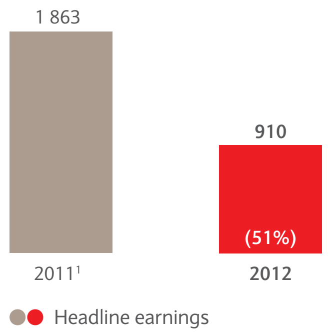
Favourable

- Solid growth in transactional fees.
- Growth in deposits due to customers of 4% to R85 billion.
- Successfully transferred customers to the corporate business unit.
- Prudent management of local operating expenses (excluding Equities), with growth on the previous reporting period below inflation.
- Increased collaboration between business segments in line with the One Africa strategy.
- Increased market share in the Agri business to 35,3% (2011: 34,5%).

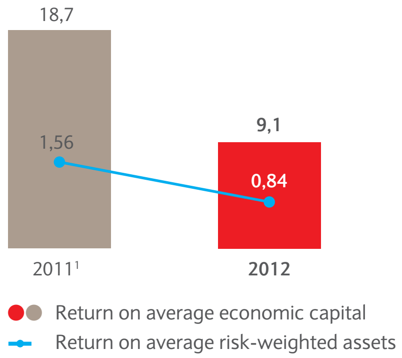
Unfavourable

- Negative revaluations within the CPF portfolio of R787 million.
- Loans and advances margin compression driven by CPF products.
- Credit impairments increased by more than 100% on the previous reporting period.
- Decrease in return on average economic capital to 9,1%.
- Africa's results impacted negatively by credit impairments.

Headline earnings (Rm and change %)



Return on average economic capital and risk-weighted assets (%)



Salient features – Total Business Markets	2012 (Audited)	2011[1] (Audited)	Change %
Revenue (Rm)	**8 998**	9 180	(2)
Headline earnings (Rm)	**910**	1 863	(51)
Attributable earnings (Rm)	**514**	1 810	(72)
Return on average risk-weighted assets (%)[2]	**0,84**	1,56	
Return on average regulatory capital (%)[2]	**8,2**	15,6	
Cost-to-income ratio (%)	**67,9**	58,8	
Credit loss ratio (%)[2]	**2,28**	0,93	

Salient features – Business Markets (excluding Equities and Africa)	2012 (Audited) Rm	2011 (Audited) Rm	Change %
Revenue	**9 018**	8 796	3
Headline earnings	**1 530**	2 032	(25)
Loans and advances to customers	**88 126**	90 538	(3)
Operating expenses	**(4 956)**	(4 871)	(2)
Impairment losses on loans and advances	**(1 884)**	(872)	>(100)

Notes

[1]Comparatives have been reclassified. Refer to pages 121 to 123.

[2]These ratios are unaudited.

RBB – Business Markets

31 December

Salient features – Business Markets Equities	2012 (Audited) Rm	2011 (Audited) Rm	Change %
Revenue	**(418)**	9	>(100)
Headline earnings	**(466)**	(98)	>(100)
Loans and advances to customers	**(1 375)**	(1 317)	(4)
Operating expenses	**(699)**	(137)	>(100)
Impairment losses on loans and advances	**(4)**	2	>(100)

Salient features – Business Markets Africa	2012 (Audited) Rm	2011 (Audited) Rm	Change %
Revenue	**398**	375	6
Headline earnings	**(154)**	(71)	>(100)
Loans and advances to customers	**4 209**	4 640	(9)
Operating expenses	**(456)**	(394)	(16)
Impairment losses on loans and advances	**(204)**	(33)	>(100)

Segment scope

Business Markets offers a comprehensive range of commercial banking products and specialised services, ranging from off-the-shelf transactional products to complex customised financial solutions. Business Markets provide these products and services to commercial customers with an annual turnover of between R20 million and R500 million and enterprise customers with an annual turnover of less than R20 million. The commercial segment proposition is based on a proactive relationship model where customers are serviced by dedicated teams of sales, product and support staff that leverage off Absa's products and services to provide customised solutions. The enterprise segment has both a proactive as well as a branch-based service offering to cater for the diverse needs of this customer base.

Key business areas

- **Debt products** – Commercial Property Finance (CPF), Commercial Asset Finance (CAF), term loans, overdrafts, agriculture loans, vehicle management solutions, technology finance solutions and overnight finance. Fees earned from debt products include upfront, structuring, restructuring and commitment fees.
- **Investment products** – term, cheque, savings and call deposits.
- **Transactional products** – transactional accounts, cash, cheques and internet banking.
- **Equities** – investment portfolio in listed and unlisted property and other equities.
- **Africa** – business units in Mozambique and Tanzania.

Financial performance

Business Markets' headline earnings decreased by 51% to R910 million (2011: R1 863 million), mainly due to negative fair value adjustments on Equities and increased credit impairments. Total revenue (excluding Equities) increased by 3% on the previous reporting period. Fee and commission income showed solid growth of 11% due to enhanced transactional capabilities, the introduction of new products and reduced revenue leakages.

Credit impairments increased by more than 100% to R2 092 million (2011: R903 million), primarily due to an increase in credit impairments in CPF and Africa, impacted by one large exposure and lower collateral realisation values. Lower property valuations and unfavourable market conditions resulted in negative fair value adjustments on the equities portfolio.

South African operating expenses (excluding Equities) were contained, with a marginal increase of 2% to R4 956 million (2011: R4 871 million) as Business Markets continued to focus on efficiencies.

Loans and advances to customers declined by 3%, largely due to a reduction in the CPF book (equating to 43% of the total book) of 9% and Africa books. Gross loans and advances to customers (excluding CPF and Africa) increased by 3%. Deposits due to customers grew by 4% benefiting from an enhanced product offering to attorneys, an increase in deposits from Agri business and increased collaboration with CIBW. Africa's operational performance was hampered by a decrease in the central bank lending rate, which placed pressure on interest margins.

RBB – Business Markets

31 December

	Business Markets		
	2012 (Audited)	2011[1] (Audited)	Change %
Statement of comprehensive income (Rm)			
Net interest income	**5 965**	6 081	(2)
Impairment losses on loans and advances	**(2 092)**	(903)	>(100)
Non-interest income	**3 033**	3 099	(2)
Operating expenses	**(6 111)**	(5 402)	(13)
Other	**(69)**	(103)	33
Operating profit before income tax	**726**	2 772	(74)
Taxation expense	**(295)**	(941)	69
Profit for the reporting period	**431**	1 831	(76)
Profit attributable to:			
Ordinary equity holders	**514**	1 810	(72)
Non-controlling interest – ordinary shares	**(83)**	21	>(100)
	431	1 831	(76)
Headline earnings	**910**	1 863	(51)
Operating performance (%)			
Impairment losses on loans and advances as % of average loans and advances to customers	**2,28**	0,93	
Non-interest income as % of total operating income	**33,7**	33,8	
Revenue growth[2]	**(2)**	(20)	
Cost growth[2]	**(13)**	13	
Cost-to-income ratio	**67,9**	58,8	
Cost-to-assets ratio	**5,5**	4,8	
Statement of financial position (Rm)			
Loans and advances to customers	**90 960**	93 861	(3)
Other assets	**22 578**	16 847	34
Total assets	**113 538**	110 708	3
Deposits due to customers	**84 595**	81 364	4
Other liabilities	**27 140**	27 568	(2)
Total liabilities	**111 735**	108 932	3
Financial performance (%)			
Return on average economic capital[2]	**9,1**	18,7	
Return on average risk-weighted assets[2]	**0,84**	1,56	
Return on average assets[2]	**0,80**	1,73	

Notes

[1]Comparatives have been reclassified. Refer to pages 121 to 123. 2010 comparatives have not been reclassified for any structure changes made during the reporting period.

[2]These ratios are unaudited.

Business performance

The continued global economic uncertainty resulting from the eurozone crisis impacted local business, negatively affecting confidence and leading to reduced business volumes. As a result, corporate credit appetite remained subdued. Deposits showed limited growth following increased competition for liquidity and pressure on margins.

Growth in loans and advances to customers remained challenging. Business Markets experienced an increase in production volumes in both the CPF and CAF businesses, mainly as a result of the repositioning of these businesses towards sales and execution. The marketing of term loans through a dedicated team, that provide bespoke solutions to customer needs, enabled Business Markets to grow term loan balances by 10%. The effects of these strategic initiatives have been offset by the high run-off experienced on the existing CPF book, which resulted in a net decline in loans and advances to customers. The enhancement of the attorney management offering as well as the introduction of new term deposit products enabled Business Markets to attract additional depositors, resulting in a 4% increase in deposits due to customers without compromising the margin earned.

The relaunch of an improved electronic banking offering to Business Markets' customers, combined with an active marketing campaign to promote the migration of transactions from physical to electronic channels resulted in an increase in transaction volumes and a commensurate increase in fee income generated by this product.

Debt products

Cheque overdrafts grew marginally following the implementation of the overdraft pricing improvement initiative and the overdraft utilisation improvement initiative, which identifies low usage cheque overdrafts and promotes better usage and/or solutioning.

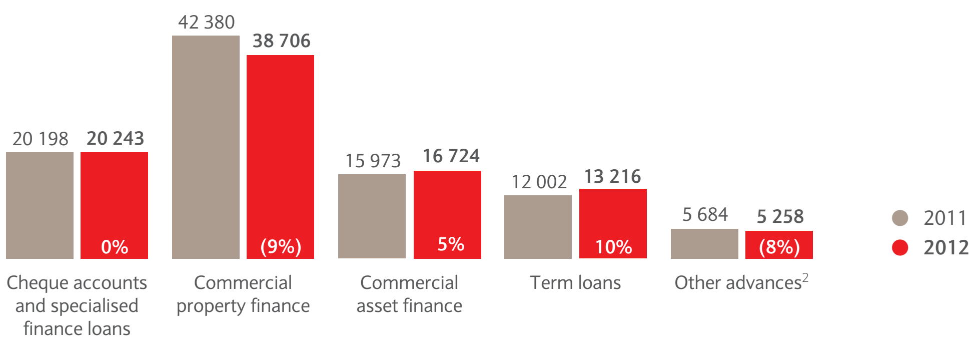
Term loans increased by 10% attributable to companies gearing for future growth by investing in long-term projects with increased capital expenditure requirements, specific term loan initiatives that are sold through a dedicated sales force and the extension of term loans close to maturity.

Production levels for the CAF product increased by 9%. The increase in production levels can be attributed to the implementation of a strategic project that improved processes and capacity, and aligned CAF's pricing to the market. This led to pleasing growth in the CAF loans and advances book.

Following a strategic decision taken in 2010 to reduce the relative concentration risk of the CPF book, a number of reduction strategies were implemented, and set targets were achieved. Due to the lengthy sales cycles and payout periods of typical CPF transactions, the CPF book declined by R3,7 billion (9%).

CPF has a healthy pipeline. The business will be targeted for growth in 2013.

Gross loans and advances (Rm and change %)[1]



Notes

[1]Comparatives have been reclassified. Refer to pages 121 to 123.

[2]Includes ATFS and Absa Vehicle Management Solutions (AVMS).

Business performance *(continued)*

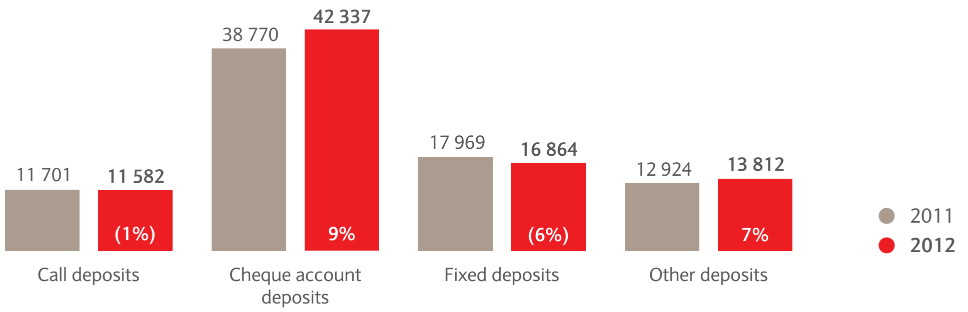
Investment products

Demand for liquidity remained high in a competitive market that continued to place pressure on volume growth. Continuing volatility in international markets and uncertainty as to interest rate movements led to customers keeping funds predominantly on the short side. Fixed and call deposits declined by 6% and 1% respectively, while cheque deposits reflected solid volume growth of 9%.

Business Markets continued to pursue its strategic imperatives of retaining existing customers. In addition, enhancements to the attorney management system resulted in an increase in funds from conveyancing attorneys. A new customer value proposition for the Sheriffs Trust Account was also launched, which will create a new market for the business. Business Markets will also be providing customised solutions for the enterprise segment, traditionally served through the retail branch network.

The loans-to-deposits ratio continued to improve from 115,4% to 107,5% as a result of low asset growth. This places Business Markets in a strong position for anticipated asset growth in 2013.

Deposits (Rm and change %)[1]

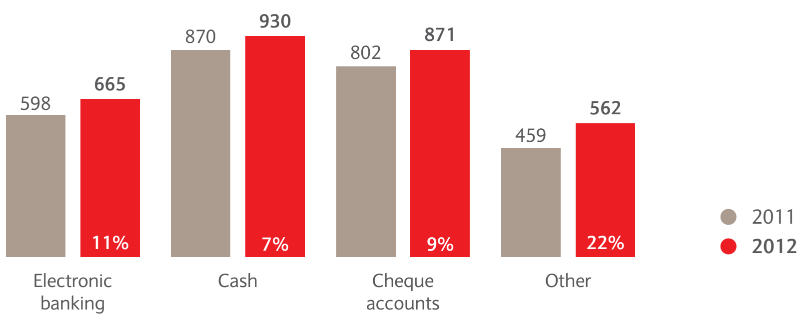


Transactional products

Business Markets continued to focus on delivering pricing initiatives with net fee and commission income increasing by 11% on the previous reporting period. Cheque payment volumes continued to decline in line with industry trends, whereas volumes in electronic payments increased by 3% on the previous reporting period.

Changes to electronic banking security resulted in improved systems stability. Product innovations such as Bulk Cash Send, Business Integrator Online Card solutions, a new mobile payment system as well as the prepaid card solution continued to produce positive results. Fleet Cards for Fidelity Security Services were launched. The insurance business, in collaboration with Financial Services, has been a great success, resulting in an increase in revenue of in excess of 100% on the previous reporting period.

Fee income (Rm and change %)



Note

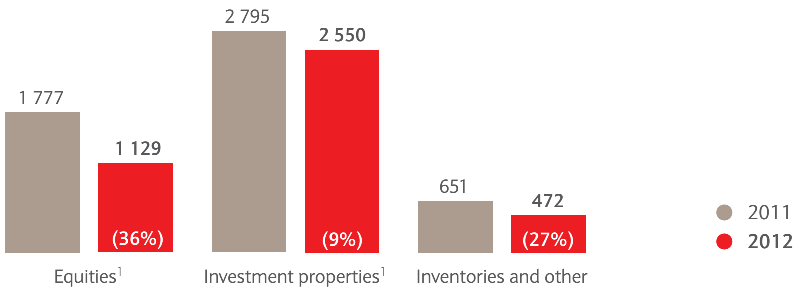
[1]Comparatives have been reclassified. Refer to pages 121 to 123.

Business performance *(continued)*

Equity portfolio

The focus continued to balance the equity portfolio in line with the Group's risk appetite, with further selective exits as appropriate. The listed property portfolio, with a net carrying value of R211 million, was disposed of together with other non-listed vacant land exposures. Lower valuations and unfavourable market conditions resulted in negative fair value adjustments to the equity and property portfolios. These adjustments had an adverse impact on non-interest income and operating expenses.

Equity portfolio – including investment properties and inventories (Rm and change %)



Business Markets – Equities

Statement of comprehensive income	2012 CPF Equities Rm	2012 Other Equities Rm	2012 Total Business Markets – Equities Rm	2011 CPF Equities Rm	2011 Other Equities Rm	2011 Total Business Markets – Equities Rm	Total change %
Net interest income	**(336)**	**(10)**	**(346)**	(292)	(5)	(297)	(16)
Impairment losses on loans and advances	**(4)**	**—**	**(4)**	2	—	2	>(100)
Non-interest income	**80**	**(152)**	**(72)**	187	119	306	>(100)
Operating expenses	**(699)**	**—**	**(699)**	(138)	1	(137)	>(100)
Other	**(31)**	**—**	**(31)**	(20)	1	(19)	(63)
Operating profit before income tax	**(990)**	**(162)**	**(1 152)**	(261)	116	(145)	>(100)

Note

[1]Certain equity investments (R30 million) and investment properties (R1 375 million) have been classified as non-current assets held for sale during the current reporting period.

Looking ahead

Business Markets' strategy for 2013 aims to enhance the customer experience, improve Business Markets' execution ability, as well as create and harness business efficiencies. This will enable Business Markets to deliver good returns and position the business for better performance. Business Markets will continue to identify opportunities, in both the existing as well as the potential customer base, to increase good quality advances and to improve the way in which solutions are provided to meet customers' day-to-day financing and transaction needs.

Business Markets will strengthen the current Agri value proposition to deepen existing relationships and acquire additional high value customers in this sector. Greater emphasis will be placed on the development of a pan-African franchise that will facilitate Africa-wide business for existing as well as new customers. Multi-channel capabilities will be enhanced to offer customers alternative means through which they can interact and transact with Business Markets. As part of Business Markets' ongoing commitment to meet the needs of customers, the business will continue to evaluate its current footprint to ensure that it is appropriate to customers' needs and structured as cost-effectively as possible. Customer onboarding and operating processes have been enhanced, which will enable employees to improve turnaround times. Business Markets will continue with its strategy of reducing its current exposure to listed and unlisted equity investments to focus on core capabilities. This will combat the income volatility associated with these investments.

Favourable

- Integrated corporate and investment banking structure successfully implemented.
- Strong growth in headline earnings of 26% underpinned by robust revenue growth and focused cost management.
- Operational expense growth managed below inflation while continuing to invest in strategic growth areas.
- Client-centric approach reflected in an improved return on average regulatory capital to 20,1% (2011: 18,0%) despite additional Basel II.5 capital requirements.
- Ranked top overall bank for the third consecutive year in the annual Risk South Africa Rankings 2012 survey.
- Secured first place rankings in the overall categories of Best Fixed Income and Currency House, for the fourth consecutive year, and Best Bond House in the Spire Awards.
- Awarded Euromoney Best Debt House in South Africa for the third consecutive year.

Unfavourable

- Marginal decline in revenue from Corporate, largely as a result of increased credit impairments in trade and working capital solutions.
- Revenue for Equities and Prime Services in Markets business marginally down year-on-year, although strong momentum shown in cash equities in the second half of the year.

Salient features	2012 (Audited)	2011[1] (Audited)	Change %
Net revenue (Rm)[2]	**8 511**	7 783	9
Headline earnings (Rm)	**2 810**	2 230	26
Revenue on average risk-weighted assets (%)[3]	**6,2**	6,3	
Return on average regulatory capital (%)[3, 4]	**20,1**	18,0	
Cost-to-income ratio (%)[3]	**54,1**	58,8	

Segment scope

CIBW offers corporate, investment banking and wealth management services. Its primary business is to act as an intermediary between, and adviser to, suppliers and users of various forms of capital. The business model centres on delivering specialist investment banking, financing, risk management, advisory and from 2012, corporate solutions across various asset classes to corporates, financial institutions, public bodies and high net worth individuals. These capabilities are delivered through a client-centric approach, which emphasises the origination and distribution of risk. Through its affiliation with Barclays, CIBW remains the only South African corporate and investment bank able to deliver comprehensive international and local solutions to both global and regional clients.

Key business areas

- **Investment Bank comprising:**
  - **Markets** – engages in trading, sales and research activities across all major asset classes and products in sub-Saharan Africa, delivering pricing, hedging and risk management capabilities to both corporate and institutional clients.
  - **Investment Banking** – structures innovative solutions to meet clients' strategic acquisition, financing and risk management requirements across industry sectors in South Africa and the sub-Saharan region.
  - **Private Equity and Infrastructure Investments** – Private Equity acts as a fund manager and principal by investing in unlisted equity exposures. Infrastructure Investments acts as a principal by investing in equity and mezzanine loan finance to entities focused on infrastructure development in sub-Saharan Africa.
- **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 its combined South African institutional and corporate client base.
- **Wealth** – serves high net worth, ultra high net worth and family office clients, providing a full range of holistic local and international products using best-of-breed management solutions, which include investment management, risk management and structured lending.

