ABSA

Interim financial results

for the reporting period ended 30 June 2013

Member of
BARCLAYS

Contents

The term Absa or Group refers to Absa Group Limited together with its subsidiaries.

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Group performance

Absa Group Limited (1986/003934/06)
Interim financial results for the reporting period ended 30 June 2013.

These unaudited interim financial results were prepared by Absa Group Financial Reporting under the direction and supervision of the Group Financial Director, D W P Hodnett CA(SA).

Date of publication: 30 July 2013

Contents

> "While the operating environment remains tough and revenue growth is still challenging, our cost containment remains on track and credit quality has improved. We have completed the Barclays Africa deal, providing access to markets with robust growth and positioning us to seize opportunities in Africa. We remain on course to build momentum by investing in revenue growth."
>
> **Maria Ramos,** *Group Chief Executive*

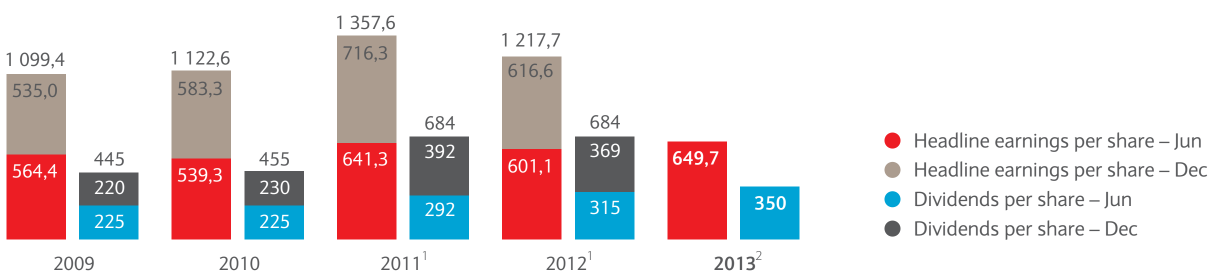
Favourable

- Pre-provision profit increased by **3%** to **R10,8 billion.**
- Interim dividend of **350 cents** per share, up **11%** compared to the previous reporting period.
- A special dividend of **708 cents** per share has also been declared in the current reporting period.
- Headline earnings per share (HEPS) increased by **8%** to **649,7 cents** (30 June 2012: 601,1 cents).
- Impairment losses on loans and advances decreased by **14%** to **R3,5 billion**, resulting in a **1,35%** impairment losses ratio (30 June 2012: 1,62%).
- Loans and advances to customers increased by **7%** to **R539 billion** (30 June 2012: R506 billion).
- Return on average equity (RoE) increased to **14,0%** (30 June 2012: 13,7%) above cost of equity (CoE) of **13,0%** (30 June 2012: 13,5%).
- Net asset value (NAV) per share increased by **6%** to **9 431 cents** (30 June 2012: 8 926 cents).
- Return on average assets (RoA) increased to **1,15%** (30 June 2012: 1,10%).
- Strong Common Equity Tier 1 capital adequacy ratio of **12,5%** (30 June 2012: 13,0%), well above regulatory requirements and our Board targets.
- Return on average risk-weighted assets (RoRWA) increased to 2,10% (30 June 2012: 2,07%).

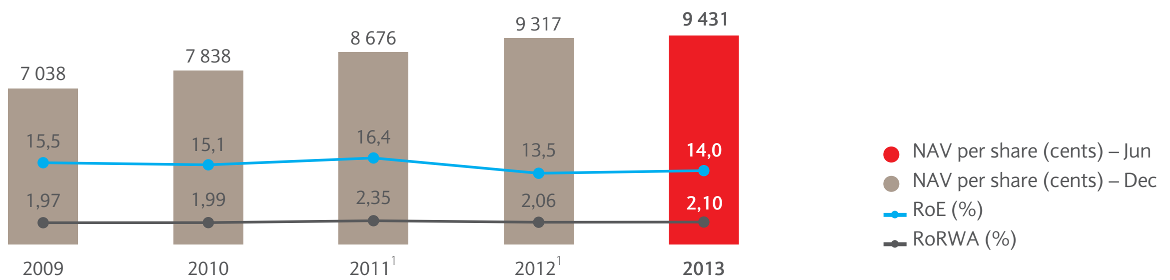
Unfavourable

- Moderate revenue growth of **3%** to **R23,8 billion.**
- Cost-to-income ratio marginally deteriorated to **54,9%** (30 June 2012: 54,7%).

Headline earnings per share and dividends per share (cents)



NAV per share[3], RoE and RoRWA(cents and %)



Notes

[1]Refer to pages 121 to 140 for reporting changes.

[2]The Group announced a special dividend per ordinary share of 708 cents per share that is not included in the above graph.

[3]The five-year compound annual growth rate is calculated at **10%** (30 June 2012: 12%; 31 December 2012: 11%).

Group performance overview

Executing our One Africa strategy

> As part of the Barclays Group, our One Africa strategy positions us well to become the 'Go-To' bank. Our values and the way we do business are pivotal to achieving this goal. We combine our global product knowledge with regional expertise and have an extensive, well-established local presence.

Our focus in Africa

We are uniquely positioned as a fully global and fully local bank to deliver a superior customer and client experience in Africa. We combine our global product knowledge with regional expertise and our extensive and well-established local presence in Africa to serve our customers and clients.