Notes

[1]Comparatives have been reclassified. Refer to pages 121 to 123.
[2]Includes net interest income and non-interest income, net of impairment losses on loans and advances.
[3]These ratios are unaudited.
[4]Return on average regulatory capital is calculated at the midpoint of the board target ratio. Previous reporting period ratios have been restated to align with other segments.

CIBW

for the reporting period ended 31 December

	2012 (Audited) Rm	2011[1] (Audited) Rm	Change %
Statement of comprehensive income			
Net interest income	**2 964**	3 483	(15)
Impairment losses on loans and advances	**(117)**	(39)	>(100)
Non-interest income	**5 664**	4 339	31
Gains and losses from banking and trading activities	**3 827**	2 506	53
Other non-interest income	**1 837**	1 833	0
Operating expenses	**(4 666)**	(4 597)	(2)
Other	**21**	(104)	>100
Operating profit before income tax	**3 866**	3 082	25
Taxation expense	**(1 027)**	(833)	(23)
Profit for the reporting period	**2 839**	2 249	26
Profit attributable to:			
Ordinary equity holders	**2 810**	2 231	26
Non-controlling interest – ordinary shares	**29**	18	61
	2 839	2 249	26
Headline earnings	**2 810**	2 230	26
Notes			
1. Net revenue contribution[2]			
Markets[3]	**3 843**	3 224	19
Investment Banking	**1 365**	1 259	8
Private Equity and Infrastructure Investments	**397**	317	25
Corporate[3]	**2 511**	2 568	(2)
Wealth	**427**	392	9
Other	**(32)**	23	>(100)
	8 511	7 783	9
2. Gains and losses from banking and trading activities			
Net gains on investments[3, 4]	**418**	381	10
Debt instruments	**179**	215	(17)
Equity instruments	**239**	166	44
Net trading result	**3 535**	2 159	64
Net trading income excluding the impact of hedge accounting[3]	**3 552**	2 130	67
Ineffective portion of hedges	**(17)**	29	>(100)
Cash flow hedges	**—**	21	(100)
Fair value hedges	**(17)**	8	>(100)
Other	**(126)**	(34)	>(100)
	3 827	2 506	53

Notes

[1]Comparatives have been reclassified. Refer to pages 121 to 123.

[2]Includes net interest income and non-interest income, net of impairment losses on loans and advances.

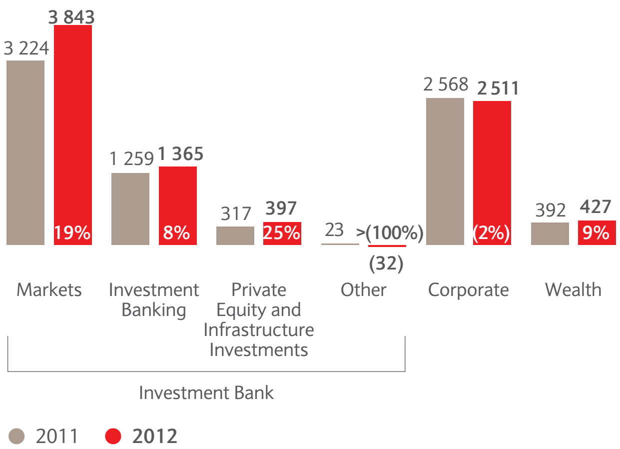
[3]Due to structure changes, certain revenue streams have been reclassified from 'Markets' to 'Corporate'. This also resulted in a reclassification from 'Net trading result' to 'Net gains on investments'.

[4]In order to provide improved disclosure, revaluations between debt and equity instruments have been reclassified.

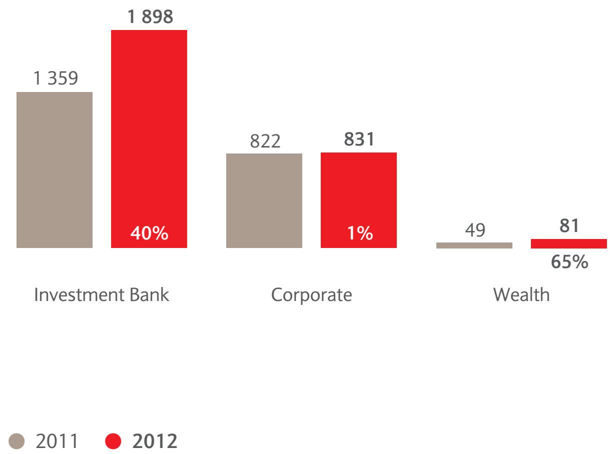
Financial performance

CIBW increased headline earnings by 26% on the previous reporting period to R2 810 million (2011: R2 230 million). This strong performance reflects robust net revenue growth of 9% and focused cost management. Markets revenue increased by 19% to R3 843 million (2011: R3 224 million), largely due to the strong performance from Fixed Income and Credit and Africa desks, which increased revenues by 35% and 36% respectively. Net revenue from Corporate declined marginally by 2% on the previous reporting period to R2 511 million (2011: R2 568 million) with the positive growth in cash management, payments and liquidity offset by increased credit impairments in trade and working capital solutions. Investment Banking net revenue increased by 8% to R1 365 million (2011: R1 259 million), with increased revenue from both the margin and fee businesses. Private Equity and Infrastructure Investments revenue improved to R397 million (2011: R317 million) for the reporting period, reflecting revaluations on improved portfolio company performance. Solid non-interest income growth underpinned by growth in investment management and advisory activities drove the 9% growth in net revenue from Wealth. Growth in operating expenses was contained to 2% on the previous reporting period, which improved CIBW's cost-to-income ratio to 54,1% (2011: 58,8%). CIBW's return on average regulatory capital of 20,1% (2011: 18,0%) showed an improvement on the previous reporting period despite the increased capital levels required by the introduction of Basel II.5 regulations.

Net revenue mix (Rm and change %)[1]



Headline earnings (Rm and change %)[1]



Business performance

The global and domestic environment remained challenging for 2012. Globally, the reporting period was characterised by the deepening recession and ongoing sovereign strains in Europe, uncertainties concerning the strength of the US recovery and the potential for a fiscal disruption. Fears about the potential for a sharp slowing of China's growth as well as the further monetary easing also impacted the global environment. Domestically, economic growth remained subdued, responding both to the global environment and also to the country-specific shocks that emerged after events at Marikana. For Markets, the South African Reserve Bank's July 2012 interest rate reduction was the first since late 2010, while inflows related to the country's inclusion into the World Global Bond Index helped offset the nervousness generated by labour market strife and the twin credit rating downgrades by Moody's and Standard & Poor's rating agencies.

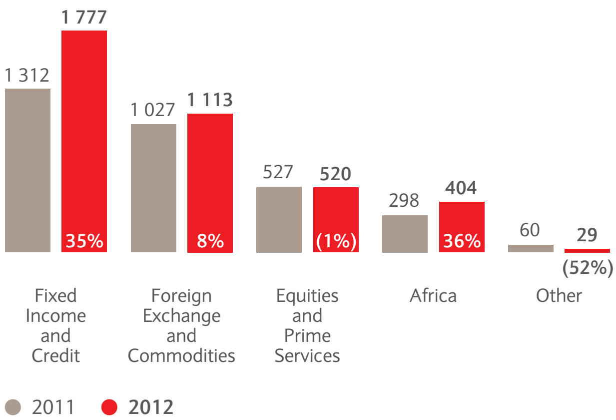
Note
[1]Comparatives have been reclassified. Refer to pages 121 to 123.

Business performance *(continued)*

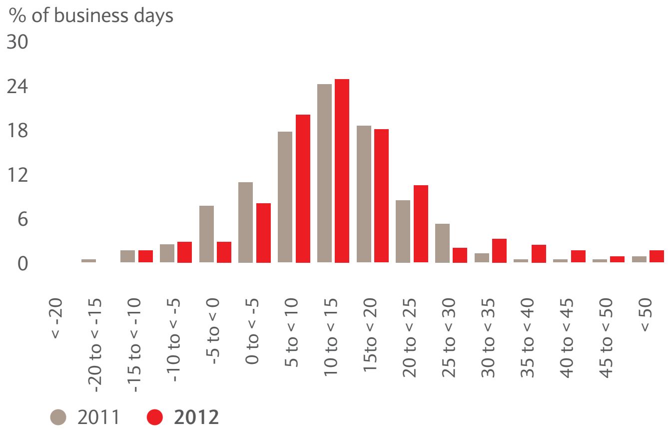
Markets

Markets revenue increased by 19% to R3 843 million (2011: R3 224 million) for the reporting period, driven by strong growth in client activity and an improvement in revenue retention through proactive trading and risk management. Fixed Income and Credit showed very strong growth for the reporting period of 35%, particularly relative to the second half of the previous reporting period, when illiquid market conditions suppressed revenues. Foreign Exchange and Commodities continued to grow satisfactorily, with an increase in revenue of 8% and will remain a focus area for future market share gains, leveraging the creation of the integrated corporate and investment bank. Equities and Prime Services revenue declined by 1% off the high base achieved in the previous reporting period, with cash equities revenue and related client activity increasing momentum in the second half of the reporting period. Trading revenue from Africa increased sharply by 36%, driven by continuing client interest in the region and further growth is expected from the integration of Absa and Barclays activities in these markets during 2013.

Markets revenue split (Rm and change %)[1]



Daily Markets revenue distribution (Rm)[1]



Investment Banking

Revenue from Investment Banking increased by 8% to R1 365 million (2011: R1 259 million) for the reporting period. The increase in revenue from the margin business of 8% on the previous reporting period, was as a result of higher average loans and advances in focus sectors such as energy and resources. The fee business produced solid results, with revenue increasing by 12% on the previous reporting period, benefiting from the conclusion of large renewable energy mandates in the second half of the reporting period. The Mergers and Acquisitions and Equity Capital Markets businesses, where CIBW works closely with Barclays, are starting to make meaningful contributions to revenue and the pipeline looks stronger than in previous reporting periods.

Salient features	2012	2011[1]	Change %
Margin business (Rm)	**1 123**	1 043	8
Fee business (Rm)	**242**	216	12
Net revenue (Rm)	**1 365**	1 259	8
Average loans and advances (Rbn)	**44,0**	41,9	5

Note
[1]Comparatives have been reclassified. Refer to pages 121 to 123.

Business performance *(continued)*

Private Equity and Infrastructure Investments

Private Equity and Infrastructure Investments continued to show improving returns on investments. Improved performance in underlying portfolio companies supported revaluations, which drove higher net revenue for the reporting period. The business continues to balance the portfolio in line with the Group's risk appetite. The focus remains on risk-adjusted returns and efficient use of capital.

Salient features	2012	2011	Change %
Revaluations (Rm)	**318**	240	33
Debt instruments	**165**	185	(11)
Equity instruments	**153**	55	>100
Realisations, dividends, interest and fees (Rm)	**179**	195	(8)
Funding (Rm)	**(100)**	(118)	15
Net revenue (Rm)	**397**	317	25
Total portfolio size (Rbn)	**5,7**	5,4	6

Corporate

Corporate net revenue declined by 2% on the previous reporting period, mainly as a result of increased impairments in trade and working capital solutions.

Net interest income growth of 5% was driven mainly by increased deposits during the reporting period. Non-interest income performance was muted during the reporting period. However, key products and channels performed in line with expectations with electronic banking increasing by 9% from new product roll-out and new mandates acquired. Trade products also showed strong momentum, increasing by 13%.

Salient features	2012	2011[1]	Change %
Gross revenue (Rm)	**2 563**	2 535	1
Net interest income	**1 677**	1 591	5
Non-interest income	**886**	944	(6)
Impairments losses on loans and advances (Rm)	**(52)**	33	>(100)
Net revenue (Rm)	**2 511**	2 568	(2)
Average loans and advances to customers (Rbn)	**35,8**	35,8	0
Average deposits due to customers (Rbn)	**107,8**	103,7	4

Note
[1]Comparatives have been reclassified. Refer to pages 121 to 123.

Business performance *(continued)*

Wealth

Wealth achieved strong net revenue growth of 9% to R427 million (2011: R392 million) for the reporting period, mainly driven by growth in non-interest income on investment management and advisory activities, and revenues from the sale of investment banking products to clients. In the year ahead, Wealth will continue to focus on increasing market share and building out the investment management and advisory business.

Salient features	2012	2011	Change %
Gross revenue (Rm)	**486**	442	10
Net interest income	**328**	306	7
Non-interest income	**158**	136	16
Impairment losses on loans and advances (Rm)	**(59)**	(50)	(18)
Net revenue (Rm)	**427**	392	9
Average loans and advances (Rbn)	**11,1**	11,1	0
Client assets (Rbn)[1]	**15,0**	15,1	(1)

Looking ahead

CIBW will continue to place clients at the centre of its strategy and enhance the products and services that it provides to them. CIBW sees Corporate as a material opportunity for the Group. Enhancing the client experience through product and platform improvement is key to ensuring that the business can capitalise on this opportunity. The integration of the Barclays Africa business will allow CIBW to provide better support to its clients operating in Africa and deliver its world-class product suite to a wider client base in Africa. In all of CIBW endeavours it will continue to focus on those products and businesses that provide the most attractive risk-adjusted returns in the changing regulatory environment.

Note
[1]Includes both on- and off-statement of financial position assets.

Financial Services

31 December

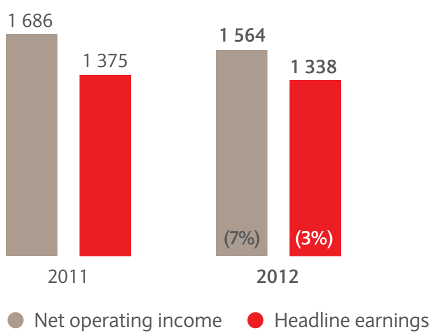
Favourable

- New business volumes improved in the second half of the reporting period.
- Net investment fund inflows of R4,8 billion for the reporting period.
- Strong assets under management (AUM) growth in equity and asset allocation mandates.
- Investment returns on shareholder funds grew by 43% compared with the previous reporting period. As a result of the derisking of the portfolio, Financial Services benefited from strong equity markets only to a limited extent.
- Homeowners' Comprehensive Insurance (HOC) underwriting performance improved, in spite of high weather- and fire-related claims in the fourth quarter of the reporting period.
- Premium income grew by 8%.
- Stringent expense management, with operating expenses in the South African operations declining by 2%.
- Strong performance from operations outside of South Africa.

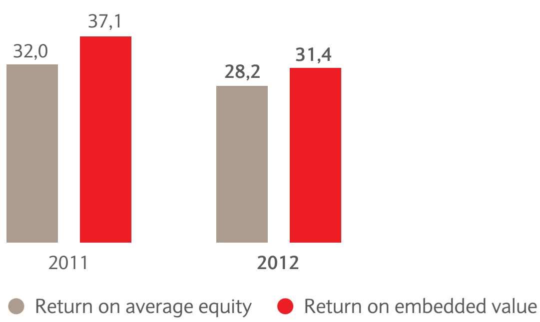
Unfavourable

- Headline earnings 3% lower than the previous reporting period.
- Lower insurance earnings following crop underwriting losses, high fire-related claims experience in the commercial portfolio as well as an increase in fire- and weather-related personal lines claims in the latter months of the reporting period.
- Life earnings declined by 7% on the previous reporting period, partly due to low new business volumes in the second half of the previous reporting period and the first half of the current reporting period.
- Policyholder reserves were strengthened during the reporting period, impacting in-year performance negatively.
- Closure of the Dividend Income Fund and outflow of retail funds from the Money Market Fund.
- Headline earnings for the employee benefits business declined by 22% on the previous reporting period.

Net operating income and headline earnings (Rm and change %)



Return on average equity and embedded value (%)



Salient features	2012 (Audited)	2011 (Audited)	Change %
Net operating income (Rm)	**1 564**	1 686	(7)
Headline earnings (Rm)	**1 338**	1 375	(3)
Return on average equity (%)[1]	**28,2**	32,0	
Cost-efficiency ratio (%)[1]	**22,9**	25,2	
Assets under management and administration (Rbn) – Absa Investments	**192**	168	14
Embedded value new business (Rm)	**362**	370	(2)
Combined ratio (%)	**94,9**	93,2	

Segment scope

Financial Services provides insurance, fiduciary and non-banking-related investment products and services to retail, commercial and corporate customers. A well-established and unique financial services operating model determines how these products and services are offered. It combines the strengths of a traditional banking services model with those of a pure distribution channel model. This integrated model enables Financial Services to efficiently provide financial services to all market segments in sub-Saharan Africa.

Note

[1]These ratios are unaudited.

Financial Services

for the reporting period ended 31 December

	Life insurance			Investments		
	2012 (Audited) Rm	2011 (Audited) Rm	Change %	**2012 (Audited) Rm**	2011 (Audited) Rm	Change %
Statement of comprehensive income						
Net insurance premium income	**2 312**	2 071	12	**—**	—	—
Net insurance claims and benefits paid	**(576)**	(553)	(4)	**—**	—	—
Investment income						
Policyholder investment contracts	**624**	988	(37)	**—**	—	—
Policyholder insurance contracts	**277**	108	>100	**—**	—	—
Changes in investment and insurance contract liabilities						
Policyholder investment contracts	**(575)**	(930)	38	**—**	—	—
Policyholder insurance contracts	**(344)**	1	>(100)	**—**	—	—
Other income	**(16)**	37	>(100)	**871**	831	5
Gross operating income	**1 702**	1 722	(1)	**871**	831	5
Net commission paid by insurance companies[1]	**(487)**	(447)	(9)	**—**	—	—
Operating expenses	**(294)**	(276)	(7)	**(421)**	(416)	(1)
Other	**(87)**	(88)	1	**(12)**	(6)	(100)
Net operating income	**834**	911	(8)	**438**	409	7
Investments income on shareholder funds	**103**	74	39	**26**	23	13
Taxation expense	**(261)**	(258)	(1)	**(133)**	(120)	(11)
Profit for the reporting period	**676**	727	(7)	**331**	312	6
Note						
1. Investment income						
Policyholder investment contracts	**624**	988	(37)	**—**	—	—
Net interest income	**523**	519	1	**—**	—	—
Dividend income	**29**	27	7	**—**	—	—
Fair value gains	**72**	442	(84)	**—**	—	—
Policyholder insurance contracts	**277**	108	>100	**—**	—	—
Net interest income	**60**	69	(13)	**—**	—	—
Dividend income	**15**	10	50	**—**	—	—
Fair value gains	**202**	29	>100	**—**	—	—
Shareholder funds	**103**	74	39	**26**	23	13
Net interest income	**35**	24	46	**26**	23	13
Dividend income	**10**	11	(9)	**—**	—	—
Fair value gains/(losses)	**58**	39	49	**—**	—	—
Total	**1 004**	1 170	(14)	**26**	23	13
Net interest income	**618**	612	1	**26**	23	13
Dividend income	**54**	48	13	**—**	—	—
Fair value gains/(losses)	**332**	510	(35)	**—**	—	—

This additional information is voluntarily provided by management to supplement IFRS 8 segment information disclosed in the Group annual financial statements and is not required in terms of IFRS 8.

Net fee and commission income	**2012 Rm**	2011 Rm	Change %
Employee benefit related fees	**320**	353	(9)
Investment management and related fees	**866**	819	6
Net commission from distribution business	**407**	431	(6)
Net commission paid by insurance companies[1]	**(956)**	(902)	(6)
Trust and estate income	**266**	271	(2)
Other	**(7)**	(11)	36
	896	961	(7)

Note

[1]Includes internal commission, eliminated on consolidation of Absa Group's results.

Financial Services

for the reporting period 31 December

Short-term insurance			Fiduciary services			Other			Financial Services		
2012 (Audited) Rm	2011 (Audited) Rm	Change %	**2012 (Audited) Rm**	2011 (Audited) Rm	Change %	**2012 (Audited) Rm**	2011 (Audited) Rm	Change %	**2012 (Audited) Rm**	2011 (Audited) Rm	Change %
3 108	2 959	5	**3**	—	100	**—**	—	—	**5 423**	5 030	8
(2 138)	(1 981)	(8)	**(1)**	—	(100)	**(1)**	1	>(100)	**(2 716)**	(2 533)	(7)
—	—	—	**—**	—	—	**88**	—	100	**712**	988	(28)
52	65	(20)	**—**	—	—	**—**	—	—	**329**	173	90
—	—	—	**—**	—	—	**(61)**	24	>(100)	**(636)**	(906)	30
—	—	—	**—**	—	—	**—**	(7)	100	**(344)**	(6)	>(100)
29	47	(38)	**590**	628	(6)	**423**	426	(1)	**1 897**	1 969	(4)
1 051	1 090	(4)	**592**	628	(6)	**449**	444	1	**4 665**	4 715	(1)
(468)	(455)	(3)	**(1)**	—	(100)	**—**	—	—	**(956)**	(902)	(6)
(344)	(320)	(8)	**(487)**	(516)	6	**(481)**	(492)	2	**(2 027)**	(2 020)	(0)
7	(3)	>100	**(4)**	(3)	(33)	**(22)**	(7)	>(100)	**(118)**	(107)	(10)
246	312	(21)	**100**	109	(8)	**(54)**	(55)	4	**1 564**	1 686	(7)
102	87	17	**8**	7	14	**44**	7	>100	**283**	198	43
(94)	(98)	4	**(32)**	(33)	3	**(6)**	(2)	>(100)	**(526)**	(511)	(3)
254	301	(16)	**76**	83	(8)	**(16)**	(50)	68	**1 321**	1 373	(4)
—	—	—	**—**	—	—	**88**	—	—	**712**	988	(28)
—	—	—	**—**	—	—	**—**	—	—	**523**	519	1
—	—	—	**—**	—	—	**22**	17	29	**51**	44	16
—	—	—	**—**	—	—	**66**	(17)	>100	**138**	425	(68)
52	65	(20)	**—**	—	—	**—**	—	—	**329**	173	90
52	65	(20)	**—**	—	—	**—**	—	—	**112**	134	(16)
—	—	—	**—**	—	—	**—**	—	—	**15**	10	50
—	—	—	**—**	—	—	**—**	—	—	**202**	29	>100
102	87	17	**8**	7	14	**44**	7	>100	**283**	198	43
93	78	19	**—**	—	—	**7**	—	100	**161**	125	29
9	10	(10)	**—**	—	—	**—**	—	—	**19**	21	(10)
—	(1)	100	**8**	7	14	**37**	7	>100	**103**	52	98
154	152	1	**8**	7	14	**132**	7	>100	**1 324**	1 359	(3)
145	143	1	**—**	—	—	**7**	—	100	**796**	778	2
9	10	(10)	**—**	—	—	**22**	17	29	**85**	75	13
—	(1)	100	**8**	7	14	**103**	(10)	>100	**443**	506	(12)

Segment report per geographical segment	**2012 (Audited) South Africa Rm**	2011 (Audited) South Africa Rm	Change %	**2012 (Audited) Rest of Africa Rm**	2011 (Audited) Rest of Africa Rm	Change %	**2012 (Audited) Total Rm**	2011 (Audited) Total Rm	Change %
Net insurance premium income	**5 054**	4 876	4	**369**	154	>100	**5 423**	5 030	8
Net insurance claims and benefits paid	**(2 622)**	(2 509)	(5)	**(94)**	(24)	>(100)	**(2 716)**	(2 533)	(7)
Gross operating income	**4 432**	4 632	(4)	**233**	83	>100	**4 665**	4 715	(1)
Operating expenses	**(1 937)**	(1 985)	2	**(90)**	(35)	>(100)	**(2 027)**	(2 020)	(0)
Net operating income	**1 538**	1 697	(9)	**27**	(11)	>100	**1 565**	1 686	(7)
Profit for the reporting period	**1 303**	1 391	(6)	**18**	(18)	>100	**1 321**	1 373	(4)

Financial Services
as at 31 December

	2012 Rm	2011[1] Rm	Change %
Statement of financial position			
Assets			
Cash balances and loans and advances to banks[2]	**1 236**	1 369	(10)
Non-current assets held for sale	**1 591**	—	100
Investment securities	**57**	130	(56)
Financial assets backing investment and insurance liabilities			
Policyholder			
Investment contracts	**13 616**	15 247	(11)
Cash	**96**	71	35
Investment securities	**13 068**	14 636	(11)
Other	**452**	540	(16)
Insurance contacts	**3 730**	3 310	13
Cash	**1 522**	1 252	22
Investment securities	**1 642**	1 589	0
Other	**566**	469	21
Shareholder	**2 442**	2 565	(5)
Cash	**1 250**	1 353	(8)
Investment securities	**1 192**	1 212	(2)
Other assets[3]	**3 063**	2 889	6
Property and equipment	**117**	133	(12)
Total assets	**25 852**	25 643	1
Liabilities			
Non-current liabilities held for sale	**1 303**	—	100
Liabilities under investment contracts	**13 609**	15 233	(11)
Policyholder liabilities under insurance contracts[4]	**3 551**	3 167	12
Other liabilities[3]	**2 568**	2 604	(1)
Deferred tax liabilities	**50**	40	25
Total liabilities	**21 081**	21 044	0
Equity			
Capital and reserves	**4 771**	4 599	4
Total equity	**4 771**	4 599	4
Total liabilities and equity	**25 852**	25 643	1

Notes

[1]Comparatives have been reclassified to reflect insurance industry norms.

[2]Money market instruments were included as part of 'Cash balances and loans advances to banks' in the previous reporting period.

[3]Other assets and liabilities include settlement account balances in Stockbrokers Proprietary Limited.

[4]In managing the policyholder liability, certain assets have been allocated specifically for the purpose of backing this liability.

Financial Services
31 December

Reconciliation with Group	Financial Services Rm	2012 (Audited) Inter-group balances and transactions Rm	Other[1] Rm	Group Rm
Statement of financial position[2]				
Investments linked to investment contracts	13 068	(5 056)	—	8 012
Policyholder liabilities under insurance contracts	(3 551)	69	(68)	(3 550)
Statement of comprehensive income[2]				
Net insurance premium income	5 423	(13)	208	5 618
Net insurance claims and benefits paid	(2 716)	—	(3)	(2 719)
Gains and losses from investment activities – net gains on investment from policyholder investment contracts	712	(399)	—	313
Cash, cash balances and balances with central banks	190	(399)	—	(209)
Debt instruments	1	—	—	1
Equity instruments	521	—	—	521

Reconciliation with Group	Financial Services Rm	2011 (Audited) Inter-group balances and transactions Rm	Other[1] Rm	Group Rm
Statement of financial position[2]				
Investments linked to investment contracts	14 636	(4 745)	—	9 891
Policyholder liabilities under insurance contracts	(3 167)	118	(134)	(3 183)
Statement of comprehensive income[2]				
Net insurance premium income	5 030	(32)	211	5 209
Net insurance claims and benefits paid	(2 533)	—	16	(2 517)
Gains and losses from investment activities – net gains on investment from policyholder investment contracts	988	(477)	—	511
Cash, cash balances and balances with central banks	806	(477)	—	329
Debt instruments	(2)	—	—	(2)
Equity instruments	184	—	—	184

Notes

[1]Consists of Absa Manx Insurance Company and Woolworths Financial Services.

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

Key business areas

- **Life insurance (Life)** – offers life insurance, covering death, disability and retrenchment, as well as funeral and investment products.
- **Investments** – consists of six business segments, which operate on a collaborative basis to offer individual and institutional customers access to high-quality investment products and services. These include asset management, private client asset management, multi-management, unit trusts, stock broking, participation bonds and linked investments.
- **Short-term insurance (Insurance)** – provides short-term insurance solutions to the retail and commercial market segments. A direct-to-customer short-term solution, Absa *idirect*, is also available to the retail market.
- **Fiduciary services** – consists of estate administration and employee benefits businesses, offering retirement fund administration, consulting and actuarial services, health care services and Absa Trust, which administers deceased estates and provides trustee services for personal, family, charitable and employee benefit trusts.
- **Distribution** – one of the largest financial, investment and risk advisory companies in South Africa. It provides the full spectrum of financial advisory services and acts as an intermediary between Absa's customers and various other product providers.

Financial performance

Financial Services achieved headline earnings of R1 338 million (2011: R1 375 million), 3% lower than in the previous reporting period. The second half of the reporting period was characterised by a large improvement in new business volumes in Life, strong net fund inflows in Investments and significant hail-, flood- and fire-related claims in Insurance.

Life experienced a decline in the value of new business of 2% on the previous reporting period. However, the value of new business in the second half of the reporting period (R211 million) exceeded the value of the 2011 comparable period and the first half of the current reporting period, by 38% and 40% respectively. Gross and net insurance premiums increased by 14% and 8% respectively on the previous reporting period.

Premium income for the South African insurance operations increased by a modest 1% due to the decision to exit non-core products that were failing to make an adequate contribution to profitability (corporate, commercial fleet and guarantees). A strong underwriting performance in personal lines, HOC and commercial for the first eight months of the reporting period was negatively impacted by significant hail-, flood- and fire-related events during the latter months of the reporting period. The crop claims experience improved somewhat in the second half of the reporting period, but the poor experience in the first half of the year resulted in an underwriting loss of R8 million.

The African operations performed strongly, with net premium income of R369 million (2011: R154 million) and net operating income of R27 million (2011: R11 million loss).

Investments delivered strong growth in the second half of the reporting period, with net fund flows of R4 billion compared with R0,8 billion in the first half of reporting period.

Total operating expenses were well managed and, as a result, remained unchanged from the previous reporting period. Excluding operations outside of South Africa, operating expenses declined by 2% on the previous reporting period.

A net operating income of R1 565 million was achieved, 7% lower than the previous reporting period. The strong performance of investment markets helped to offset the decline in operational earnings.

Business performance

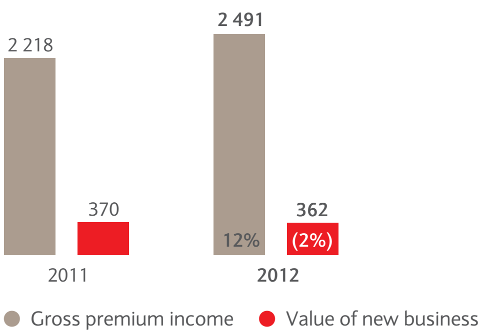
The global and domestic economies remained under pressure throughout the reporting period and new lending volumes were subdued. Financial Services experienced lower new business volumes in the first half of the reporting period, which resulted in slow premium growth in Life and Insurance during the reporting period. The short-term insurance industry was characterised by high claims levels following significant weather- and fire-related events during the reporting period. The subdued performance of the South African operations was offset by good growth in Africa. Of particular note was the successful launch of a Life operation in Zambia, which took place in August 2011.

Life insurance[1]

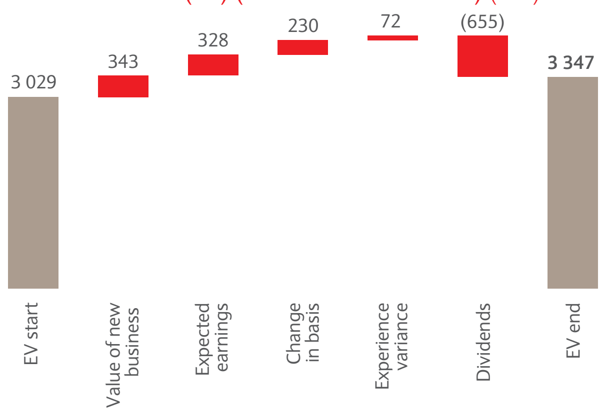
Life achieved net premium income growth of 12% to R2 312 million (2011: R2 071 million). However, low new business volumes during the previous reporting period and the first half of the current reporting period resulted in a decline in the value of business-in-force and lower premium growth compared with the growth achieved during the previous three years. New business volumes improved significantly from May 2012, and the value of business-in-force improved monthly thereafter. However, this does not yet reflect in earnings due to the impact of new business strain. The uplift in business volumes can be attributed to the improved integration of Life's product and service offerings into Absa branches, better lead generation and management, the implementation of Life's multi-channel strategy and higher credit approvals.

Policyholder liabilities were negatively impacted by strengthening reserves in anticipation of lower real investment returns in the future due to the low interest rate environment. Also, positive experience variances accounted for in previous reporting periods did not continue in the reporting period. Operating expenses in South Africa were well controlled and grew by a modest 1%. This was offset by investments made in operations outside of South Africa where total costs grew by 7% on previous reporting period.

Gross premium income and value of new business (Rm)[1]



Embedded value (EV) (Absa Life South Africa) (Rm)



Salient features[1]	2012	2011	Change %
Shareholders' net assets (Rm)	1 488	1 479	(2)
Cost of solvency capital (Rm)	(467)	(409)	14
Value of business in force (Rm)	2 364	2 005	18
Embedded value (Rm)	3 385	3 075	10
Embedded value earnings (Rm)	965	1 040	(7)
Return on embedded value (%)	31,4	37,1	
Embedded value of new business (Rm)	362	370	(2)
Value of new business as a % of the present value of future premiums (%)	9,3	7,2	

Note

[1]Life results include operations in South Africa and the rest of Africa.

Business performance *(continued)*

Investments

Investments increased headline earnings by 7% to R334 million (2011: R312 million) for the reporting period. AUM increased by 14% to R192 billion (2011: R168 billion) as at the reporting date.

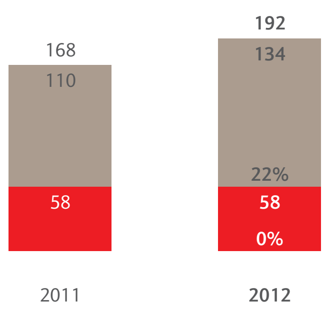
Absa Asset Management was particularly successful in growing institutional mandates, adding R7 billion during the reporting period. Net fund inflows increased from R0,8 billion for the first half of the reporting period to R4 billion in the second half.

Money market AUM remained flat at R58 billion as at the reporting date. In line with Financial Services strategy, asset allocation and equity AUM grew strongly and, together with income fund AUM, now amount to R73 billion, exceeding money market AUM by R15 billion.

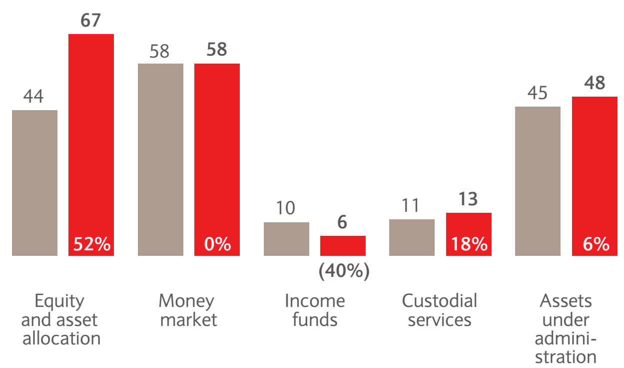
Investments' revenue increased by 5% to R871 million (2011: R831 million) for the reporting period, driven by the strong AUM growth in the latter months of the reporting period.

Increased efficiencies and strong cost management led to operating expenses growth of 1% on the previous reporting period.

Total assets under management (Rbn and change %)



Assets under management (Rbn and change %)



Salient features	2012	2011	Change %
Headline earnings (Rm)	**334**	312	7
Gross margin (bps)	**49,7**	48,9	
Net flows (Rbn)	**4,8**	4,3	12
Money market	**0**	(8,5)	100
Non-money market	**4,8**	12,8	(63)
Net assets under management (Rbn)	**192**	168	14

Business performance *(continued)*

Insurance[1]

Insurance achieved headline earnings of R254 million (2011: R301 million), a decline of 16% on the previous reporting period. Poor crop underwriting results, high commercial fire-related claims and an increase in weather-related claims in personal lines towards the end of the reporting period underpinned the decline in net operating income of 21% to R246 million (2011: R312 million) for the reporting period.

Net insurance premium income increased by 5% from the previous reporting period. Strong growth in premium income from operations outside of South Africa offset the negative impact of the decision to exit unprofitable non-core product lines. Improved underwriting and efficiencies implemented in respect of claims management resulted in reasonable underwriting results in HOC and personal lines, in spite of a marked increase in weather- and fire-related claims towards the end of the reporting period.

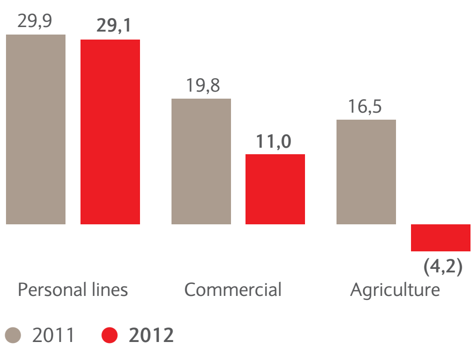
Crop cover yielded net premium income of R183 million, but drought, hail and other perils resulted in an underwriting loss of R8 million (2011: R31 million surplus) for the reporting period.

The underwriting margins of 4,3% (South Africa) and 5,1% (across Africa) are satisfactory in a year where significant events impacted the results of the whole industry and bears testimony to the diversification of product lines and quality of the underwriting process.

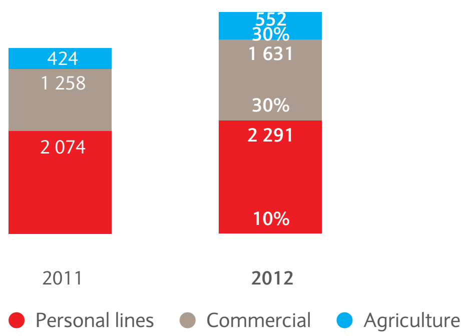
Operating expenses for the South African operations declined by 1% on the previous reporting period due to improved efficiencies and cost disciplines. This was offset by investments made in operations outside South Africa, resulting in total operating expenses increasing by 7% on the previous reporting period.

Investment income on shareholder funds was positively impacted by an improved bond market performance.

Underwriting surplus (pre-expenses %)



Gross premium income (Rm and change %)



Salient features	2012	2011	Change %
Net asset value (Rm)	**1 809**	1 820	(1)
Attributable earnings (Rm)	**254**	301	(16)
Gross premiums (Rm)	**4 474**	3 756	19
Underwriting surplus (Rm)	**502**	524	(4)
Underwriting margin (%)	**5,1**	6,8	
Solvency margin (%)	**60,8**	60,8	
Loss ratio (%)	**68,8**	66,9	

Note
[1]Insurance includes operations in South Africa and the rest of Africa.

Business performance *(continued)*

Fiduciary services

Headline earnings declined by 8% to R76 million (2011: R83 million) for the reporting period, mainly due to a decline in earnings from pension fund administration. Absa Trust continued to generate solid cash flows and achieved a RoE of 79,2%. Revenue decreased marginally by 2% on the previous reporting period and continued to be impacted by cash shortfalls. The business continued to experience strong growth in new wills written in the high net worth segment.

The revenue of the employee benefits business declined during the reporting period due to non-annuity income included in the previous reporting period. This resulted in a decline in headline earnings of 22% to R14 million (2011: R18 million).

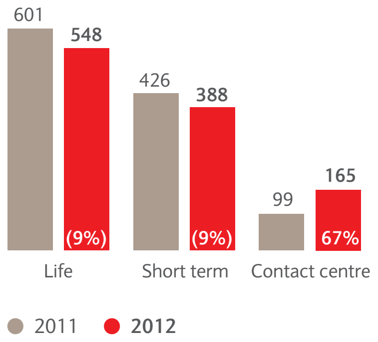
Salient features	2012	2011	Change %
Attributable earnings (Rm)	75	83	(10)
Average value of estates distributed (R'000)	926	907	2
Members under administration (number of members)	823 551	763 277	8
Net assets under management (Rbn)	9,6	8,9	8
Third party	5,8	5,5	5
Investments	3,8	3,4	12

Distribution

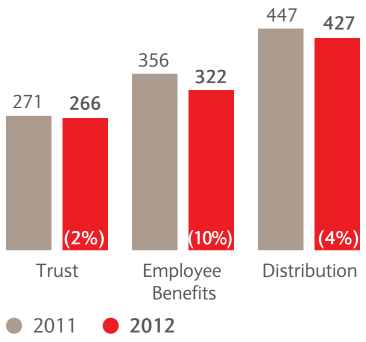
Distribution recorded revenue of R427 million, a decline of 4% on the previous reporting period, partially due to increased product sales through alternative distribution channels.