We will differentiate ourselves as the 'Go-To' bank in Africa through relentless focus on customer and client service and targeted innovation to grow sustainably.

Core to our sustainability is to be a force for good in the communities we serve and the people's lives we touch.

Becoming the 'Go-To' bank in Africa will be realised through the execution of our strategic themes:

- ➜ Sustainable growth
- ➜ Build-out the platform
- ➜ Customer and client at the core
- ➜ People centricity
- ➜ Control and compliance

Financial metrics

Headline earnings	↑	R4 663 million
Return on average equity	↑	14,0%
Return on average risk-weighted assets	↑	2,10%
Risk-weighted assets (RWAs)	↑	R457 billion
Total capital adequacy ratio	↓	16,6%
Common Equity Tier 1 capital adequacy ratio[1]	↓	12,5%
Impairment losses ratio	↓	1,35%
Cost-to-income ratio	↑	54,9%

Non-financial metrics

Staffed outlets[2]	↓	962
ATMs[2]	↑	9 997
Banking customers[3]	↓	12%
Internet banking users	↑	1 203
Cellphone banking customers	↑	4 483
Complaints as a % of SA customers	↓	1,23%
Customer satisfaction index	→	44
Employee turnover	↓	5,42%
Core network availability	↑	100%
Severity 1 incidents[4]	↓	0

Notes

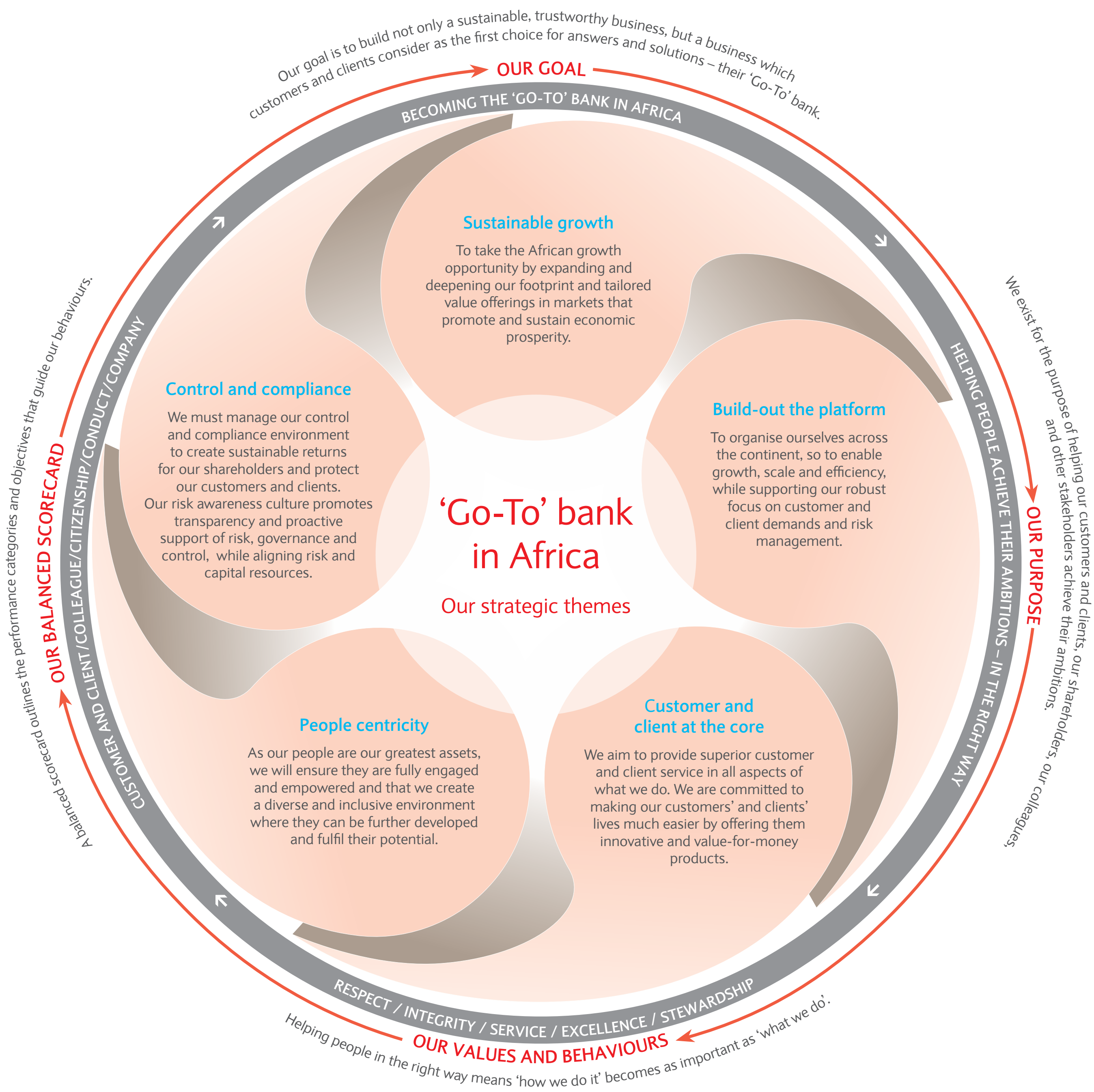
[1]This ratio has been impacted by the implementation of Basel III. Refer to pages 103 to 118 for the risk management section.