During the reporting period, a new operating model for long-term insurance and insurance and investment advisors was implemented, focusing on long-term sustainable customer relationships and annuity income. This initiative creates a competitive value proposition for the Absa advisor to meet customer needs. Strategic partners were selected and an Absa agency proposition was developed. Investment in technology and infrastructure was undertaken with the aim of improving the consistency of advice and service levels. A new model for short-term advisors will be implemented in 2013.

Distribution force (number and change %)



Revenue (Rm and change %)



Looking ahead

The 2012 momentum achieved in respect of sales and fund flows positions the business well for future growth and this momentum is expected to be maintained.

Financial Services will continue to embed its financial services operating model throughout Absa and Barclays. Financial Services' growth strategy is based on enhancing the delivery of customer-centric solutions to RBB and supporting the Group's One Africa strategy. This will be achieved through a clear understanding of customer needs and advanced leads management, as well as expansion into new African markets. There is an immediate plan to establish operations in East Africa in 2013.

The emphasis will remain on delivering a differentiated customer service, targeting growth in selected areas, optimising profitability and nurturing a culture that supports bancassurance leadership and excellence.

Risk management

Overview of risk management within Absa Group and Absa Bank

Contents

Risk management

31 December

Introduction

Following the events of recent years, risk and its mitigation have become even more of a priority in the financial services industry. With the effects of the global financial crisis still evident and the current unsettled sovereign debt crisis creating uncertainties in both the local and global economies, it has become increasingly important to understand and manage risks in order to create sustainable returns for shareholders. In this light, the Group continues to uphold and strengthen its commitment to managing risk. Consequently proactive risk management is a key pillar of the One Absa strategy. Linked to this is the Group's board-approved principal risks policy (PRP). The PRP provides an integrated risk management framework designed to meet the challenges of the changing risk environment and to ensure that business growth plans are properly supported by effective risk management.

Responsibility for risk management resides at all levels within the Group, from board and executive level committees down to each business unit manager and their risk specialists. This is part of instilling a strong risk culture within the Group, where risk is everyone's business. The Group believes that this is a core imperative of risk management. The delegation of risk management responsibilities is structured to ensure risk/reward decisions are enacted at the most appropriate level in line with business objectives, subject to robust and effective review and challenge processes. Strategic business decisions are taken in accordance with a board-approved risk appetite with executive and risk committees closely monitoring risk profiles against this appetite.

At the beginning of the reporting period the PRP was updated to identify the four principal risks regarded as the Group's most significant potential exposures. The update to the PRP reflects a change in the way Absa groups the risk categories and does not have any impact on the underlying risk types.

The four principal risks are:

- credit risk;
- market risk (includes traded and non-traded market risk and insurance risk);
- operational risk; and
- funding risk (includes liquidity risk and capital management).

2012 in review

In the reporting period impairment losses on loans and advances reflected a significant increase driven by an increase in provisions required on the Home Loans legal book and higher impairment losses on loans and advances in Business Markets primarily attributable to the CPF debt. Management action focused on the reduction in the loss given default (LGD) and management of NPLs. Emphasis was placed on the key drivers of LGD such as insolvencies, cures and voluntary sales. In conjunction with this, process changes in the collections environment resulted in an enhanced control environment.

Overall, the Group's executive committees were closely involved in important risk management strategies that focused on preserving appropriate levels of capital and liquidity as well as effectively managing the risk portfolios. In addition, the Group closely monitored key areas such as market conditions, the global banking industry, Basel Capital Accord (Basel) II.5 and Basel III requirements (Basel requirements) and anticipated demands relating to future business growth.

Two changes to the risk management processes were introduced at the beginning of the reporting period. The Group had to commerce reporting under the new Basel II.5 framework required by the Banks Act, No 94 of 1990 (Banks Act). In addition, the wholesale book and statutory reserve and liquid asset portfolio were moved to the Advanced Internal Ratings Based (AIRB) approach. These changes resulted in risk-weighted assets (RWA) increasing by 3% during the reporting period, which was less than anticipated.

2012 was a year in which:

- a strong capital position was maintained above board-approved target ranges;
- a strong liquidity risk position was maintained;
- impairment losses on loans advances increased significantly, with higher coverage required on the Home Loans legal and CPF portfolios;
- the wholesale portfolio of CIBW continued to perform steadily against a backdrop of global economic uncertainty; and
- fraud and transaction operations remained the main drivers of operational risk losses.

The Group maintained its strong capital adequacy position, placing it in a healthy position to deal with the implementation of Basel III requirements. Capital levels remained above target ranges for both the Group and the Bank with the Group's Core Tier 1 capital adequacy ratio remaining stable at 13% and the Bank's Core Tier 1 capital adequacy ratio improving by 40 bps. The acquisition of the Edcon portfolio changed the Group's risk profile with a resultant increase in RWA. Optimisation remains a key focus area as it lowers the potential need to raise additional capital that may be required in the future under Basel III regulations. R1,5 billion of subordinated debt qualifying as Tier 2 capital was called at the first optional redemption date in September 2012. Subsequently, the Group issued R5 billion of subordinated debt. The issuance is the largest listed Tier 2 subordinated debt raising on a single day in the South African market.

The Group also reviewed its brand and reputation risk control framework, governance structures and escalation protocols during the reporting period.

2012 in review *(continued)*

The Group continued to focus on liquidity risk management and maintained a strong liquidity position to achieve compliance within the timeframes required by Basel III. Progress was made during the reporting period regarding compliance with the liquidity coverage ratio (LCR), in particular following the SARB announcement in May 2012 that a committed liquidity facility (CLF) will be made available to South African banks to help address the shortfall of high quality liquid assets in the South African market, combined with the announcement made early in January 2013 by the Basel Committee on Banking Supervision (BCBS) that the implementation timeframes relating to the LCR would be relaxed with full compliance only required by 2019. The phasing-in approach now proposed in respect of the LCR is more in line with proposals relating to capital requirements and takes into account the need to balance the implementation of global liquidity standards with economic growth. The net stable funding ratio (NSFR) remains a challenge given the structural features of the South African economy. This will remain a key focus area going forward.

Conditions remained challenging during the course of the reporting period as signs of the expected economic recovery were less evident than at the end of the previous reporting period. In addition, in the wholesale environment, the disappointing supply-side growth momentum observed in the second half of the previous reporting period has continued into the current reporting period. Headline consumer price inflation remains stable though this has not been sufficient to positively sway corporate confidence, which remains flat. Impairment performance for the majority of retail portfolios was in line with expectations but impairment losses on mortgage loans and advances increased significantly during the reporting period due to higher coverage required on the legal portfolio. Impairment losses on loans and advances in Business Markets were a key focus area for the reporting period, and various reasonableness tests, deep dives, collateral revaluations and policy changes resulted in a significant increase in the impairment charge for the current reporting period.

The Group's executive committees were closely involved in important risk management strategies that focused on preserving appropriate levels of capital and liquidity and effectively managing risk portfolios.

The Group continued to effectively maintain its structural hedging programme during the reporting period. This contributed positively to the net interest margin and cash flow hedging reserve, against a backdrop of historically low interest rates.

Looking ahead

Continued focus will be placed on enabling strong proactive risk management in the business and strengthening the effectiveness of the business control activities. This is in line with the Group's drive to embed a risk-aware culture that balances commercial intent and control in the business. Enhancing the level of controls in important business processes on an end-to-end basis will also receive emphasis.

Retail Credit will continue to place attention on value and balance sheet optimisation, balanced with prudent risk management practices. The Group will remain focused on the quality and profitability of new business and will continue to be selective in the type of business written in the retail portfolios. There will also be continued focus on operating model optimisation, model monitoring and validation processes.

Business Markets will continue to focus on reducing exposure on the early warning list (EWL) and to monitor the portfolio composition. The risk and control framework will be further enhanced and AIRB principles will be firmly embedded in the business.

The Group is working on maintaining an optimal mix of high quality capital, while continuing to generate sufficient capital to support economically profitable growth opportunities.

Basel III was implemented on 1 January 2013, and its potential impacts have been included in the Group's capital models. As a result of the Group's strong capital position, it will remain adequately capitalised after implementation.

A strong liquidity position will also be maintained and the Group will continue to work with industry forums and the SARB to ensure the optimal implementation of the Basel III liquidity framework. The Group is well positioned for future growth and will continue to monitor the economic and regulatory environments and enhance risk management processes while exploiting value-adding opportunities.

The Group's approach to risk management

The Group employs the following five-step process in terms of its risk management approach:

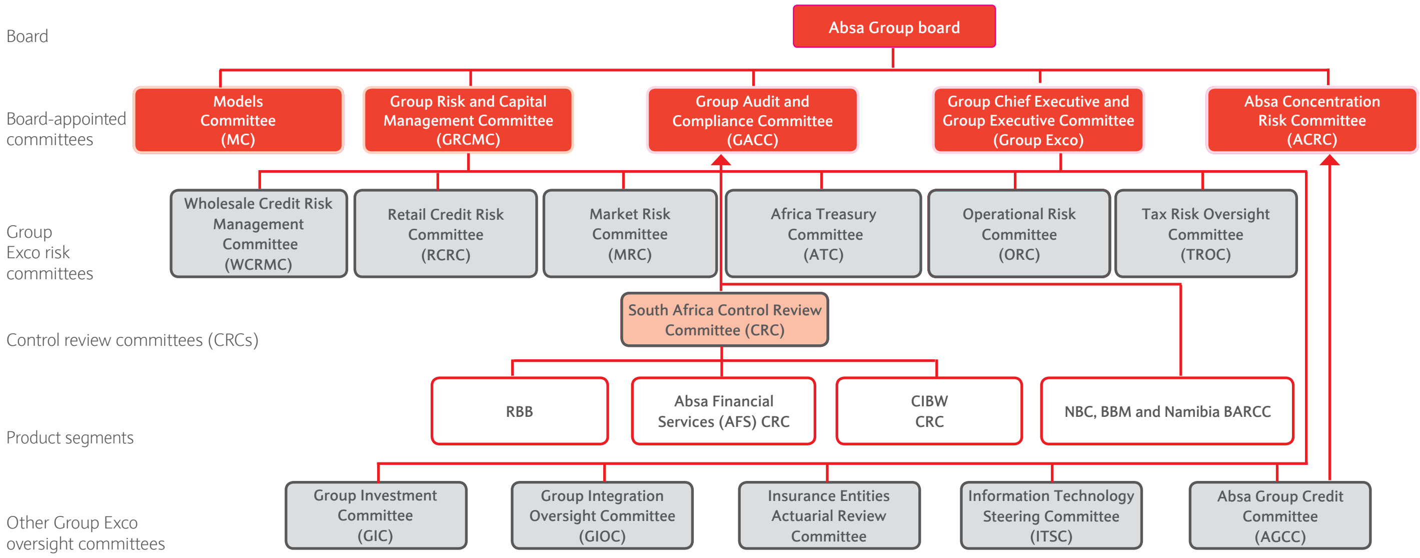
Risk management process	
Identify	→ Understand the principal risks fundamental to achieving the Group's strategy. → Establish the risk appetite. → Establish and communicate the risk management framework including responsibilities, authorities and key controls.
Assess	→ Establish the process for analysing business-level risks. → Agree and implement measurement and reporting standards and methodologies.
Control	→ Establish key control processes and practices, including limit structures, provisioning requirements and reporting standards. → Monitor controls and adherence to risk direction and limits. → Ensure that risk management practices and conditions are appropriate for the business environment.
Report	→ Interpret and report on risk exposures, concentrations and risk-taking outcomes. → Interpret and report on sensitivities and key risk indicators. → Agree and operate early warning reporting processes that are used to highlight issues at Group and business level. → Ensure that processes are in place to operate appropriate reporting and controls to ensure that the risk profile is maintained within risk appetite/tolerance.
Manage/challenge	→ Review and challenge all aspects of the Group's risk profile. → Assess new risk-return opportunities. → Advise on ways to optimise the Group's risk profile. → Review and challenge risk management practices.

Risk oversight

Oversight of overall Group risk resides primarily with two board committees, the Group Risk and Capital Management Committee (GRCMC) and the Group Audit and Compliance Committee (GACC). The newly implemented combined assurance model, owned and managed by Group Risk, covers each principal risk and business area. The aim of the model is to provide a coordinated approach to all assurance activities enabling the board and management to assess whether the significant risks facing the Group are adequately covered.

The Group Chief Executive (GCE) grants authority and responsibility to the Chief Risk Officer (CRO) to ensure the principal risks are properly managed under appropriate control frameworks, and to advise on risk appetite and the Group's risk profile. A description of the GRCMC and its activities follow.

Absa's risk governance structure



The GRCMC

The GRCMC assists the board in fulfilling its responsibilities in managing risk and complying with the relevant requirements of the Banks Act. The GRCMC determines and recommends the Group's risk appetite to the board and then reviews and monitors the risk profile against the risk appetite. The GRCMC also approves control frameworks for various principal risks and assists in determining capital and liquidity target ranges and monitoring capital and liquidity levels.

The GRCMC meets on a quarterly basis.

GRCMC meetings during the reporting period were attended by the GCE, Deputy Group Chief Executive, Group Financial Director, CRO, Head of Compliance and Regulatory Affairs and Group Treasurer. Internal and external auditors also attended the meetings in accordance with the Group's governance processes.

The meetings were convened under the mandate contained in the GRCMC's terms of reference and in accordance with applicable regulations. The GRCMC was provided with required representations and information by management at each meeting, which enabled the committee to properly review and monitor the various risks and, in so doing, effectively comply with its mandate. Adequate training is conducted annually to ensure members effectively discharge their duties.

The Chairman of the GRCMC is a member of the GACC. He met with the CRO and executive management on a regular basis and reported to the board after each committee meeting.

Absa's risk governance structure *(continued)*

Core activities of the GRCMC

During the reporting period, the GRCMC's activities and key decisions included:

- recommending the Group's risk appetite to the board for approval and monitoring the actual risk against the board-approved appetite;
- assisting the board in executing its duties with respect to risk and capital management as required by the Banks Act;
- monitoring the Group's emerging risk profiles and reporting its findings to the board;
- monitoring the level of available capital, both current and projected, and reporting to the board on the adequacy of available capital relative to the emerging risk profile of the Group;
- reviewing the adequacy and effectiveness of the PRP, the completeness of principal risks coverage and the ongoing effectiveness of the framework as implemented by the Group;
- assessing the Group's risk management approach and practices in light of the global financial crisis;
- liaising with the GACC to ensure appropriate oversight of key controls and, in turn, considering and acting on concerns raised by the GACC;
- oversight of risk matters relating to IT;
- ensuring the appropriate disclosure by the Group of its risk and capital management status and activities;
- setting the Group's liquidity risk appetite and monitoring the liquidity position of the Group over the reporting period; and
- a number of deep dives on key areas of focus, including impairments, that were undertaken to further evaluate underlying risks.

The GRCMC is satisfied that the risk management processes and systems provide comprehensive and adequate oversight over the risk exposure of the Group. The GRCMC is satisfied that management was able to effectively respond to, and manage, the risks that arose during the reporting period.

The GACC

The GACC assists the board with regard to reporting financial information, selecting and properly applying accounting principles and policies, monitoring the Group's internal control systems and various compliance-related matters. Other aspects for which the GACC is responsible include business continuity and the management and government of the Group's relationship with the external auditors.

Risk management related activities of the GACC

The GACC performs the following activities in terms of risk management:

- dealing with any matters referred to it by the GRCMC; and
- ensuring that a combined assurance model is applied by internal and external assurance providers and management.

The principal risks policy

The board-approved PRP sets out the scope of the risks facing the Group and creates clear ownership and accountability for risks. The policy was updated during the reporting period and covers the four principal risks (as discussed earlier) as well as the 22 key risks (as detailed in the table to follow).

The CRO appoints a Group Principal Risk Owner (PRO) for each principal risk. Within each principal risk there are individual key risks for which the CRO appoints a Group Key Risk Owner (KRO). Group PROs are responsible for ensuring that appropriate risk control frameworks exist for each key risk and for ensuring the appropriate reporting of those risks.

The principal risks policy *(continued)*

Group KROs are responsible for designing, recording and communicating their risk control frameworks. They further monitor the management of the key risk exposures throughout the Group in accordance with the framework using the five-step process to risk management. Group Exco risk committees meet on a regular basis to assess and monitor the key risks.

Principal risk	Key risks	Group Exco risk committees
Credit risk	➜ Retail credit risk ➜ Wholesale credit risk[1]	➜ RCRC ➜ WCRMC
Market risk	➜ Traded risk ➜ Interest rate risk in the banking book[2] ➜ Pension risk[2] ➜ Insurance risk	MRC
Operational risk	➜ External supplier risk ➜ Financial reporting risk ➜ Fraud risk ➜ Information risk ➜ Legal risk ➜ Product risk ➜ Payment process risk ➜ People risk ➜ Premises and security risk ➜ Regulatory risk ➜ Tax risk ➜ Technology risk ➜ Transaction operations risk	ORC (except for tax risk via the Tax Risk Oversight Committee)
Funding risk	➜ Liquidity risk ➜ Capital management ➜ Structural risk	ATC

Notes
[1]Equity investment risk is reported under wholesale credit risk.
[2]This is reported together with foreign exchange risk and asset management structural risk as 'non-traded market risk'.

The Group's risk appetite

The Group's risk appetite is defined as the level of risk the Group is willing to accept in planning and achieving its business objectives. The risk appetite framework is embedded within key decision-making processes and supports the implementation of the Group's strategy. The Group uses this to maximise returns without exposing the Group to levels of risk above its appetite. In particular, the risk appetite framework assists in protecting the Group's financial performance, improves management responsiveness and debate regarding the risk profile, assists executive management in improving the control and coordination of risk-taking across business units and identifies available risk capacity in pursuit of profitable opportunities.

The risk appetite framework is developed using a formal quantitative method and is set by the board. Risk appetite outcomes are subjected to stress testing, (i.e. validated by estimating the Group's sensitivity to adverse changes in the business environment). This framework then forms the basis for setting business unit targets and risk-taking limits across the Group.

The Group's risk appetite can be categorised into four broad areas namely:

- earnings volatility in comparison to targets;
- capacity to absorb unexpected losses;
- capital ratio targets; and
- capacity to grow.

Stress testing

Stress testing is embedded in the risk management of the Group and is a key focus area in strategic planning processes. Through stress testing and scenario analysis, the Group is able to assess the performance of its portfolios under potentially adverse economic conditions.

Stress tests simulate the effects on the business units' financial position across the Group by analysing the impact on profits and the ability to maintain appropriate capital ratios and liquidity levels. Insights gained are integrated into the management process covering the medium to long term. Stress testing also forms an integral part of evaluating the Group's risk appetite for reasonableness under specifically designed scenarios. Stress tests are regularly discussed with the regulators.

Risk appetite key indicators and triggers

The Group aims to manage its risk profile in a proactive way. To support this, key indicators and triggers have been developed to act as early signals in the event that one of the scenarios or stress situations may materialise. The forward-looking indicators include, *inter alia,* economic indices directly correlated with risk measures and financial fund indicators. The indicators and triggers are monitored routinely and considered by the GRCMC.

Summary of risks

31 December

Credit risk – retail

Definition

Loss to the Group arising from the failure of a customer or counterparty to fulfil payment obligations.

Key performance indicators

	2012 %	2011 %
Growth in loans and advances	**3,00**	0,85
Non-performing loans as a percentage of gross loans and advances to customers	**7,10**	9,20
Impairment losses ratio	**1,89**	1,23
Total impairment losses on loans and advances as a percentage of total gross loans and advances to customers	**3,06**	2,84

Strategy

- Support the achievement of sustainable asset and revenue growth in line with the Group's risk appetite.
- Simplify risk management processes.
- Invest in skills and experience.
- Operate sound credit granting processes.
- Monitor credit diligently.
- Use appropriate models to assist decision-making.
- Improve forecasting and reduce variability.
- Continually improve collection and recovery.
- Optimise the control environment.

2012 in review

- Mortgage loan impairments increased significantly due to higher coverage required on the legal portfolio. Contributing factors included high inflows into the legal portfolio, a rapid change in the portfolio composition with high concentrations of vintage accounts reaching the write-off stage as well as issues pertaining to collections. The Group under-recovered on distressed property sales and incurred high property management costs, thereby compounding the impact.
- The legal inventory was sanitised through new workout strategies and raised impairment losses to provide more appropriate coverage. The Group became increasingly proactive in encouraging voluntary sales for customers unable to recover financially, thereby improving collections.