[2]Includes Absa African operations.

[3]Excludes Absa African operations, the Edcon portfolio and Woolworths Financial Services.

[4]Defined as when a production server or other critical system(s) are down and no work-around is immediately available.

Group performance overview



Being the 'Go-To' bank in Africa sets a new bar for what we do for our customers and clients, how we do it and how we are perceived in the market. We have values that embody our new goal and purpose and we will bring these values to life every day in the way we behave.

Our values and behaviours are:

- Respect – We respect and value those we work with, and the contribution that they make.
- Integrity – We act fairly, ethically and openly in all we do.
- Service – We put our clients and customers at the centre of what we do.
- Excellence – We use our energy, skills and resources to deliver the best, sustainable results.
- Stewardship – We are passionate about leaving things better than we found them.

Consolidated salient features

	30 June 2013	30 June 2012[1]	Change %	31 December 2012[1]
Statement of comprehensive income (Rm)				
Headline earnings[2]	**4 663**	4 313	8	8 738
Profit attributable to ordinary equity holders	**4 701**	4 170	13	8 324
Statement of financial position				
Total assets (Rm)	**841 333**	812 647	4	812 586
Loans and advances to customers (Rm)	**539 343**	505 730	7	527 328
Deposits due to customers (Rm)	**490 394**	458 344	7	477 853
Loans-to-deposits ratio (%)	**90,4**	86,9		90,2
Financial performance (%)				
RoE	**14,0**	13,7		13,5
RoA	**1,15**	1,10		1,08
RoRWA	**2,10**	2,07		2,06
Operating performance (%)				
Net interest margin on average interest-bearing assets	**3,91**	3,88		3,79
Impairment losses on loans and advances as % of average loans and advances to customers	**1,35**	1,62		1,63
Non-performing loans as % of gross loans and advances to customers	**5,4**	6,4		5,8
Non-interest income as % of total operating income	**47,6**	48,7		48,9
Cost-to-income ratio	**54,9**	54,7		55,1
Effective tax rate, excluding indirect taxation	**27,4**	29,0		27,9
Share statistics (million)				
Number of ordinary shares in issue	**718,2**	718,2		718,2
Number of ordinary shares in issue (excluding treasury shares)	**717,7**	717,2		717,7
Weighted average number of ordinary shares in issue	**717,7**	717,5		717,6
Diluted weighted average number of ordinary shares in issue	**718,5**	719,3		719,2
Share statistics (cents)				
Headline earnings per share	**649,7**	601,1	8	1 217,7
Diluted headline earnings per share	**649,0**	599,6	8	1 215,0
Basic earnings per share	**655,0**	581,2	13	1 160,0
Diluted earnings per share	**654,3**	579,7	13	1 157,4
Dividends per ordinary share relating to income for the reporting period	**350**	315	11	684
Dividend cover (times)	**1,9**	1,9		1,8
Special dividend per ordinary share	**708**	—	100	—
Net asset value per share	**9 431**	8 934	6	9 317
Tangible net asset value per share	**9 072**	8 639	5	8 960
Capital adequacy (%)[3]				
Absa Group	**16,6**	16,9		17,4
Absa Bank	**16,8**	16,6		17,5

Notes

[1]Refer to pages 121 to 140 for reporting changes.

[2]After allowing for **R146 million** (30 June 2012: R140 million; 31 December 2012: R295 million) profit attributable to preference equity holders of Absa Bank Limited.

[3]Refer to pages 103 to 118 for the risk management section.

Consolidated salient features by segment

	30 June 2013	30 June 2012[1]	Change %	31 December 2012[1]
Headline earnings (Rm)				
Retail and Business Banking (RBB)	**2 901**	1 954	48	4 392
Retail Banking	**2 119**	1 447	46	3 472
Business Banking	**782**	507	54	920
Corporate, Investment Bank and Wealth (CIBW)	**1 206**	1 301	(7)	2 710
Corporate	**463**	422	10	828
Investment Bank	**723**	840	(14)	1 801
Wealth	**20**	39	(49)	81
Financial Services	**671**	641	5	1 265
Life Insurance	**366**	349	5	676
Investments	**211**	155	36	334
Short-term Insurance	**82**	144	(43)	255
Fiduciary Services	**48**	35	37	76
Other	**(36)**	(42)	14	(76)
Head office, inter-segment eliminations and Other	**(115)**	417	>(100)	371
Enterprise Functions	**29**	152	(81)	443
Group Treasury	**(81)**	76	>(100)	122
Consolidation Centre	**(63)**	189	>(100)	(194)
Return on average risk-weighted assets (%)				
RBB	**2,08**	1,43		1,59
Retail Banking	**2,11**	1,62		1,89
Business Banking	**2,01**	1,08		1,01
CIBW	**1,70**	1,98		1,99
Impairment losses on loans and advances as % of average loans and advances to customers (%)				
RBB	**1,70**	1,98		2,04
Retail Banking	**1,77**	2,04		1,96
Business Banking	**1,33**	1,65		2,48
CIBW	**0,12**	0,10		0,21
Financial Services	**0,32**	5,29		12,37
Loans and advances to customers (Rm)				
RBB	**414 683**	404 963	2	411 527
Retail Banking	**350 479**	335 890	4	346 922
Business Banking	**64 204**	69 073	(7)	64 605
CIBW	**123 320**	100 351	23	115 160
Financial Services	**1 192**	185	>100	296
Head office, inter-segment eliminations and Other	**148**	231	(36)	345
Deposits due to customers (Rm)				
RBB	**213 744**	203 828	5	212 483
Retail Banking	**133 029**	127 483	4	131 739
Business Banking	**80 715**	76 345	6	80 744
CIBW	**276 770**	254 755	9	265 562
Head office, inter-segment eliminations and Other	**(120)**	(239)	50	(192)
Off-statement of financial position (Rm)				
Assets under management and administration				
Financial Services	**205 173**	176 945	16	197 682
Money market	**60 226**	58 182	4	57 824
Non-money market	**144 947**	118 763	22	139 858
CIBW	**58 654**	42 796	37	49 268