  After workout of the legal inventory the portfolio has stabilised and the quality of new portfolio inflow is good. This has resulted in a reduction in NPL stock and flow as well as early cycle delinquencies.
- A collections review was concluded resulting in the optimisation of the operating model. Operational risk performance indicators on key LGD performance drivers were enhanced. Focus is currently being placed on optimising key processes and systems. A new Home Loans LGD model has been implemented (including the review of monitoring and validation processes). A review of the impairment forecasting models is currently underway. In parallel the Group's end-to-end controls, have been reviewed, to incorporate any lessons learnt.
- Through continued focus on performance and responsible lending, early delinquencies have continued to improve in all portfolios.
- Engaged with the SARB during the reporting period on unsecured lending.
- Acquired the Edcon portfolio for R9,6 billion (gross receivables). The book was successfully migrated to Absa on 1 November 2012.

Looking ahead

- Continue to focus on value and balance sheet optimisation supported by a strong risk management culture. The aim is to increase portfolio growth through defining acceptable risk pockets/products and improving decision-making processes by continuously assessing market conditions and understanding the impact of economic shifts on the various portfolios.
- Remain focused on the quality and profitability of new business written. The Group will continue to be selective in the type of business written in the mortgage portfolios.
- Continue to place emphasis on reducing NPLs (especially in the secured portfolios) by optimising the potential value when disposing of assets.
- Further refinement of the Group's operating model, and improving forecasting and control of impairments. The Group's forbearance policy has been reviewed. This has resulted in the application of stringent affordability criteria.
- Continue to support the business with pricing optimisation to effectively manage portfolio risk and maximise profitability.
- As the market conditions change the Group will continue to monitor the composition of its legal portfolio and adjust its treatment strategies effectively to address any changes.
- Continue applying prudent lending practices in unsecured lending. The Group's risk appetite has been focused on higher income/lower risk segments and stress testing indicates that the Group's unsecured portfolios will remain profitable even under severe stress scenarios.

Summary of risks

31 December

Credit risk – wholesale

Definition

Loss to the Group arising from the failure of a customer or counterparty to fulfil payment obligations.

Key performance indicators

	2012 %	2011 %
Growth in loans and advances	7,51	0,43
Non-performing loans as a percentage of gross loans and advances to customers	3,66	2,85
Impairment losses ratio	1,17	0,50
Total impairment losses on loans and advances as a percentage of total gross loans and advances to customers	1,96	1,63
Securitisation RWA (Rm)	1 037	1 716
Equity investments RWA (Rm)	22 735	22 168

Strategy

- Invest in skills and experience.
- Operate sound credit granting processes.
- Monitor credit diligently.
- Use appropriate models to assist decision-making.
- Continually improve collection and recovery.

2012 in review

- Significant volatility in the rand represented an increased risk in all rand-based positions in the trading book resulting in an increase in the quantum of credit exposure.
- The increase in impairment losses on loans and advances in Business Markets relates primarily to the CPF portfolio. The Commercial and CAF portfolios also experienced higher impairment losses on loans and advances.
- The increased impairment losses on loans and advances resulted due to improved rigour and revised valuation assumptions applied to accounts on the EWL rather than the degradation of the underlying risk profile of the portfolio.
- Notwithstanding increased exposure, overall CIBW limits across the wholesale portfolio remained fairly stable, largely attributable to weak corporate demand for credit.
- Exposure on the EWL showed no material change on the previous reporting period. However, a noticeable migration in risk categories was observed from low-risk to higher-risk buckets. Concomitant negative trending on the impairment losses ratio became apparent later in the reporting period.

Looking ahead

- Given recent trends on impairment losses on loans and advances in Business Markets, the application of more conservative assumptions around legal realisation periods in these portfolios will continue.
- Enhancement of the risk and control framework and continued embedding of AIRB principles in the business will take place.
- Continued focus on coverage ratios across segments, benchmarked against peers and counterparties exposed to the eurozone.

Securitisation

- In seeking to pool debt, spread risk and fund the Group's loan operations, securitisation may expose the Group to the risks of irresponsible lending. This may result from declines in underwriting standards, excessive leverage and the risks inherent in the complexity of securitisation instruments.
- In line with the Group's strategy, the securitisation portfolio was reduced. However, the note holdings in relation to HOMES Series 1 securitisation increased from R37 million in July to R1 231 million as at the reporting date. This increase is related to the 19 July 2012 HOMES Series 1 note redemption and the subsequent purchase of note.
- The Group will continue to reduce the level of balance sheet (on-statement of financial position) securitisation exposures.
- The Group aims to refinance the current note holding during 2013.

Equity investment risk

- The Group successfully exited selected assets in its equity investment portfolio.
- The CPF equities portfolio decreased in line with strategy over the reporting period coupled with fair value downward adjustments.
- In future the Group will continue to balance the portfolio in line with its risk appetite, which may include the sale of appropriate assets.

Summary of risks

31 December

Market risk – traded and non-traded	2012 in review	Looking ahead

Definition

The risk that earnings, capital or ability to meet business objectives will be adversely affected 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.

Key performance indicators

	2012	2011
Average traded market risk – daily value at risk (DVaR) (Rm)	18,87	23,73
Traded market risk regulatory capital (RC) (at 9,5% of RWAs) (Rm)	1 308	794
Banking book AEaR for a 2% interest rate shock (% of Group net interest income)	<7%	<5%

Strategy

- Ensure traded market risk resides solely in CIBW.
- Facilitate business growth.
- Minimise non-traded market risk.
- Ensure a higher degree of net interest margin stability over an interest rate cycle in the banking book.

2012 in review

Traded market risk

- Trading exposures were carefully managed to ensure efficient use of trading capital with returns above RoRWA hurdles.
- The risk platform and control framework in the Africa operations were expanded to support a broader product range.

Non-traded market risk – interest rate risk in the banking book

- In the low interest rate environment, the structural interest rate hedge programme mitigated the negative endowment impact on equity and structural deposits by contributing positively to the interest margin.
- Cash flow hedge reserves remained strong and will be released to the income statement on an accrual basis over the life of the programme should market rates remain at current levels.
- The Group remained exposed to prime-JIBAR basis risk arising from the difference between predominantly prime-linked assets being funded with liabilities that are primarily JIBAR-linked after hedging.

Looking ahead

Traded market risk

- Respond to regulatory and capital change, while continuing to make efficient use of RWA.
- Continue to challenge and improve the Group's risk management model based on business and regulatory trends.

Non-traded market risk – interest rate risk in the banking book

- With interest rates expected to remain low, the Group will monitor for margin compression and maintain its structural hedge programme.

Summary of risks

31 December

Market risk – insurance	2012 in review	Looking ahead

Definition

The risk that future experience relating to claims, expenses, policyholder behaviour and investment returns are different from the assumptions made when setting premiums or valuing policyholder liabilities.

Key performance indicators

	2012 %	2011 %
Short-term loss ratio	**69,9**	67,4
Life new business margin	**9,3**	7,4

Strategy

- Pursue profitable growth opportunities.
- Balance exposure between life and short-term insurance to allow for better diversification.
- Grow risk exposures outside South Africa.

2012 in review

- All insurance risk types remained well within set appetite limits.
- Stayed abreast of developments and continued with preparations to adopt the Solvency Assessment and Management (SAM) legislation requirements, once promulgated.
- Launched Barclays Life Zambia in August 2012.
- Short-term and life insurance underwriting risk utilisation varied in accordance with expectations and in line with underlying business growth and changes in forecasts.
- Although not considered material, an increase was seen in agricultural and personal business claims. Affected lines of business remained profitable.

Looking ahead

- Continue with the development of the capital model for the short-term insurance environment.
- Continue to diversify risk between business lines and South African and non-South African risks.
- Enhance monitoring and reporting to maintain good oversight of new non-South African insurance exposures.
- Assess risk management frameworks and governance structures in preparation for SAM legislation.
- Challenge existing processes, practices and offerings to ensure alignment with the Treating Customer Fairly principles.

Summary of risks

31 December

Operational risk

Definition

Direct or indirect losses resulting from inadequate or failed internal processes or systems, human error or external events. Operational risk exists in the natural course of business activity.

Key performance indicators

	2012	2011
Total number of events	↓	↓
Total loss value	↑	↓

Strategy

- Further embed an operational risk-aware culture throughout the Group.
- Enhance controls using automated solutions as far as possible.
- Set and monitor an appropriate operational risk appetite and tolerance levels.
- Continue to strengthen follow-up and recovery actions for unexpected operational risk and boundary events.
- Meet regulatory requirements.
- Manage and mitigate key operational risks.

2012 in review

- Total losses for the reporting period decreased in volume, but increased in value due to a single significant unexpected event – the financial restatement at NBC, Tanzania.
- Fraud and transaction operations remained the main drivers of expected losses. The growth in debit card fraud is a concern.
- A strategic renewal programme has been initiated to replace ageing core technology platforms. The restructuring within technology, which was necessary to streamline and improve the effectiveness of key IT processes, has been completed.
- Implemented several control improvement projects during the reporting period aimed at reducing operational risk and consequent losses. Focus was placed on making customers' lives easier through enhancements to the control environment.
- An elevated people risk profile was driven by accelerated organisational restructure in the first half of the reporting period. This was offset by close change management across the Group to provide stability, and targeted action plans to address concerns in specific businesses and functions.

Looking ahead

- While the Group will continue to embed fraud prevention processes and controls to limit increases in losses, fraud is expected to remain the key operational risk impacting expected losses.
- Continue to invest in technology and use this advantage to further promote the Group's risk management capabilities.
- Continue to prioritise enhancements to measure and enhance the customer experience.
- Undertake significant planned investments including the streamlining of the back and middle office processes, improving customer onboarding processes, strengthening proactive fraud monitoring and integrating the Edcon portfolio.

Funding risk – liquidity risk

Definition

Failure to meet the Group's payment obligations when they fall due and to replace funds when they are withdrawn, the consequences of which may be the failure to meet obligations to repay depositors and to fulfil commitments to lend. It is the risk that the Group will be unable to continue operating as a going concern due to a lack of funding.

Key performance indicators

	2012 %	2011 %
Long-term funding ratio	**26,2**	26,8
Loans-to-deposits ratio	**90,2**	88,4

Strategy

- Grow and diversify the funding base.
- Lengthen the Group's funding profile.
- Maintain surplus liquid asset holdings to meet Basel III.
- Lower the weighted average cost of funding.

2012 in review

- Slow South African economic growth reduced the requirement to lend, leaving the Group in a strong liquidity position. In this climate, the Group sought to maintain surplus liquid asset reserves and a strong funding tenor position, combined with growing the deposit base.
- Successfully issued senior unsecured debt in March 2012 and Tier 2 subordinated bonds in November 2012, to further extend the Group's funding terms and diversify the funding base. The Tier 2 issuance was the largest listed Tier 2 subordinated debt raising on a single day in the South African market.
- Maintained the Group's position of reduced reliance on the wholesale money market. The cost of liquidity experienced upward pressure during the first three quarters of the reporting period, but eased towards the end of the reporting period.
- The appetite for term funding in money markets dampened during the first half of the reporting period as asset managers rebalanced their fund profiles. In the second half of the reporting period, the position was alleviated following an amendment to the Collective Investment Schemes Act that relaxed the average duration restrictions applicable to money market funds from 90 days to 120 days.
- In May 2012, the SARB announced that it had approved a CLF to assist banks in meeting the LCR under Basel III. It was further confirmed that statutory cash reserves may be included in the calculation of the LCR. Conditions were set by the SARB regarding the size of the committed facility, collateral requirements and pricing.
- The liquidity risk position of the Group was managed in line with the board-approved liquidity risk appetite.

Looking ahead

- Regulators have allowed several years for full implementation of Basel III liquidity rules. The BCBS announced in January 2013 that the implementation timeframes for the LCR, which is aimed at promoting the short-term resilience of a bank's liquidity risk profile, will be relaxed with full compliance now only required by 2019. The recently announced changes, combined with the SARB announcement in May 2012 that a CLF will be made available to South African banks, means that significant progress has been made during the reporting period regarding compliance with the LCR. The NSFR remains a challenge given the structural features of the South African economy. This will remain a key focus area going forward.
- A strong liquidity position will be maintained and the Group will continue to work with industry forums and the SARB to ensure the optimal implementation of the SARB CLF.
- The liquidity risk appetite of the Group, as approved by the board, will continue to drive key decisions relating to liquidity risk.

Funding risk – capital management

Definition

Failure to maintain adequate levels of capital and/or losing the Group's investment grade credit rating.

Key performance indicators[1]

Group	2012 %	2011 %
Core Tier 1 capital adequacy ratio	**13,0**	13,0
Return on average risk-weighted assets	**2,07**	2,35
Return on average economic capital	**20,8**	23,0
Cost of equity[2]	**13,5**	14,0

Strategy

- Maximise shareholder value by optimising the level and mix of capital resources.
- Meet capital ratios required by regulators and the target ranges approved by the board.
- Maintain an adequate level of capital resources as cover for economic capital (EC) requirements.
- Deliver RWA efficiency, capital and balance sheet accountability as well as returns.
- Proactively assess, manage and efficiently implement global regulatory changes to optimise capital usage.
- Maintain a strong credit rating, with Absa's recent upgrade of the national long-term credit rating to AAA (zaf) being higher than the peer group.

2012 in review

- Maintained the Group's strong capital adequacy position above the board-approved target range thereby positioning the Group favourably to deal with the implementation of Basel III. RWA optimisation exercises also improved the Group's understanding of risk, in terms of accuracy of risk measurement, allowing the Group to allocate capital more accurately.
- R1,5 billion of subordinated debt, qualifying as Tier 2 capital, was called at the first optional redemption date in September 2012. Subsequently the Group issued R5 billion subordinated debt at a yield of between JIBAR + 195 bps and 205 bps, optimising the Group's capital mix and taking advantage of the last opportunity to issue 'old style' (excluding the loss absorbency and the point of non-viability requirements) Tier 2 capital prior to the implementation of Basel III.
- Updated the Group's capital models to reflect the current environment, implemented Basel II.5 and AIRB for the wholesale credit portfolio and prepared for the implementation of Basel III on 1 January 2013.

Looking ahead

- The strategic focus for 2013 is to maintain a strong, high quality and optimal mix of capital.
- As in the previous and current reporting periods, RWA optimisation remains a key focus area of the Group.
- Further optimisation of the use of capital without jeopardising the Group's ability to comply with expected Basel III regulatory changes. Absa's board target ranges will meet the minimum capital requirements after the full implementation of Basel III.
- Continue to support economically profitable asset growth, while actively managing the business portfolio.
- Distribution to shareholders will be considered after due cognisance is given to Absa's capital requirements, growth and business plans as well as balance sheet integrity.

Notes

[1]Reported ratios include unappropriated profits.

[2]The average cost of equity is based on the capital asset pricing model (CAPM).

Capital management

31 December

Favourable

- Strong capital position maintained above regulatory and board-approved target ranges.
- Successful implementation of the AIRB approach on the wholesale portfolio.
- Successful implementation of Basel II.5 with minimal impact on Core Tier 1 capital.
- R1,5 billion of subordinated debt matured in September 2012 and R5 billion Tier 2 capital issuance in November 2012.
- Continued focus on both net generation of equity and RWA optimisation.
- Basel III implementation on track.

Key performance indicators[1]

Group	2012 %	2011 %
Core Tier 1	**13,0**	13,0
Return on average risk-weighted assets	**2,07**	2,35
Return on average economic capital	**20,8**	23,0
Cost of equity[2]	**13,5**	14,0

Bank	2012 %	2011 %
Core Tier 1	**12,5**	12,1
Return on average risk-weighted assets	**1,91**	2,20
Cost of equity[2]	**13,5**	14,0

Introduction

The Group's capital management strategy is to maximise shareholder value by optimising the level and mix of capital resources. Decisions on allocating capital resources are based on a number of factors including RoEC and RoRWA and are part of the internal capital adequacy assessment process (ICAAP).

Proactive risk and capital management is key to balance sheet optimisation, one of the four strategic pillars supporting the One Absa strategy. The Group continues to monitor and respond pragmatically to market conditions both locally and internationally.

Capital levels remain well above board-approved target ranges for both the Group and the Bank, with the Group's Core Tier 1 capital adequacy ratio remaining stable at 13% and the Bank's capital adequacy ratio improving by 40 bps. Proactive capital management, including RWA optimisation and equity generation, remains a priority while further improvements in risk management are implemented. The board-approved target ranges are assessed annually and the 2013 ranges remain consistent with that of the reporting period. As the market for Basel III compliant capital instruments develops the Group will reassess the possibility of using these instruments accordingly. The potential impact of proposed regulatory changes are analysed and steps are taken to integrate necessary changes into the business. The Group will remain adequately capitalised post the implementation of Basel III, with adequate capital to support future asset growth.

The Group will continue to review its capital position and implement appropriate management action, when necessary, to ensure it remains appropriately capitalised at all times. Further detail on Basel III and the Group's response are set out further on in this section.

Notes

[1]Reported ratios include unappropriated profits.

[2]The average CoE is based on the capital asset pricing model (CAPM).

Capital management

31 December

Strategy

- Maximise shareholder value by optimising the level and mix of capital resources.
- Meet capital ratios required by regulators and the target ranges approved by the board.
- Maintain an adequate level of capital resources as cover for EC requirements.
- Deliver RWA efficiency, capital and balance sheet accountability and returns.
- Proactively assess, manage and efficiently implement global regulatory changes to optimise capital usage.
- Maintains a strong credit rating with the Group's recent upgrade of the national long-term credit rating to AAA (zaf) being higher than the peer group.

2012 in review

- The Group maintained its strong capital adequacy position above the board-approved target range thereby positioning the Group favourably to deal with Basel III implementation. RWA optimisation exercises also improved the Group's understanding of risk, in terms of accuracy of risk measurement, resulting in the optimisation of capital allocation.
- R1,5 billion of subordinated debt qualifying as Tier 2 capital was called at the first optional redemption date in September 2012. Subsequently R5 billion subordinated debt was issued at a yield of between JIBAR + 195 bps and 205 bps. This optimised the Group's capital mix and took advantage of the last opportunity to issue 'old style' (excluding the loss absorbency and the point of non-viability requirements) Tier 2 capital prior to the implementation of Basel III.
- Maintains a strong capital models were updated to reflect the current environment.
- Implemented Basel II.5 and AIRB for the wholesale credit portfolio and prepared for the implementation of Basel III.

Approach to capital management

The Group plans and manages its capital to ensure it has sufficient and appropriate capital structures to support its risk appetite and business activities, as well as credit rating and regulatory requirements.

The capital management framework adopted by the Group provides the basis for effective capital planning and structuring, capital issuance, Basel alignment, EC utilisation and economic profit. It provides end-to-end integration of the Group's strategy, risk management and financial processes. The purpose of the framework is to ensure capital consumption in the business units has an impact on performance, which in turn translates into management performance assessment, product pricing and ultimately the achievement of the Group's strategy.

Internal capital adequacy assessment process (ICAAP)

The board-approved ICAAP process assesses the level of capital required to be held against identified material risks that the Group is, or may be, exposed to in order to meet the current or future capital needs. The ICAAP and its underlying components form an integral part of the Absa Group's decision-making and business processes. The Group has embedded risk and capital management tools, processes and activities across its clusters to actively influence management behaviour to align with its risk strategy.

At its most strategic level the ICAAP is used to inform the board of the ongoing assessment of the Group's risks, how the risks are mitigated and how much current and future capital is considered necessary taking into account mitigating factors.

The ICAAP demonstrates how the Group's strategy is articulated into the risk appetite, financial forecasting and capital planning. It is used to ensure that the minimum capital ratios and board-approved target ranges can be maintained over the period of the medium-term plan, having been subjected to suitably severe stress and scenario analysis. Stress testing is conducted annually to identify market condition changes that could adversely impact the Group in order to identify management actions to mitigate risks on a timely basis.

Furthermore, it ensures that internal systems, controls and management information are in place to enable the board and senior management to track changes in the economic/financial environment, which may require adjustments to the business strategy to remain within the risk appetite on an ongoing basis.

The efficient use of capital is fundamental to ensuring a clear focus on enhancing shareholder value through the careful deployment of capital resources.

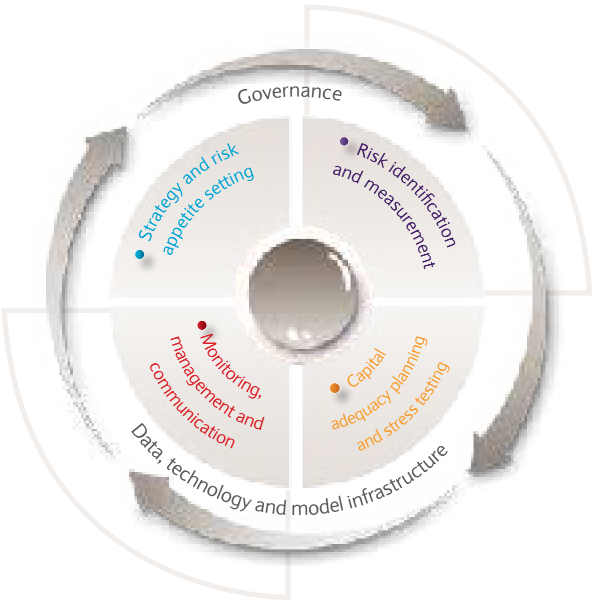
The Group has adopted a building block approach to achieve a robust and integrated capital management framework. The ICAAP is an important element of strategy development and implementation, as is evidenced by the link between elements such as financial forecasting, risk appetite setting, stress testing and capital planning.

While the ICAAP is intended to align with regulatory requirements under Pillar 1 and Pillar 2 of the regulatory framework, the main guiding principle in designing the ICAAP has been suitability for capital management and other internal applicators. The Group considers its ICAAP to be in line with international best practice and is of the opinion that it addresses the core banking principles of Pillar 2 of the Basel Accord.

EC is the framework used to set internal capital demand and supply and is used to assess the impact of a changing business environment and strategy on its risk profile and the need for capital. EC is a measure of capital required to maintain or achieve a target investment grade credit rating. Absa targets a capital level equivalent to an AA rating or higher.

Aside from its application in capital management, EC is a key component of Group level and business unit level applications such as capital management, stakeholder communication, risk-adjusted performance measurement, pricing and structuring.

The building blocks of the Group's ICAAP are as follows:



These processes are conducted in an environment with established governance practices and oversight and are supported by adequate data, technology expertise and model infrastructure.

Stress testing is performed to identify early warning thresholds and risk events that may adversely impact the Group's risk profile, as well to test the robustness of capital. Stress testing is also used to determine adequate capital buffers that are considered sufficient to ensure that both the Group and the Bank do not breach the minimum regulatory ratios under stress scenarios and to formulate appropriate management actions. From an ICAAP perspective, stress testing represents the link between risk management and capital management. As a result of better risk management practices and global events, stress testing has become increasingly important in assessing appropriate levels of capital to ensure the ability to absorb stress events in order to protect depositors and other stakeholders.

Capital transferability

The Group is the primary provider of equity capital to its subsidiaries and capital is held centrally in accordance with the board-approved annual Group capital plan.

The Group's capital policy stipulates that capital held in Group entities in excess of board-approved target levels/ranges should be repatriated to the Group in the form of dividends and/or capital repatriation, subject to local regulatory requirements, exchange controls and strategic management decisions. Apart from the aforesaid, the Group is not aware of any material impediments to the prompt transfer of capital resources or repayment of intragroup liabilities when due.

Basel III

The Group is well equipped for the implementation of the Basel III framework, which is being phased in from 1 January 2013. Basel III focuses on the following areas:

- stringent new liquidity requirements through the creation of two ratios: LCR and NSFR;
- higher levels of capital including capital conservation and countercyclical buffers as well as additional capital charges for counterparty credit risk;
- better quality capital including loss absorbency at the point of non-viability;
- improved trading risk coverage; and
- leverage caps with a minimum of 3% internationally versus a proposed 4% by the SARB.

In preparation for the implementation of Basel III, the Group participated in the Quantitative Impact Study (QIS) excercises of the BCBS as well as industry discussions held at the Banking Association of South Africa (BASA) to enable it to assess and provide feedback on the expected impact of the new rules. The QIS covers liquidity, capital and leverage and is conducted biannually. The Group will remain adequately capitalised after the implementation of Basel III, which is expected to reduce the Group's Core Tier 1 capital adequacy ratio by 70 bps.

Looking ahead

The Group's strategic focus for 2013 is to maintain a strong level, high quality and optimal mix of capital, while continuing to generate sufficient capital to support economically profitable asset growth and the active management of the business portfolio. In addition, the Group intends to further optimise the use of capital without jeopardising the Group's ability to comply with expected Basel III regulatory changes. As in the reporting period, RWA optimisation remains a key focus area.

Capital management
31 December

Capital requirements

The Group manages its capital in accordance with the minimum regulatory requirements, EC requirements and the target ranges approved by the board, as follows:

- Regulatory requirements: net qualifying capital must sufficiently exceed Basel minimum capital requirements to provide a buffer for prudence.
- Economic requirements: available capital resources must be sufficient to meet EC requirements over a three-year period.
- Board-approved target ranges: derived from the stress testing results, and are set above the minimum regulatory requirements.

Capital adequacy

The Group sets target capital ranges/levels for regulated entities to ensure that the objectives of capital management are met. Appropriate capital management actions are taken if these target ranges/levels are at risk of being breached.

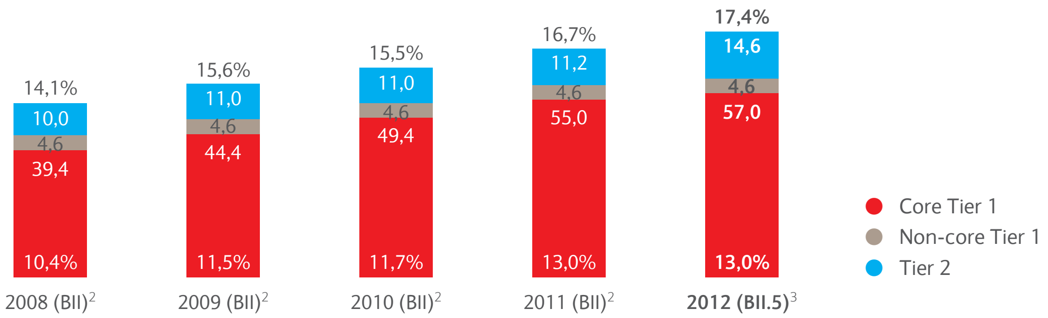
The Group monitors capital adequacy and the use of RC by employing techniques based on the guidelines developed by the BCBS and implemented by the SARB and other host regulators for supervisory purposes. These techniques include the capital adequacy ratio calculation, which the SARB and other host regulators regard as a key supervisory tool.

Target capital ratios for the Group for the reporting period were set by considering the following:

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

	Group			
	2012	2011	**Minimum regulatory capital requirements**	**Board target ranges 2012**
Capital adequacy ratios (%)[1]				
Core Tier 1	**13,0**	13,0	**5,25**	**9,5% – 11,0%**
Tier 1	**14,0**	14,1	**7,00**	
Total	**17,4**	16,7	**9,50**	**12,5% – 14,0%**
Capital supply and demand for the reporting period (Rm)				
Free cash flow generated	**1 082**	3 614		
Qualifying capital	**76 298**	70 780		
Total RWA	**438 216**	424 489		

Absa Group capital adequacy (Rbn and %)[1]

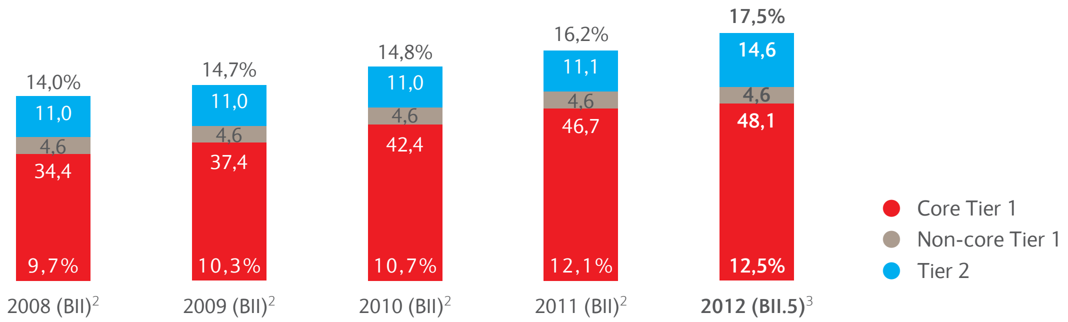


Notes
[1]Reported ratios include unappropriated profit.
[2]BII: Basel II.
[3]BII.5: Basel II.5.

Capital adequacy *(continued)*

	Bank			
	2012	2011	Minimum regulatory capital requirements	Board target ranges 2012
Capital adequacy ratio (%)[1]				
Core Tier 1	**12,5**	12,1	**5,25**	**9,0% – 10,5%**
Tier 1	**13,7**	13,3	**7,00**	
Total	**17,5**	16,2	**9,50**	**12,0% – 13,5%**
Capital supply and demand for the reporting period (Rm)				
Free cash flow generated	**2 930**	4 686		
Qualifying capital	**67 349**	62 449		
Total RWA	**385 855**	384 933		

Absa Bank capital adequacy (Rbn and %)[1]



The board approved the following target ranges for 2013, which are consistent with those of the reporting period:

	Core Tier 1	Total capital
Group	9,5% – 11,0%	12,5% – 14,0%
Bank	9,0% – 10,5%	12,0% – 13,5%

Notes
[1]Reported ratios include unappropriated profits.
[2]BII: Basel II.
[3]BII.5: Basel II.5.

Capital adequacy *(continued)*

Target capital ranges/levels were set for the following regulated entities: Absa Group Limited and Absa Bank Limited. Target capital levels for all other entities were at least equal to the minimum regulatory requirements set by the SARB.

		2012			2011			2012 Total target capital adequacy ratio	
Operations	**Regulator**	**Total qualifying capital Rm**	**Tier 1 ratio %**	**Total capital adequacy %**	Total qualifying capital Rm	Tier 1 ratio %	Total capital adequacy %	**Regulatory minimum %**	**Board target %**
Absa Group	SARB								
Including unappropriated profits		**76 298**	**14,0**	**17,4**	70 780	14,1	16,7		**12,5 – 14,0**
Excluding unappropriated profits		**68 652**	**12,3**	**15,7**	62 489	12,1	14,7	**9,5**	
Absa Bank	SARB								
Including unappropriated profits		**67 349**	**13,7**	**17,5**	62 449	13,3	16,2		**12,0 – 13,5**
Excluding unappropriated profits		**64 154**	**12,8**	**16,6**	56 409	11,8	14,7	**9,5**	

Capital management

31 December

Regulatory capital

RWAs are determined by applying the following methods per risk type in accordance with the Basel II.5 revisions, effective 1 January 2012:

- AIRB approach for credit;
- AMA for operational risk[1];
- in respect of traded market risk, IMA for general position risk, and the Standardised Approach (SA) for issuer specific risk;
- Internal Ratings Based (IRB) market-based simple risk-weighted method for equity investment risk in the banking book; and
- SA for credit risk the Group's African subsidiaries.

RWA and minimum required capital

Group	2012 RWA Rm	2012 Minimum required capital[2] Rm	2011 RWA Rm	2011 Minimum required capital[2] Rm
Basel II.5 measurement approach				
Credit risk	321 500	30 542	317 920	30 202
Portfolios subject to the AIRB approach	296 950	28 210	145 870	13 858
Portfolios subject to the FIRB approach	—	—	159 740	15 175
Portfolios subject to the SA[3]	23 513	2 233	10 595	1 006
Securitisation[4]	1 037	99	1 715	163
Equity investment risk				
Market-based approach (simple risk-weighted approach)	22 735	2 160	22 168	2 106
Market risk	13 797	1 311	8 357	794
SA	3 735	355	3 828	364
IMA	10 062	956	4 529	430
Operational risk				
AMA[1]	62 385	5 926	59 460	5 649
Non-customer assets	17 799	1 691	16 584	1 575
	438 216	41 630	424 489	40 326
Pillar 1 requirement (8%)		35 057		33 959
Pillar 2a requirement (1,5%)		6 573		6 367

Notes

[1]AMA for operational risk, except for an immaterial portion of the Group that uses the Basic Indicator Approach, or SA.

[2]The required capital is the regulatory minimum (9,5%) excluding the bank specific (Pillar 2b) add on.

[3]The increase on the previous reporting period relates to the Group acquiring the Edcon portfolio in November 2012.

[4]The separate disclosure of credit risk RWA pertaining to securitisation resulted in a reclassification of comparative information.

Regulatory capital *(continued)*

RWA and minimum required capital *(continued)*

Bank	2012 RWA Rm	2012 Minimum required capital[2] Rm	2011 RWA Rm	2011 Minimum required capital[1] Rm
Basel II.5 measurement approach				
Credit risk	**292 003**	**27 740**	289 949	27 545
Portfolios subject to the AIRB approach	**278 795**	**26 485**	135 071	12 832
Portfolios subject to the FIRB approach	**—**	**—**	153 163	14 550
Portfolios subject to the SA[3]	**12 171**	**1 156**	—	—
Securitisation[4]	**1 037**	**99**	1 715	163
Equity investment risk				
Market-based approach (simple risk-weighted approach)	**14 564**	**1 384**	24 555	2 333
Market risk	**13 768**	**1 308**	8 357	794
SA	**3 706**	**352**	3 828	364
IMA	**10 062**	**956**	4 529	430
Operational risk				
AMA[1]	**54 045**	**5 134**	51 067	4 851
Non-customer assets	**11 475**	**1 090**	11 005	1 046
	385 855	**36 656**	384 933	36 569
Pillar 1 requirement (8%)		**30 868**		30 795
Pillar 2a requirement (1,5%)		**5 788**		5 774

Notes

[1]AMA for operational risk, except for an immaterial portion of the Group that uses the Basic Indicator Approach, or SA.
[2]The required capital is the regulatory minimum (9,5%) excluding the bank specific (Pillar 2b) add on.
[3]The increase on the prior reporting period relates to the Group acquiring the Edcon portfolio in November 2012.
[4]The separate disclosure of credit risk RWA pertaining to securitisation resulted in a reclassification of comparative information.

Capital supply

The Group increased its total qualifying capital supply by R5,6 billion (2011: R5,4 billion).

Movements in qualifying capital

	Group 2012 Rm	Group 2011 Rm	Bank 2012 Rm	Bank 2011 Rm
Balance at the beginning of the reporting period (excluding unappropriated profits)	**62 489**	62 770	**56 409**	56 890
Share capital, premium and reserves	**3 363**	37	**4 700**	(175)
Non-controlling interest – ordinary shares	**(185)**	238	**—**	—
Tier 2 subordinated debt issued	**5 000**	—	**5 000**	—
Tier 2 subordinated debt matured	**(1 500)**	—	**(1 500)**	—
General allowance for credit impairments: SA	**66**	3	**53**	—
Regulatory deductions	**(581)**	(559)	**(508)**	(306)
Balance at the end of the reporting period (excluding unappropriated profits)	**68 652**	62 489	**64 154**	56 409
Add: unappropriated profits	**7 646**	8 291	**3 195**	6 040
Qualifying capital including unappropriated profits	**76 298**	70 780	**67 349**	62 449

Breakdown of qualifying capital

Group	2012 Qualifying capital Rm	2012 %[1]	2011 Qualifying capital Rm	2011 %[1]
Core Tier 1	**49 371**	**11,3**	46 685	11,0
Ordinary share capital	**1 435**	**0,3**	1 434	0,3
Ordinary share premium	**4 604**	**1,1**	4 676	1,1
Reserves[2]	**45 749**	**10,4**	42 314	10,0
Non-controlling interest – ordinary shares	**1 267**	**0,3**	1 453	0,3
Deductions	**(3 684)**	**(0,8)**	(3 192)	(0,7)
Goodwill	**(554)**	**(0,1)**	(568)	(0,1)
50% of financial and insurance entities not consolidated	**(162)**	**(0,0)**	(122)	(0,0)
50% of amount by which expected loss exceeds eligible provisions	**(1 401)**	**(0,3)**	(1 352)	(0,3)
Other deductions	**(1 567)**	**(0,4)**	(1 150)	(0,3)
Non-core Tier 1				
Preference share capital and premium	**4 644**	**1,0**	4 644	1,1
Tier 1 capital (primary capital)	**54 015**	**12,3**	51 329	12,1
Tier 2 capital (secondary capital)	**14 637**	**3,4**	11 160	2,6
Subordinated redeemable debt	**16 111**	**3,7**	12 611	2,9
General allowance for credit impairment losses after deferred tax – SA	**89**	**0,0**	23	0,0
Deductions	**(1 563)**	**(0,3)**	(1 474)	(0,3)
50% of financial and insurance entities not consolidated	**(162)**	**(0,0)**	(122)	(0,0)
50% of amount by which expected loss exceeds eligible provisions	**(1 401)**	**(0,3)**	(1 352)	(0,3)
Total qualifying capital (excluding unappropriated profits)	**68 652**	**15,7**	62 489	14,7
Qualifying capital (including unappropriated profits)				
Tier 1 capital	**61 661**	**14,0**	59 620	14,1
Core Tier 1 (excluding unappropriated profits)	**49 371**	**11,3**	46 685	11,0
Unappropriated profits	**7 646**	**1,7**	8 291	2,0
Non-core Tier 1	**4 644**	**1,0**	4 644	1,1
Tier 2 capital	**14 637**	**3,4**	11 160	2,6
Total qualifying capital (including unappropriated profits)	**76 298**	**17,4**	70 780	16,7

Notes
[1]Percentage of capital to RWA.
[2]Reserves exclude unappropriated profits.

Capital supply *(continued)*

Breakdown of qualifying capital *(continued)*

Bank	2012 Qualifying capital Rm	2012 %[1]	2011 Qualifying capital Rm	2011 %[1]
Core Tier 1	**44 863**	**11,6**	40 655	10,6
Ordinary share capital	**303**	**0,1**	303	0,1
Ordinary share premium	**12 465**	**3,2**	11 465	3,0
Reserves[2]	**34 659**	**9,0**	30 959	8,0
Deductions	**(2 564)**	**(0,7)**	(2 072)	(0,5)
50% of amount by which expected loss exceeds eligible provisions	**(1 517)**	**(0,4)**	(1 501)	(0,4)
Other deductions	**(1 047)**	**(0,3)**	(571)	(0,1)
Non-core Tier 1				
Preference share capital and premium	**4 644**	**1,2**	4 644	1,2
Tier 1 capital (primary capital)	**49 507**	**12,8**	45 299	11,8
Tier 2 capital (secondary capital)	**14 647**	**3,8**	11 110	2,9
Subordinated redeemable debt	**16 111**	**4,2**	12 611	3,3
General allowance for credit impairment losses after deferred tax – SA	**53**	**0,0**	—	—
Deductions				
50% of amount by which expected loss exceeds eligible provisions	**(1 517)**	**(0,4)**	(1 501)	(0,4)
Total qualifying capital (excluding unappropriated profits)	**64 154**	**16,6**	56 409	14,7
Qualifying capital (including unappropriated profits)				
Tier 1 capital	**52 702**	**13,7**	51 339	13,3
Core Tier 1 (excluding unappropriated profits)	**44 863**	**11,6**	40 655	10,6
Unappropriated profits	**3 195**	**0,9**	6 040	1,5
Non-core Tier 1	**4 644**	**1,2**	4 644	1,2
Tier 2 capital	**14 647**	**3,8**	11 110	2,9
Total qualifying capital (including unappropriated profits)	**67 349**	**17,5**	62 449	16,2

Economic capital requirements

The Group assesses EC requirements by measuring its risk profile using both internally and externally developed models. The Group assigns EC primarily within six risk categories: retail and wholesale credit risk (including residual value risk), traded and non-traded market risk, operational risk, fixed assets risk and equity investment risk in the banking book.

The Group regularly enhances its EC methodologies and benchmarks outputs to external reference points. Industry benchmarks and best practice are considered and used in the Group's evaluation and enhancement of existing economic capital methodologies.

The EC methodology incorporates the key credit risk parameters based on average credit conditions (through-the-cycle effect), rather than those prevailing at the balance sheet date (point-in-time effect). This seeks to reduce cyclicality from the EC calculation. It also reflects the time horizon, correlation of risks and risk concentrations.

Notes
[1]Percentage of capital to RWA.
[2]Reserves exclude unappropriated profits.