Note

[1]Refer to pages 121 to 140 for reporting changes.

Profit and dividend announcement

30 June 2013

Salient features

- Diluted headline earnings per share (diluted HEPS) increased 8% to 649,0 cents.
- Pre-provision profit increased 3% to R10,8 billion.
- Declared an 11% higher ordinary dividend per share (DPS) of 350 cents.
- Declared a special DPS of 708 cents.
- Revenue grew 3% to R23,8 billion.
- Net interest margin on average interest-bearing assets increased to 3,91% from 3,88%.
- Non-interest income increased 1% to R11,3 billion and accounted for 48% of total revenue.
- Contained operating expenses growth to 4%, increasing our cost-to-income ratio to 54,9% from 54,7%.
- Loans and advances to customers grew 7% to R539,3 billion, while deposits due to customers increased 7% to R490,4 billion.
- Credit impairments decreased 14% to R3,5 billion, resulting in a 1,35% credit loss ratio from 1,62%.
- RoE increased to 14,0% from 13,7%.
- RoRWA increased to 2,10% and RoA increased to 1,15% from 2,07% and 1,10% respectively.
- NAV per share grew 6% to 9 431 cents.
- Absa Group's Common Equity Tier 1 capital adequacy ratio was 12,5%, well above regulatory requirements and our Board targets.

Overview of results

Absa Group's headline earnings increased 8% to R4 663 million from R4 313 million, and attributable profit grew 13% to R4 701 million. Diluted HEPS also increased 8% to 649,0 cents from 599,6 cents. The Group's RoE improved to 14,0% from 13,7%, slightly above its cost of equity. An interim DPS of 350 cents, and a special DPS of 708 cents were declared after considering regulatory changes, the Group's strong capital position, strategic plans and near-term business objectives. The dividends are based on the 847,8 million shares in issue after completing the combination with the Barclays Africa operations.

Improved credit impairments, particularly in retail mortgages and commercial property finance, were the main reasons for higher earnings. However, pre-provision profit increased 3% to R10,8 billion, largely due to continued focus on operating costs while revenue growth remained modest.

RBB headline earnings increased 48%, due to lower credit impairments and continued cost containment. Financial Services' headline earnings increased 5%, while CIBW headline earnings decreased 7%, due to lower Private Equity valuations and difficult second quarter trading conditions in Markets.

Operating environment

While global growth continued to recover, growth in emerging market economies was somewhat slower than expected. Central banks provided support by cutting interest rates mostly in emerging markets and also injecting liquidity into the financial system.

South Africa's growth slowed sharply in the first quarter to 0,9% from 2,1% the previous quarter, on the back of production stoppages in the manufacturing sectors and a generally weaker economic environment. Growth in household consumption slowed further in the first half, reflecting deteriorating household balance sheets, a lacklustre job market, subdued confidence, rising inflation and moderating real wage growth. Consumers' demand for credit continued to slow during the period. The rand exchange rate weakened sharply due to domestic factors, such as industrial action and global risk aversion.

Group performance

Statement of financial position

Total Group assets increased 4% to R841 billion at 30 June 2013, largely due to 7% growth in loans and advances to customers and 11% higher statutory liquid assets. Loans and advances to banks decreased 3%.

Group performance *(continued)*

Statement of financial position *(continued)*

Loans and advances to customers

Gross loans and advances to customers increased 7% to R553,7 billion. Retail Banking's gross loans increased 4%, given 53% growth in credit cards following the Edcon transaction, 9% higher vehicle asset finance, offset by 2% lower mortgages. Gross Business Banking loans decreased 6%, due to 11% lower commercial property finance. Gross CIBW loans grew 23%, due to strong growth in foreign currency loans, reverse repurchase agreements and overnight finance.

The Group maintained its strong liquidity position, growing deposits due to customers 7% or by R32 billion to R490 billion. Its funding tenor also remained robust with an average long-term funding ratio of 28,2% for the reporting period, up from 25,6% in 2012. Deposits due to customers contributed 76,5% to total funding up from 75,4%, while the proportion of debt securities in issue dropped to 16,6% from 20,3%. Retail Banking's deposits increased 4% to R133 billion to maintain its leading market share. Business Banking's deposits grew 6%, largely due to 25% growth in investment products. CIBW's deposits increased 9%, due to 13% growth in fixed deposits, cheque account and notice deposits. The Group's loans-to-deposits ratio increased to 90,4% from 86,9%.