Economic capital requirements *(continued)*

The EC framework covers not only Basel II Pillar 1 risks but also additional economic risks not covered at all, or inadequately covered in Pillar 1 such as interest rate risk in the banking book. A further risk included as an add-on to EC is concentration risk within the credit portfolio.

The total average EC required by the Group, determined by the risk assessment models and considering the Group's estimated portfolio effects, is compared with the available financial resources (EC supply) to evaluate EC utilisation.

Economic capital resources

The resources available to meet EC requirements are calculated as the average available shareholders' equity after adjustment including preference shares, but excluding other non-controlling interests. The Group's EC calculations form the basis of the Group's submission for the Basel II ICAAP.

Funds available for EC are impacted by a number of factors that have arisen from the application of IFRS.

EC supply includes:

- ordinary shareholders' equity;
- retained earnings, whether appropriated or not; and
- non-redeemable, non-cumulative preference shares.

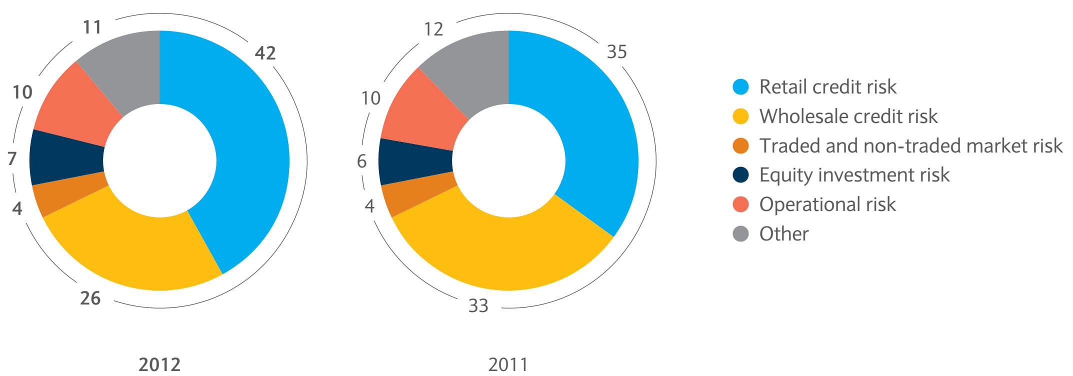
The following equity reserves are excluded from EC resources:

- cash flow hedging reserve: to the extent that the Group undertakes the hedging of future cash flows, shareholders' equity will include gains and losses that will be offset against the gain or loss on the hedged item when it is recognised in the statement of comprehensive income at the conclusion of the hedged transaction. Given the future offset of such gains and losses, they are excluded from shareholders' equity when calculating EC;
- available-for-sale reserve: unrealised gains and losses on such securities are included in shareholders' equity until disposal or impairment. Such gains and losses are excluded from shareholders' equity for the purposes of calculating EC;
- retirement benefit assets and liabilities: the Group has recorded a surplus with a consequent increase in shareholders' equity. This represents a non-cash increase in shareholders' equity. For the purposes of calculating EC, pension surplus is excluded from shareholders' equity;
- non-controlling interest;
- other perpetual debt, preference shares and subordinated debt; and
- tertiary capital.

The following are deducted from EC supply:

- goodwill; and
- intangible assets.

Economic capital[1] (%)



Note

[1]Excludes insurance due to the difference in the confidence level resulting from insurance regulation.

Capital management

as at 31 December

Capital risk

Translation foreign exchange risk

Translational foreign exchange risk arises from capital resources (including investments in subsidiaries and branches, intangible assets, non-controlling interests, deductions from capital and debt capital instruments) and RWA being denominated in foreign currencies. Changes in foreign exchange rates result in changes in the rand equivalent value of foreign currency denominated capital resources and RWA.

The Group's investments in foreign currency subsidiaries and branches create capital resources denominated in foreign currencies. Changes in the rand value of investments resulting from foreign currency movements are captured in the currency translation reserve, which are currently excluded from qualifying capital resources under the SARB's rules. This will change with the implementation of Basel III when the reserves form part of qualifying capital

To minimise volatility of capital ratios caused by foreign exchange rate movements, the Group aims to maintain an appropriate foreign currency capital structure by maintaining the ratio of foreign currency Core Tier 1, Tier 1 and total capital resources to foreign currency RWA in line with the Group's capital risks. This is primarily achieved by subsidiaries issuing capital or holding retained earnings in local currencies or through the Group issuing debt capital in foreign currency.

Translational foreign currency risk can be mitigated through derivatives or borrowings in the same currency as the functional currency involved, designated as net investment hedges, or through economic hedges. Translational hedging considerations include exchange control regulations, the strategic nature of the investment, materiality of the risk, prevailing foreign exchange rates, market liquidity, cost of hedging and the impact on capital ratios. Based on these considerations, no foreign currency net investment hedges were in place for the reporting period.

Translational foreign exchange risk is monitored regularly to consider the need for mitigating actions towards minimising material fluctuations.

Credit ratings

	October 2012	January 2013	
	Moody's[1]	Fitch ratings[2]	
	Absa Bank	Absa Bank	Absa Group
National			
Short term	Prime-1.za	F1+ (zaf)	F1+ (zaf)
Long term	Aa2.za	AAA (zaf)	AAA (zaf)
Outlook	—	Stable	Stable
Local currency			
Short term	Prime-2	—	—
Long term	A3	A–	A–
Outlook	Negative	Stable	Stable
Foreign currency			
Short term	Prime-2	F2	F2
Long term	Baa1	A–	A–
Outlook	Negative	Stable	Stable
Bank's financial strength	C-	—	—
Baseline credit assessment	Baa1	—	—
Viability rating	—	bbb	bbb
Outlook	Stable	—	—
Support	—	1	1

Notes

[1]With regard to the Bank's EMTN programme, the provisional foreign-currency senior unsecured debt rating of (P) A3 any issued foreign-currency senior unsecured debt rating of (P) A3, any issued foreign-currency senior unsecured debt rated A3 the provisional foreign-currency subordinated debt ratings of (P) Baa2 and (P) Baa3, respectively, remain unaffected. The outlook for all ratings is negative.

[2]Senior unsecured debt: Long-term foreign currency, rating affirmed at 'A-'; short-term foreign currency affirmed at 'F2'. Senior unsecured notes national long-term rating upgraded to AAA (zaf) from AA+ (zaf).

Reclassification of previous reporting period figures

Contents

Reclassifications
31 December

1. Initial margin

During the current reporting period, the Group reclassified certain initial margins placed as collateral which was previously disclosed as 'Other assets' to 'Loans and advances to banks' and 'Loans and advances to customers' in order to better reflect the true nature of these balances as collateralised loans. This has resulted in comparatives being reclassified for 2011 and 2010 reporting periods as reflected in the table that follows:

	2011			2010		
	As previously reported Rm	Reclassifications Rm	Reclassified Rm	As previously reported Rm	Reclassifications Rm	Reclassified Rm
Loans and advances to banks	57 432	67	57 499	27 495	77	27 572
Other assets	16 219	(1 489)	14 730	12 855	(895)	11 960
Loans and advances to customers	503 503	1 422	504 925	508 780	818	509 598

2. Elimination of funding interest

During the current reporting period, the Group refined the elimination of funding interest between 'Interest and similar income' and 'Interest expense and similar charges'. This has resulted in comparatives being reclassified for 2011 reporting period as reflected in the table that follows:

	2011		
	As previously reported Rm	Reclassifications Rm	Reclassified Rm
Interest and similar income	51 221	(30)	51 191
Interest expense and similar charges	(26 792)	30	(26 762)

Segment report per market segment

31 December 2011

	RBB		
	As previously reported	Re-classi-fications[1,3]	Re-clas-sified
Statement of comprehensive income (Rm)			
Net interest income	21 545	(1 947)	19 598
Impairment losses on loans and advances	(4 838)	(30)	(4 868)
Non-interest income	14 934	(1 018)	13 916
Operating expenses	(20 517)	1 597	(18 920)
Other	(423)	(28)	(451)
Operating profit before income tax	10 701	(1 426)	9 275
Taxation expense	(3 418)	405	(3 013)
Profit for the reporting period	7 283	(1 021)	6 262
Profit attributable to:			
Ordinary equity holders	7 074	(1 021)	6 053
Non-controlling interest – ordinary shares	208	—	208
Non-controlling interest – preference shares	1	—	1
	7 283	(1 021)	6 262
Headline earnings	7 127	(1 021)	6 106
Operating performance (%)			
Net interest margin on average interest-bearing assets[2]	3,55	0,13	3,68
Impairment losses on loans and advances as % of average loans and advances to customers[2]	1,09	0,07	1,16
Non-interest income as % of total operating income	40,6	0,9	41,5
Revenue growth[3]	5	(8)	(3)
Cost growth[3]	(5)	8	3
Cost-to-income ratio	56,2	0,3	56,5
Cost-to-assets ratio[2]	3,2	0,1	3,3
Statement of financial position (Rm)			
Loans and advances to customers	440 983	(28 388)	412 595
Investment securities	1 647	—	1 647
Other assets	233 131	(65 189)	167 942
Total assets	675 761	(93 577)	582 184
Deposits due to customers	301 363	(93 789)	207 574
Debt securities in issue	4 256	—	4 256
Other liabilities	362 666	1 220	363 886
Total liabilities	668 285	(92 569)	575 716
Financial performance (%)			
Return on average economic capital[2]	24,7	(3,8)	20,9
Return on average risk-weighted assets[2]	2,30	(0,33)	1,97
Return on average assets[2]	1,10	(0,03)	1,07

Notes

[1]Comparatives have been reclassified. Refer to page 121.

[2]These ratios are unaudited.

[3]The following segment reclassifications have taken place during the current reporting period (2010 comparatives have not been updated for these changes).

- As part of the One Absa strategy, the segments of Retail Markets (previously known as Retail Banking) and Business Markets (previously known as Absa Corporate and Business Bank) were merged into the RBB segment.
- Absa Cash Solutions Group Processing Centre and Integrated Processing Services were moved from the Corporate Centre (included in Head office, inter-segment eliminations and Other) to RBB.
- Absa Development Company Holdings Proprietary Limited, a subsidiary of the Group, was segmented into Retail Markets and Business Markets. Its results were previously reported in Retail Markets.
- The Group's corporate customers and products were transferred from Business Markets to CIBW following an initiative to optimise product delivery to its corporate customers.
- Support Services were renamed to Enterprise Core Services, which consists of a significant division namely the Corporate Centre.
- Foreign Exchange and Group Payments were moved from the Corporate Centre to CIBW.

Segment report per market segment

31 December 2011

CIBW			Financial Services			Head office, inter-segment eliminations and Other			Group		
As previously reported	Re-classifications[1,2]	Re clas-sified	As previously reported	Re-classi-fications	Re-clas-sified	As previously reported	Re-classi-fications[1,2]	Re-clas-sified	As previously reported	Re-classi-fications[2]	Re-clas-sified
2 062	1 421	3 483	21	—	21	801	526	1 327	24 429	—	24 429
(69)	30	(39)	(4)	—	(4)	(170)	—	(170)	(5 081)	—	(5 081)
3 457	882	4 339	3 994	—	3 994	(982)	136	(846)	21 403	—	21 403
(3 295)	(1 302)	(4 597)	(2 020)	—	(2 020)	374	(295)	79	(25 458)	—	(25 458)
(81)	(23)	(104)	(107)	—	(107)	(472)	51	(421)	(1 083)	—	(1 083)
2 074	1 008	3 082	1 884	—	1 884	(449)	418	(31)	14 210	—	14 210
(560)	(273)	(833)	(511)	—	(511)	463	(132)	331	(4 026)	—	(4 026)
1 514	735	2 249	1 373	—	1 373	14	286	300	10 184	—	10 184
1 496	735	2 231	1 373	—	1 373	(269)	286	17	9 674	—	9 674
18	—	18	—	—	—	—	—	—	226	—	226
—	—	—	—	—	—	283	—	283	284	—	284
1 514	735	2 249	1 373	—	1 373	14	286	300	10 184	—	10 184
1 495	735	2 230	1 375	—	1 375	(278)	286	8	9 719	—	9 719
n/a	—	n/a	n/a	—	n/a	n/a	—	n/a	4,11	—	4,11
0,11	(0,06)	0,05	n/a	—	1,80	n/a	—	n/a	1,01	—	1,01
62,6	(7,1)	55,5	99,5	—	99,5	n/a	—	n/a	46,7	—	46,7
0	42	42	11	—	11	n/a	—	n/a	7	—	7
(9)	(43)	(52)	(12)	—	(12)	n/a	—	n/a	(6)	—	(6)
59,7	(0,9)	58,8	50,3	—	50,3	n/a	—	n/a	55,5	—	55,5
0,9	0,1	1,0	8,5	—	8,5	n/a	—	n/a	3,5	—	3,5
62 079	29 810	91 889	137	—	137	304	—	304	503 503	1 422	504 925
7 181	—	7 181	17 567	—	17 567	(5 213)	—	(5 213)	21 182	—	21 182
300 537	67 233	367 770	7 939	—	7 939	(279 573)	(3 466)	(283 039)	262 034	(1 422)	260 612
369 797	97 043	466 840	25 643	—	25 643	(284 482)	(3 466)	(287 948)	786 719	—	786 719
139 249	94 453	233 702	—	—	—	348	(664)	(316)	440 960	—	440 960
107 795	—	107 795	—	—	—	18 211	—	18 211	130 262	—	130 262
118 824	1 811	120 635	21 044	—	21 044	(355 442)	(3 031)	(358 473)	147 092	—	147 092
365 868	96 264	462 132	21 044	—	21 044	(336 883)	(3 695)	(340 578)	718 314	—	718 314
16,5	3,2	19,7	72,8	—	72,8	n/a	—	n/a	23,0	—	23,0
1,62	0,18	1,80	n/a	—	n/a	n/a	—	n/a	2,35	—	2,35
0,42	0,06	0,48	5,78	—	5,78	n/a	—	n/a	1,32	—	1,32

Appendices

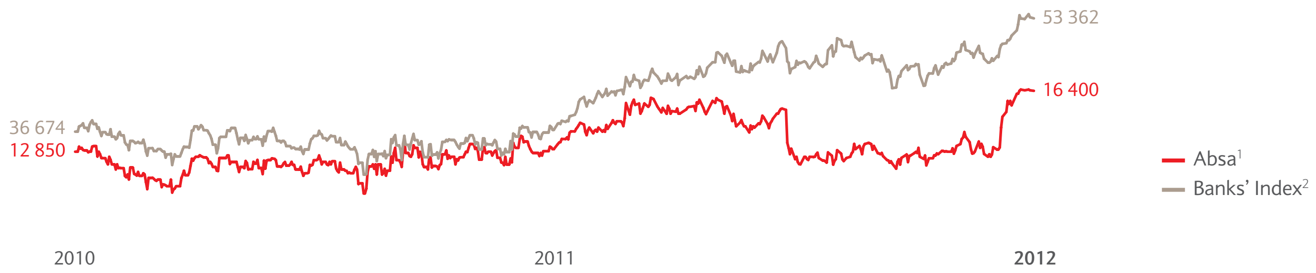
Absa Bank's performance and administrative information

Contents

Share performance

31 December

Share performance (cents)



Share performance on the JSE Limited	2012	2011	Change %
Number of shares in issue[4]	**718 210 043**	718 210 043	—
Market prices (cents per share):			
closing	**16 400**	14 100	16
high	**16 620**	14 682	13
low	**13 220**	12 319	7
average	**14 732**	13 559	9
Closing price/NAV per share (excluding preference shares) (%)	**1,76**	1,62	
Price-to-earnings (P/E) ratio (closing price/headline earnings per share) (%)	**6,7**	10,4	
Volume of shares traded (million)	**438,0**	317,0	38
Value of shares traded (Rm)	**64 345,3**	42 837,8	50
Market capitalisation (Rm)	**117 786,4**	101 267,6	16

Notes

[1]Absa's annual total return for the reporting period was **21,3%** (2011: 4,4%).

[2]The Banks' Index outperformed Absa's share price by **18,45%** during the reporting period (2011: 2,59%). Total return was used to calculate the relative performance (calculated using the dividend yield for the reporting period).

[3]JSE: Johannesburg Stock Exchange.

[4]Includes **547 750** (2011: 1 195 822) treasury shares held by Group entities.

Shareholder information and diary

as at 31 December

	2012 %	2011 %
Major ordinary shareholders (top 10)		
Barclays Bank Plc	**55,5**	55,5
Public Investment Corporation	**7,3**	6,6
Sanlam Investment Management	**2,9**	2,2
Dimensional Fund Advisors	**2,4**	1,6
Investec Asset Management	**2,0**	1,2
Old Mutual Asset Managers	**1,5**	3,0
STANLIB Asset Management	**1,3**	1,4
The Vanguard Group Inc	**1,2**	1,3
Prudential Portfolio Managers	**1,2**	0,5
Allan Gray Investment Council	**1,0**	0,2
Other	**23,7**	26,5
	100,0	100,0
Geographical split		
United Kingdom	**56,6**	57,1
South Africa	**28,1**	29,7
United States and Canada	**7,5**	6,3
Other countries	**7,8**	6,9
	100,0	100,0

Shareholder diary

Financial year-end	31 December 2012
Annual general meeting[1]	2 May 2013
Announcement of the final results	12 February 2013
Announcement of the interim results[1]	31 July 2013

Dividend	Declaration date	Last day to trade	Ex dividend date	Record date	Payment date
Final – December 2012	12 February 2013	27 March 2013	28 March 2013	5 April 2013	8 April 2013
Interim – June 2013[1]	31 July 2013	6 September 2013	9 September 2013	13 September 2013	16 September 2013

Note

[1]Subject to change.

Financial reporting structure

Today, tomorrow, together

RBB[1, 2]

Retail Markets[2]

- Retail Banking
  - Home Loans (including Repossessed Properties)
  - Vehicle and Asset Finance (VAF)
  - Card[7]
  - Personal Loans
  - Retail Bank (including Absa Private Bank)

Business Markets[4]

- Absa Business Bank
  - Commercial Asset Finance (CAF)
  - Commercial Property Finance (CPF)
  - Debt products
    - Absa Technology Finance Solutions
    - Absa Vehicle Management Solutions
- Investment products
- Commercial business
- Equities
- Enterprise business

International operations

- Absa Bank London[5]

CIBW[4, 6]

- Investment Bank
  - Markets
  - Investment Banking
  - Private Equity and Infrastructure Investments
  - Other
- Corporate
- Wealth

International operations

- Absa Bank London[5]

Other Bank activities

- Corporate Real Estate Services (CRES)
- Enterprise Core Services[2, 6, 7]
  - Corporate Centre
- Capital and funding centres

International operations

- Absa Bank London[5]

Notes

[1]As part of the One Absa strategy, the segments of Retail Markets (previously known as Retail Banking) and Business Markets (previously known as Absa Corporate and Business Bank), were merged into the RBB segment.

[2]Absa Cash Solutions Group Processing Centre and Integrated Processing Services were moved from the Corporate Centre to RBB.

[3]Includes Edcon portfolio.

[4]The Group's corporate customers and products were transferred from Business Markets to CIBW following an initiative to optimise product delivery to its corporate customers.

[5]Absa Bank London's results have been allocated to the various segments where those businesses are managed.

[6]Support Services were renamed to Enterprise Core Services, which consists of a significant division namely the Corporate Centre.

[7]Foreign Exchange Operations and Group Payments were moved from the Corporate Centre to CIBW.