Net asset value

The Group's NAV increased 6% to R67,7 billion, as the Group generated retained earnings of R2,1 billion in the first half. Absa Group's NAV per share grew 6% to 9 431 cents.

Capital to risk-weighted assets

The Group's risk-weighted assets (RWAs) increased 7% to R457,5 billion from R426,5 billion as at 30 June 2012 due to 7% growth in loans and advances to customers and implementing Basel III from 1 January 2013. The Group maintained its strong capital levels, which remain above Board targets and regulatory requirements. Absa Group's Common Equity Tier 1 and Tier 1 capital adequacy ratios (including unappropriated profits) were slightly lower at 12,5% and 13,5% respectively (from 13,2% and 14,3%). The Group's total capital ratio decreased to 16,6% from 16,9%. The interim DPS of 350 cents and special dividends of 708 cents are well considered, based on the Group's strong capital position, internal capital generation, strategy and growth plans. With solid free cash flow generation, our leverage remains low at 12,2 times.

Statement of comprehensive income

Net interest income

Net interest income increased 5% to R12 503 million from R11 853 million, and average interest-bearing assets grew 5%. The net interest margin increased to 3,91% from 3,88%, largely due to the acquisition of the Edcon portfolio in November 2012. The Group's deposit margin decreased and the contributions from the hedging and endowment were lower.

Impairment losses on loan and advances

Impairments declined 14% to R3 546 million from R4 107 million, resulting in a lower credit loss ratio of 1,35% from 1,62%. Unidentified impairments and identified impairments for performing loans increased 14% to R2,7 billion, which amounts to 0,51% of performing loans from 0,46% at 31 December 2012.

Retail Banking's credit impairments decreased 11% to R3,0 billion, improving its credit loss ratio to 1,77% from 2,04%. As expected, the credit loss ratio for secured loans improved, while those of unsecured loans increased off a low base.

Home Loans credit impairments decreased 53% to R1,1 billion from R2,4 billion following last year's elevated base. Mortgages non-performing loan (NPL) coverage increased to 30,2% from 22,6%. The mortgage legal portfolio decreased 5% to R13,7 billion. Vehicle and Asset Finance's (VAF) credit loss ratio improved to 1,11% from 1,24%, reflecting reduced trade centre stock due to a focus on collections.

With consumers under pressure, Personal Loans' credit loss ratio increased to 7,17% from 6,14%. Card's charge increased substantially to R835 million from R220 million, as the Edcon portfolio with a credit loss ratio of 9,56% added R440 million. The credit impairment on the remaining Card book grew 80% to R395 million, which represents a 3,31% credit loss ratio from 2,04%.

Group performance *(continued)*

Statement of comprehensive income *(continued)*

Impairment losses on loans and advances (continued)

Business Banking's credit impairments decreased 22% to R430 million improving its credit loss ratio to 1,33% from 1,65%, largely due to lower impairments in the African operations and commercial property finance.

Total NPLs improved 9%, or by R3,1 billion to R29,6 billion since 30 June 2012. Retail Banking's NPLs fell 17% to R22,2 billion. The total NPL cover improved to 38,9% from 32,5%, with increases in mortgages and personal loans in particular. NPLs as a percent of customer loans and advances improved to 5,4% from 6,4% at 30 June 2012 and 5,8% at 31 December 2012.

Non-interest income

Non-interest income increased 1% to R11 342 million from R11 268 million. Net fee and commission income rose 3%, as flat electronic banking fees and lower cheque and savings account fees dampened 56% higher credit card fees due to acquiring the Edcon portfolio, 36% growth in insurance commission received and 18% higher investment banking fees.

Retail Banking's non-interest income was slightly lower at R5,4 billion, in part due to the loss of AllPay's social grants payment contract in 2012. Excluding AllPay, non-interest income grew 2%, with 17% growth in Home Loans and 18% in VAF. Retail Banking's net fee and commission income declined 3% to R5,1 billion, reflecting changing customer behaviour, price changes, customer attrition and AllPay's lower contribution.

Business Banking's net fee and commission income increased 5%, despite lower debit order fees and cheque payment volumes. Electronic banking fees increased 8% on 2% higher electronic payment volumes.

CIBW's non-interest income increased 2%, mainly due to a 3% increase in Markets' net trading results despite difficult trading conditions in the second quarter and lower Private Equity revaluations.

Financial Services' revenue grew 7% to R2,1 billion, driven by 8% growth in net Life Insurance premium income and 16% higher assets under management in Investments, which offset higher weather-related crop claims.

Operating expenses

Operating expenses increased 4% to R13 094 million (30 June 2012: R12 643 million). The Group's cost-to-income ratio increased marginally to 54,9% from 54,7%.

Staff costs grew 4% to R6,8 billion, reflecting 3% higher salary costs and 38% growth in staff training costs, together with a continued focus on operational efficiencies. Non-staff expenses grew 3%, due to 37% higher marketing costs and a 26% rise in other operating expenses. The former reflects the renewal of certain sponsorship rights and timing of marketing costs and are expected to be similar to 2012 levels. The Group is making progress in optimising property costs, which fell 10% to R578 million. Telephone and postage costs also declined 10% to R392 million and cash transportation costs decreased 11% to R336 million. The change in fair value charge for investment properties decreased from R154 million to R5 million, with an additional fair value gain recognised in other operating income.

Total information technology-related spend was flat at R2,6 billion and accounted for 20% of the Group's costs. Amortisation of intangible assets increased 32% to R174 million, reflecting prior period spend on our digital and mobile platforms. Our professional fees more than doubled to R578 million, due to project delivery including our branch transformation, increased regulatory requirements and costs of R49 million relating to the Barclays Africa transaction.

Retail Banking's operating expenses increased 7%, or 4% excluding the Edcon portfolio. Business Banking's costs fell 8% due to large declines in its Equities and rest of Africa expenses. Excluding these, Business Banking's costs declined 2%. CIBW's operating expenses increased 3% while continuing to invest in key growth areas. Financial Services' operating expenses grew 9% due to its expansion into the rest of Africa and amortisation on new operating systems.

Group performance *(continued)*

Statement of comprehensive income *(continued)*

Taxation

The taxation expense increased 6% to R1 862 million, although our effective tax rate decreased to 27,4% from 29,0%. The lower effective rate was mainly due to the withdrawal of secondary tax on companies.

Segment performance

Retail Banking

Headline earnings increased 46% to R2 119 million from R1 447 million, largely due to lower credit impairments as Home Loans' 53% lower charge outweighed the inclusion of the Edcon portfolio and higher impairments in unsecured lending. Revenue grew 7%, however, this increased only 96%, excluding the Edcon portfolio, due to the loss of the AllPay contract, pressure on transaction volumes and muted growth in loans and advances to customers. Retail Banking's cost-to-income ratio improved to 53,2% from 53,4% in spite of continued investment spend and low revenue growth.

Home Loans' lower operating expenses and credit impairments saw it return to profitability, while VAF's 10% revenue growth and lower costs generated 39% headline earnings growth. Despite higher credit impairments, Card's earnings increased 10% after including the Edcon portfolio. Personal Loans' earnings fell 42%, as its revenue decreased 7% and impairments rose 19%. Within Retail Bank, a division of Retail Banking, earnings fell 30%, given higher impairments and slightly lower non-interest income.

Business Banking

Business Banking's headline earnings increased 54% to R782 million from R507 million, mainly due to R290 million decrease in losses from its equities portfolio and rest of Africa operations. Net interest income remained under pressure due to lower advances and margin compression, although net fee and commission income grew 5%. Credit impairments improved 22%, particularly in the rest of Africa and commercial property finance. Operating expenses declined 8%, reducing its cost-to-income ratio to 60,4% from 68,1% and increasing its return on regulatory capital (RoRC) to 19,6% from 10,5%.

CIBW

Headline earnings declined 7% to R1 206 million from R1 301 million, reflecting lower Private Equity revaluations and difficult trading conditions in Markets in the second quarter.

Net revenue increased 3% with Corporate increasing 14% due to strong growth in corporate debt and increased volumes in trade products. Investment Banking net revenue increased 31% as client activity drove higher average loans and advances and increased advisory mandates, together with related fee income. Markets revenue was flat on the prior period. Private Equity and Infrastructure Investments revenue declined 76% on lower revaluations of investments. Wealth's net revenue fell 19% reflecting higher unidentified credit impairments and reduced referrals for large investment market trades. Operating expenses growth was contained to 3%, while investing in key growth areas. RoRC declined to 16,6% from 19,3%, due to lower earnings and an increase in market risk risk-weighted assets on implementing Basel III.

Financial Services

Headline earnings grew 5% to R671 million from R641 million. The reporting period saw further improvement in Life new business volumes, strong net fund inflows in Investments and significant weather-related crop claims in Insurance. Net operating income also grew 5% to R867 million. Life embedded value of new business increased 21% to R183 million due to strong new business volumes. Investments' headline earnings increased 36%, given strong net fund inflows of R4,7 billion in 2012 and R6,2 billion this year. Gross insurance premiums increased 10% while net insurance premiums remained relatively constant. Net premium income for the South African insurance operations declined 3% to R2 434 million due to exiting non-core products that failed to make an adequate contribution to profitability in 2012 (corporate, commercial fleet and guarantees) and low new business volumes in homeowners cover and personal lines in the first quarter. Significant weather-related claims for crop cover resulted in an underwriting loss of R52 million (net of expenses) in this product for the period. The risk appetite of this product has been reviewed and a number of changes, including pricing, have been implemented to improve future performance. Net premium income grew 42% in the rest of Africa and net operating income rose 85% to R37 million. Total operating expenses increased 9%, mainly due to expansion into the rest of Africa, the amortisation of new operating systems recently implemented and the consolidation of cell captives following IFRS changes. RoE improved to 28,4% from 27,8%.

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 Gross Domestic Product (GDP) growth is expected to remain subdued at 3,0% in 2013 from around 3,1% last year. We expect sub-Saharan Africa to grow 5,1% this year.

Moderating consumer demand, weak business confidence, infrastructure constraints and continuing labour market tensions (especially in the mining sector) all point to weak local growth. The current account deficit will keep weighing on the rand, generating inflationary pressures. Overall, we expect slower growth of around 2,3% in 2013 from last year's 2,5%. The SARB will likely leave the rand to find its own level and tolerate a temporary breach of consumer price index (CPI) above the 3% – 6% target band. Our base case for the next upward move in rates is in late 2014.