Absa Bank Limited and its subsidiaries

31 December

Consolidated salient features

	2012	2011[1]	Change %
Statement of comprehensive income (Rm)			
Headline earnings[2]	**7 425**	7 957	(7)
Profit attributable to the ordinary equity holder	**7 272**	7 901	(8)
Statement of financial position			
Total assets (Rm)	**764 491**	742 436	3
Loans and advances to customers (Rm)	**511 179**	488 332	5
Deposits due to customers (Rm)	**467 318**	431 762	8
Loans-to-deposits ratio (%)	**89,1**	87,2	
Off-statement of financial position (Rm)			
Assets under management and administration	**27 158**	22 741	19
Financial performance (%)			
Return on average equity	**13,6**	15,8	
Return on average assets[3]	**0,97**	1,13	
Return on average risk-weighted assets[3]	**1,72**	2,07	
Operating performance (%)			
Net interest margin on average interest-bearing assets[3]	**3,62**	3,80	
Impairment losses on loans and advances as % of average loans and advances to customers[3]	**1,57**	1,00	
Non-performing loans as % of loans and advances to customers[3]	**5,7**	6,9	
Non-interest income as % of total operating income	**44,8**	42,8	
Cost-to-income ratio	**52,9**	55,6	
Effective tax rate, excluding indirect taxation	**26,1**	27,7	
Share statistics (million) ***(includes "A" ordinary shares)***			
Number of ordinary shares in issue	**378,8**	374,1	
Weighted average number of ordinary shares in issue	**375,3**	374,1	
Diluted weighted average number of ordinary shares in issue	**375,3**	374,1	
Share statistics (cents)			
Headline earnings per share	**1 978,4**	2 127,0	(7)
Diluted headline earnings per share	**1 978,4**	2 127,0	(7)
Basic earnings per share	**1 937,6**	2 112,0	(8)
Diluted earnings per share	**1 937,6**	2 112,0	(8)
Dividends per ordinary share relating to income for the reporting period	**1 568,3**	1 034,4	52
Dividend cover (times)	**1,3**	2,1	
Net asset value per share	**14 845**	14 058	6
Tangible net asset value per share	**14 539**	13 871	5
Capital adequacy (%)[3, 4]			
Absa Bank	**17,5**	16,2	

Notes

[1]Comparatives have been reclassified. Refer to pages 121 to 123.

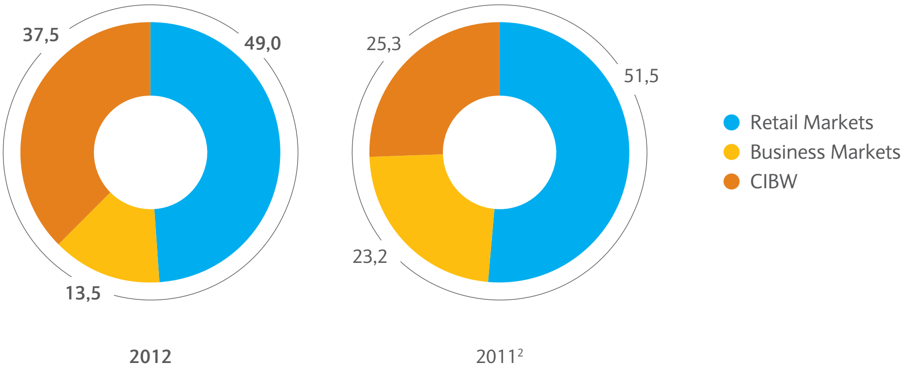
[2]After allowing for **R295 million** (2011: R284 million) profit attributable to preference equity holders of Absa Bank Limited.

[3]These ratios are unaudited.

[4]Refer to pages 93 to 118 for the risk management section.

Profit contribution by segment

Headline earnings (%)[1]



	2012 (Audited) Rm	2011[2] (Audited) Rm	Change %
Banking operations			
RBB	**4 318**	5 947	(27)
Retail Markets	**3 386**	4 096	(17)
Home Loans	**(1 078)**	448	>(100)
Vehicle and Asset Finance	**788**	403	96
Card	**1 933**	1 646	17
Personal Loans	**587**	720	(18)
Retail Bank	**1 156**	879	32
Business Markets	**932**	1 851	(50)
CIBW	**2 587**	2 014	28
Corporate Centre	**447**	(49)	>100
Capital and funding centres	**368**	329	12
Preference equity holders	**(295)**	(284)	(4)
Headline earnings	**7 425**	7 957	(7)

Notes

[1]Calculated after the allocation of Corporate Centre, Capital and funding centres as well as profit attributable to preference equity holders of Absa Bank Limited.

[2]Comparatives have been reclassified. Refer to pages 121 to 123.

Glossary

Approaches (FIRB, AIRB, AMA and IMA)

Methods available to banks to calculate their regulatory capital requirements based on their own risk estimates. These include the Foundation Internal Ratings-based (FIRB) and Advanced Internal Ratings-based (AIRB) approaches for credit risk, the Advanced Measurement Approach (AMA) for operational risk, and the Internal Models Approach (IMA) for market risk.

Balance sheet

The term balance sheet is used in the same context as the statement of financial position.

Bank

Absa Bank Limited, together with its subsidiary undertakings, special purpose entities, joint ventures, associates and offshore holdings. It is also referred to as 'the Bank' or 'Absa Bank' in this report.

Banks Act

This means the Banks Act, No 94 of 1990 and its regulations.

Barclays

Barclays Group PLC, registered in England under registration number 1026167, and the majority shareholder of Absa Group Limited.

Basel (II, II.5 and III)

The Basel Capital Accord of the Bank for International Settlements is an improved capital adequacy framework aimed at closely aligning banks' capital requirements with improved modern risk management practices and sophisticated risk assessment capabilities. It further ensures the risk sensitivity of the minimum capital requirements by including supervisory reviews and market discipline through enhanced disclosure.

Borrowed funds

Borrowed funds represents subordinated callable notes qualifying as long-term Tier 2 capital issued by Absa Bank Limited in terms of section 1 of the Banks Act, No 94 of 1990. The subordinated callable notes are listed on the Bond Exchange of South Africa. Borrowed funds include preferences shares classified as debt in terms of IAS 32.

Capital adequacy ratio

The capital adequacy of South African banks is measured in terms of SARB requirements. The ratio is calculated by dividing the primary (Tier 1), secondary (Tier 2) and tertiary (Tier 3) capital by the risk-weighted assets. The minimum South African total capital adequacy ratio for banks is 9,50% of risk-weighted assets. Non-South African banks within the Group have similar capital adequacy methodology requirements.

Companies Act

This means the Companies Act, No 71 of 2008 (as amended) and its regulations.

Cost efficiency ratio

Operating expenses as a percentage of income from operations. Income consists of net interest income and non-interest income net of reinsurance, unearned premiums, net insurance claims and benefits paid, changes in investment and insurance contract liabilities and acquisition costs.

Cost-to-assets ratio

Operating expenses for the reporting period divided by total average assets (calculated on a daily weighted average basis), expressed as a percentage of total average assets.

Glossary

Cost-to-income ratio

Operating expenses as a percentage of income from operations. Income consists of net interest income and non-interest income.

Debt securities in issue

Comprised primarily of short- to medium-term instruments issued by the Group and includes promissory notes, bonds and negotiable certificates of deposits.

Dividend cover

Headline earnings per share divided by dividends per share.

Dividends per ordinary share relating to income for the reporting period

Dividends per ordinary share for the reporting period is the actual interim dividends paid and the final dividends declared for the reporting period under consideration, expressed as cents per share.

Earnings per share

Profit attributable to ordinary equity holders

This constitutes the net profit for the reporting period less earnings attributable to non-controlling interest divided by the weighted average number of ordinary shares in issue during the reporting period.

Headline earnings basis

Headline earnings for the reporting period divided by the weighted average number of ordinary shares in issue during the reporting period.

Fully diluted basis

The amount of profit for the reporting period that is attributable to ordinary equity holders divided by the weighted average number of ordinary shares in issue during the reporting period, both adjusted for the effects of all potential dilutive ordinary shares, assuming they had been in issue for the reporting period.

Economic capital

An internally calculated capital requirement deemed necessary by Absa to support the risks to which it is exposed, at a confidence level consistent with a target credit rating of AA. Also used in the return of average economic capital.

Economic profit

The difference between the return on financial capital invested by shareholders (return on invested capital) and the cost of that capital.

Embedded value

The embedded value of the covered business is the discounted value of the future after tax shareholder profits (net of the opportunity cost of the required capital) arising from covered business in force at the valuation date, together with the adjusted net worth of the covered business. Covered business is taken to be all long-term insurance business written under the Company's licence.

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.

Glossary

Gains and losses from banking and trading activities

Comprises banking and trading portfolios and includes:

- realised gains and losses on financial instruments held at amortised cost, held-to-maturity or available-for-sale;
- realised gains and losses on the disposal of associates, joint ventures and subsidiaries within the banking portfolios;
- realised and unrealised gains and losses on financial instruments designated at fair value through profit or loss; and
- interest, dividends and fair value movements on certain financial instruments held for trading or designated at fair value through profit or loss.

Gains and losses from investment activities

Comprises insurance and strategic investment portfolios and includes:

- realised gains and losses on financial instruments held at amortised cost, held-to-maturity or available-for-sale;
- realised gains and losses on the disposal of associates, joint ventures and subsidiaries;
- realised and unrealised gains and losses on financial instruments designated at fair value through profit or loss; and
- interest, dividends and fair value movements on certain financial instruments held for trading or designated at fair value through profit or loss.

Group

Absa Group Limited, together with its subsidiary undertakings, special purpose entities, joint ventures, associates and offshore holdings. It is also referred to as 'the Group' or 'Absa Group' in this report.

Headline earnings

Headline earnings reflects the operating performance of the Group separated from remeasurements (an amount recognised in the statement of comprehensive income relating to any change (realised or unrealised) in the carrying amount of an asset/liability that arose after the initial recognition of such asset or liability) as well as non-controlling interest of preference shares or ordinary shares, where relevant.

Impairment losses on loans and advances as percentage of average loans and advances to customers (credit loss ratio/impairment losses ratio)

Loans and advances are impaired when there is objective evidence that the Group will not be able to collect all amounts due. The impairment is the difference between the carrying and recoverable amount. The estimated recoverable amount is the present value of expected future cash flows that may result from restructuring, liquidation or collateral held. Impairment losses on loans and advances for the reporting period divided by total average advances (calculated on a daily weighted average basis).

Insurance risk

A risk, other than financial risk, transferred from the holder of a contract to the insurance provider. The principal insurance risk is that, over time, the combined cost of claims, administration and acquisition of the contract may exceed the aggregate amount of premiums received and investment income.

Income statement

The term income statement is used in the same context as the statement of comprehensive income.

JAWS ratio

A measure used to demonstrate the extent to which a trading entity's income growth rate exceeds its expenses growth rate.

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, the consequences of which may be the failure to meet obligations to repay depositors and to fulfil commitments to lend.

Loans-to-deposits ratio

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

Market capitalisation

The Group's closing share price times the number of shares in issue at the reporting date.

Market risk

The risk that movements in market risk factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices will reduce income or portfolio values.

Merchant income

Income generated from the provision of point-of-sale facilities to our merchant network customers. This income would include both rental income for the supply of point-of-sale units as well as transactional income for the transactions processed on the supplied terminals.

Net asset value per share

Total equity attributable to ordinary equity holders divided by the number of shares in issue. The net asset value per share figure excludes the non-cumulative, non-redeemable preference shares issued.

Net interest income

The amount of interest received or receivable on assets net of interest paid or payable on liabilities.

Net interest margin on average interest-bearing assets

Net interest income for the period divided by average interest-bearing assets (calculated on a daily weighted average basis), expressed as a percentage of average interest-bearing assets. Average interest-bearing assets consist of all accounts attracting interest within the asset categories of cash, cash balances and balances with central banks, statutory liquid asset portfolio, loans and advances to banks and customers and investment securities (it includes cash and short-term assets, money market assets and capital market assets).

Net trading result

Net trading result includes the profits and losses on CIBW's trading desks arising from both the purchase and sale of trading instruments and the revaluation to market value, as well as CIBW's hedge ineffectiveness. This includes the interest income and interest expense from these instruments and related funding cost. This also includes similar activities from the African operations.

Non-current assets held for sale

Assets held for sale are those non-current assets where it is highly probable that the carrying amount will be received principally through a sale transaction within 12 months from the date of the classification. For a sale to be considered highly probable board approval is required for the plan to sell the assets and an active programme to locate a buyer and complete the plan must have been initiated.

Assets held for sale are valued at the lower of its carrying amount and fair value less cost to sell.

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.

Non-performing loans

A loan is typically considered non-performing once its delinquency reaches a trigger point. This is typically when interest is suspended (in accordance with Group policy) or if the loan is moved to the legal environment for recovery. As a consequence, a loan that has defaulted is not necessarily non-performing (unless certain criteria are met).

Non-performing loans coverage ratio

Net exposure, being the outstanding non-performing loan balance less expected recoveries and fair value of collateral, as a percentage of total outstanding non-performing loan balance.

Non-performing loans ratio

Non-performing loans as a percentage of gross loans and advances to customers.

Non-interest income as percentage of total operating income

Non-interest income as a percentage of income from operations. Income consists of net interest income and non-interest income.

Operational risk

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including financial crime; financial reporting; tax risk; legal risk; operations risk; people risk; regulatory risk; technology risk; major change programme risk; corporate responsibility risk; and brand risk.

Price-to-earnings (P/E) ratio

The closing price of ordinary shares divided by headline earnings per ordinary share for the reporting period.

Probability of default

The probability that a debtor will default within a one-year time horizon.

Regulatory capital

The capital that the Group holds, determined in accordance with the requirements of the Banks Act and regulations relating to banks.

Risk-weighted assets

Calculated by assigning a degree of risk, expressed as a percentage (risk weight) to an exposure, in accordance with the applicable standardised or IRB approach rules. Risk-weighted assets are determined by applying the following:

- 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.

Glossary

Special purpose entity (SPE)

A corporation, trust or other non-bank entity, established for a narrowly defined purpose, including for carrying on securitisation activities. The structure of the entity and its activities are intended to isolate the obligations of the SPE from those of the originator and the holders of the beneficial interests in the securitisation.

Primary (Tier 1) capital

A component of regulatory capital, comprising core Tier 1 capital and other Tier 1 capital. Other Tier 1 capital includes qualifying hybrid capital instruments such as non-cumulative perpetual preference shares and innovative Tier 1 securities.

Secondary (Tier 2) capital

A component of regulatory capital, comprising qualifying subordinated loan capital, related minority interests, allowable collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale. Tier 2 capital also includes reserves arising from the revaluation of properties.

Tertiary (Tier 3) capital

Tertiary capital comprises prescribed unsecured subordinated debt with a minimum original maturity of two years.

Value at risk

A technique that measures the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence.

Value of new business

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 Company during the reporting period 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.

Weighted average number of shares

The number of shares in issue at the beginning of the reporting period increased by shares issued during the reporting period, weighted on a time basis for the period during which they participated in the income of the Group, less treasury shares held by entities in the Group, weighted on a time basis for the period during which the entities held these shares.

These definitions should be read in conjunction with the Group's accounting policies as set out in the annual financial statements, which also clarify certain terms used.

Acronyms

List of abbreviations

A	
ACRC	Absa Concentration Risk Committee
AGCC	Absa Group Credit Committee
AIRB	Advanced Internal Ratings Based
AllPay	AllPay Consolidated Investment Holdings
AMA	Advanced Management Approach
ATC	Africa Treasury Committee
ATFS	Absa Technology Finance Solutions
AUM	Assets under management
AVMS	Absa Vehicle Management Solutions

B	
Banks Act	Banks Act, No 94 of 1990
BASA	Banking Association of South Africa
Basel	Basel Capital Accord
BBM	Barclays Bank Mozambique S.A.
BCBS	Basel Committee on Banking Supervision
BFC	Board Finance Committee
bps	basis points

C	
CAF	Commercial Asset Finance
CAGR	compound annual growth rate
CAPM	capital asset pricing model
CIBW	Corporate, Investment Banking and Wealth
CLF	committed liquidity facility
CoE	cost of equity
CPF	Commercial Property Finance
CRC	Control Review Committee
CRES	Corporate Real Estate Services
CRO	Chief Risk Officer

D	
DPS	dividends per share
DVaR	daily value at risk

E	
EC	economic capital
EV	embedded value
EWL	early warning list
Exco	Executive Committee

F	
FIRB	Foundation Internal Ratings Approach
FSB	Financial Services Board

G	
GACC	Group Audit and Compliance Committee
GCE	Group Chief Executive
GIC	Group Investment Committee
GIOC	Group Integration Oversight Committee
GRCMC	Group Risk and Capital Management Committee

H	
HEPS	Headline earnings per share
HOC	Homeowners' Comprehensive Insurance

Acronyms

I

IAS	International Accounting Standard
IAS 16	Property, Plant and Equipment
IAS 28	Investments in Associates
IAS 31	Interests IAS 10 IAS 10 in Joint Ventures
IAS 32	Financial Instruments: Presentation
IAS 34	Interim Financial Reporting
IAS 36	Impairment of Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property
ICAAP	Internal capital adequacy assessment process
IFRS	International Financial Reporting Standards
IFRS 3	Business Combinations
IFRS 8	Operating Segments
IMA	Internal Models Approach
Insurance	Short-term insurance
IRB	Internal Ratings-Based Approach
IT	Information technology
ITSC	Information Technology Steering Committee

J

JIBAR	Johannesburg Interbank Agreed Rate

K

KRO	Key Risk Owner

L

LCR	liquidity coverage ratio
LGD	loss given default

N

NAV	net asset value
NBC	National Bank of Commerce Limited
NPLs	non-performing loans
NSFR	net stable funding ratio

O

ORC	Operational Risk Committee

Q

QIS	Basel Committee on Banking Supervisions Quantitative Impact Study

P

PD	probability of default
P/E	price-to-earnings
PRO	Principal Risk Owner
PRP	principal risks policy

R

RBB	Retail and Business Banking
RC	regulatory capital
RCRC	Retail Credit Risk Committee
RoA	return on average assets
RoE	return on average equity
RoEC	return on average economic capital
RoRWA	return on average risk-weighted assets
RWA	risk-weighted assets

S

SA	Standardised Approach
SAM	South African insurance companies
SARB	South African Reserve Bank
SPEs	special purpose entities

Administration and contact details

Absa Group Limited

Authorised financial services and registered credit provider (NCRCP7)
Registration number: 1986/003934/06
Incorporated in the Republic of South Africa
JSE share code: ASA
Issuer code: AMAGB
ISIN: ZAE000067237

Registered office

7th Floor, Absa Towers West
15 Troye Street, Johannesburg, 2001
PO Box 7735, Johannesburg, 2000
Telephone: (+27 11) 350 4000
Email: groupsec@absa.co.za

Board of directors

Group independent non-executive directors

C Beggs, Y Z Cuba, S A Fakie, G Griffin (Group Chairman), M J Husain, P B Matlare, T M Mokgosi-Mwantembe, T S Munday, S G Pretorius, B J Willemse, E C Mondlane Jr[1]

Group non-executive directors

A P Jenkins[2], R Le Blanc[2], I R Ritossa[3, 4], L L von Zeuner[5]

Group executive directors

D W P Hodnett (Group Financial Director), M Ramos (Group Chief Executive)

Transfer secretary

South Africa

Computershare Investor Services Proprietary Limited
70 Marshall Street, Johannesburg, 2001
PO Box 61051, Marshalltown, 2107
Telephone: (+27 11) 370 5000
Telefax: (+27 11) 370 5271/2

ADR depositary

BNY Mellon
101 Barclay Street, 22W, New York, NY, 10286
Telephone: +1 212 815 2248

Auditors

PricewaterhouseCoopers Inc.
Ernst & Young Inc.

Sponsors

Lead independent sponsor

J. P. Morgan Equities South Africa Proprietary Limited
No 1 Fricker Road, Cnr. Hurlingham Road,
Illovo, Johannesburg, 2196
Private Bag X9936, Sandton, 2146
Telephone: (+27 11) 507 0300
Telefax: (+27 11) 507 0503

Joint sponsor

Absa Corporate and Investment Banking,
a division of Absa Bank Limited
15 Alice Lane, Sandton, 2196
Private Bag X10056, Sandton, 2146
Telephone: (+27 11) 506 7951/
(+27 11) 895 6821
Telefax: (+27 11) 895 7809

Shareholder contact information

Shareholder and investment queries about the Absa Group should be directed to the following areas:

Group Investor Relations

A M Hartdegen (Head Investor Relations)
Telephone: (+27 11) 350 2598
Email: investorrelations@absa.co.za

Company Secretary

N R Drutman
Telephone: (+27 11) 350 5347
Email: groupsec@absa.co.za

Other contacts

Group Media Relations

M Pirikisi (General Manager: Media Relations)
Telephone: (+27 11) 350 4787
Email: maxwellp@absa.co.za

Head office switchboard

Telephone: (+27 11) 350 4000

Group Finance

R Stromsoe (Head: Group Finance)
Telephone: (+27 11) 895 6365

Website address

www.absa.co.za

Notes
[1]Mozambican
[2]British
[3]Australian
[4]Resigned 31 December 2012
[5]Became a non-executive, effective 1 January 2013