Against this backdrop, we expect mid-single digit loan growth this year and a broadly stable net interest margin. We will continue to focus on operating costs, while investing for growth. Consequently, our cost-to-income ratio is expected to be similar to last year's. Our credit loss ratio is expected to improve materially from last year's 1,63%, but remains above our through the cycle 1,25%. Our RoE is expected to improve from 2012's 13,5%.

Basis of presentation

The Group's interim financial results have been prepared in accordance with the recognition and measurement requirements of IFRS, Interpretations issued by the IFRS Interpretations Committee, the going concern principle and using the historical-cost basis, except where specifically indicated otherwise in the accounting policies contained in the most recent annual consolidated financial statements.

The information disclosed in the interim financial results booklet is derived from the information contained in the Group's unaudited condensed consolidated interim financial statements and does not contain full or complete financial disclosures. Any investment decisions by shareholders should take into consideration the Group's unaudited condensed consolidated interim financial statements as published on the JSE's stock exchange news service (SENS) on Tuesday, 30 July 2013 and published on the Group's website at www.absa.co.za. The Group's unaudited condensed consolidated interim financial statements comply with the disclosure requirements of International Accounting Standard (IAS) 34 Interim Financial Reporting.

The preparation of financial information requires the use of estimates and assumptions about future conditions. Use of available information and the application of judgement are inherent in the formation of estimates. The accounting policies that are deemed critical to the Group's results and financial position, in terms of the materiality of the items to which the policy is applied, 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 unaudited condensed consolidated interim financial statements are the same as those in place for the reporting period ended 31 December 2012 except for:

- new and amended standards that became effective for the first time during the reporting period as specified in note 1.30 of the accounting policies contained in the most recent annual consolidated financial statements;
- a change in the Group's internal accounting policy for the classification of collection costs; and
- inter-segmental changes including allocation of elements of the Head office segment to business segments and portfolio changes between operating segments.

The above changes were explained in detail in the Absa Group Limited SENS announcement on 18 July 2013. Please refer to that document for further detail.

Events after the reporting period

The directors are not aware of any events occurring between the reporting date of 30 June 2013 and the date of authorisation of these condensed consolidated financial results as defined in IAS 10 Events after the reporting period.

The necessary conditions and regulatory approvals to conclude the combination of Absa Group Limited and the Barclays Africa businesses have been fulfilled subsequent to the reporting date. The fulfilment of these conditions will enable the transaction to be concluded on 31 July 2013.

On behalf of the Board

W E Lucas-Bull
Group Chairman

M Ramos
Group Chief Executive

Johannesburg
30 July 2013

Declaration of interim ordinary dividend number 54

Shareholders are advised that an interim ordinary dividend of 350 cents per ordinary share was declared today, 30 July 2013, for the six months ended 30 June 2013. The ordinary dividend is payable to shareholders recorded in the register of members of the Company at the close of business on 13 September 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 Group has utilised R105 956 747,25 of secondary tax on companies (STC) credits (equivalent to 12,49857 cents per share), which will be distributed to ordinary shareholders through this interim dividend.
- The local dividend tax rate is fifteen per cent (15%).
- The gross local dividend amount is 350 cents per ordinary share for shareholders exempt from the dividend tax.
- The net local dividend amount is 299,37479 cents per ordinary share for shareholders liable to pay for the dividend tax.
- Absa Group currently has 718 210 043 ordinary shares in issue and will have 847 750 379 ordinary shares in issue (includes 465 296 treasury shares) as from 31 July 2013, following the conclusion of the combination of Absa Group with the Barclays Africa operations.
- 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	Friday, 6 September 2013
Shares commence trading ex dividend	Monday, 9 September 2013
Record date	Friday, 13 September 2013
Payment date	Monday, 16 September 2013

Share certificates may not be dematerialised or rematerialised between Monday, 9 September 2013 and Friday, 13 September 2013, both dates inclusive. On Monday, 16 September 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 16 September 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, 16 September 2013.

Declaration of special ordinary dividend number 1

Shareholders are advised that a special dividend of 708 cents per ordinary share was declared today, 30 July 2013. The special dividend is payable to shareholders recorded in the register of members of the Company at the close of business on 22 November 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.
- No STC credits have been utilised with regard to this special dividend.
- The local dividend tax rate is fifteen per cent (15%).
- The gross local dividend amount is 708 cents per ordinary share for shareholders exempt from the dividend tax.
- The net local dividend amount is 601,80 cents per ordinary share for shareholders liable to pay for the dividend tax.
- Absa Group currently has 718 210 043 ordinary shares in issue and will have 847 750 379 ordinary shares in issue (includes 465 296 treasury shares) as from 31 July 2013, following the conclusion of the combination of Absa Group with the Barclays Africa operations.
- 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	Friday, 15 November 2013
Shares commence trading ex dividend	Monday, 18 November 2013
Record date	Friday, 22 November 2013
Payment date	Monday, 25 November 2013

Share certificates may not be dematerialised or rematerialised between Monday, 18 November 2013 and Friday, 22 November 2013, both dates inclusive. On Monday, 25 November 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 25 November 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, 25 November 2013.

On behalf of the Board

N R Drutman
Company Secretary

Johannesburg
30 July 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

	Note	30 June 2013 Rm	30 June 2012[1] Rm	Change %	31 December 2012[1] Rm
Income from banking and other activities		**21 739**	21 147	3	42 925
Net interest income	2	**12 493**	11 851	5	23 986
Non-interest income	4	**9 246**	9 296	(1)	18 939
Net fee and commission income		**7 263**	7 152	0	14 643
Gains and losses from banking and trading activities		**1 584**	1 917	(17)	3 778
Other income		**399**	227	>100	518
Income from financial services		**4 623**	4 167	11	8 389
Net interest income	2	**10**	2	>100	6
Non-interest income	4	**4 613**	4 165	11	8 383
Net fee and commission income		**537**	429	25	864
Net insurance premium income		**2 648**	2 662	(1)	5 423
Gains and losses from investment activities		**1 428**	1 074	33	2 096
Total operating income		**26 362**	25 314	4	51 314
Impairment losses on loans and advances		**(3 546)**	(4 107)	14	(8 478)
Banking and other activities	3	**(3 545)**	(4 103)	14	(8 454)
Financial services	3	**(1)**	(4)	75	(24)
Benefits due to policyholders from financial services	4	**(2 517)**	(2 193)	(15)	(4 358)
Net insurance claims and benefits paid		**(1 357)**	(1 352)	(0)	(2 716)
Changes in investment and insurance contract liabilities		**(1 194)**	(875)	(36)	(1 707)
Other income		**34**	34	(3)	65
Operating income before operating expenditure		**20 299**	19 014	7	38 478
Operating expenditure in banking and other activities		**(12 391)**	(11 902)	(4)	(24 433)
Operating expenses	5	**(11 964)**	(11 610)	(3)	(23 743)
Other impairments		**(12)**	(8)	(50)	(88)
Indirect taxation		**(415)**	(284)	(46)	(602)
Operating expenditure in financial services		**(1 181)**	(1 086)	(9)	(2 267)
Operating expenses	5	**(1 130)**	(1 033)	(9)	(2 138)
Other impairments		**—**	(3)	100	(25)
Indirect taxation		**(51)**	(50)	(2)	(104)
Share of post-tax results of associates and joint ventures		**79**	35	>100	249
Banking and other activities		**79**	31	>100	239
Financial services		**—**	4	(100)	10
Operating profit before income tax		**6 806**	6 061	12	12 027
Taxation expense		**(1 862)**	(1 760)	(6)	(3 355)
Profit for the reporting period		**4 944**	4 301	15	8 672
Profit attributable to:					
Ordinary equity holders		**4 701**	4 170	13	8 324
Non-controlling interest – ordinary shares		**97**	(9)	>100	53
Non-controlling interest – preference shares		**146**	140	4	295
		4 944	4 301	15	8 672
Headline earnings	1	**4 663**	4 313	8	8 738

Note

[1]Refer to pages 121 to 140 for reporting changes.

Condensed consolidated statement of comprehensive income

for the reporting period ended

	Note	30 June 2013 Rm	30 June 2012[1] Rm	Change %	31 December 2012[1] Rm
Net interest income	2	**12 503**	11 853	5	23 992
Interest and similar income		**25 445**	25 725	(1)	50 599
Interest expense and similar charges		**(12 942)**	(13 872)	7	(26 607)
Impairment losses on loans and advances	3	**(3 546)**	(4 107)	14	(8 478)
Net interest income after impairment losses on loans and advances		**8 957**	7 746	16	15 514
Non-interest income	4	**11 342**	11 268	1	22 964
Net fee and commission income		**7 800**	7 581	3	15 507
Fee and commission income		**9 010**	8 785	3	17 936
Fee and commission expense		**(1 210)**	(1 204)	(0)	(2 429)
Net insurance premium income		**2 760**	2 757	0	5 618
Net insurance claims and benefits paid		**(1 356)**	(1 360)	0	(2 719)
Changes in investment and insurance contract liabilities		**(1 194)**	(875)	(36)	(1 707)
Gains and losses from banking and trading activities		**1 584**	1 917	(17)	3 778
Gains and losses from investment activities		**1 358**	908	50	1 736
Other operating income		**390**	340	15	751
Operating income before operating expenditure		**20 299**	19 014	7	38 478
Operating expenditure		**(13 572)**	(12 988)	(4)	(26 700)
Operating expenses	5	**(13 094)**	(12 643)	(4)	(25 881)
Other impairments		**(12)**	(11)	(9)	(113)
Indirect taxation[2]		**(466)**	(334)	(40)	(706)
Share of post-tax results of associates and joint ventures		**79**	35	>100	249
Operating profit before income tax		**6 806**	6 061	12	12 027
Taxation expense		**(1 862)**	(1 760)	(6)	(3 355)
Profit for the reporting period		**4 944**	4 301	15	8 672
Profit attributable to:					
Ordinary equity holders		**4 701**	4 170	13	8 324
Non-controlling interest – ordinary shares		**97**	(9)	>100	53
Non-controlling interest – preference shares		**146**	140	4	295
		4 944	4 301	15	8 672
Earnings per share:					
Basic earnings per share (cents)	1	**655,0**	581,2	13	1 160,0
Diluted earnings per share (cents)	1	**654,3**	579,7	13	1 157,4

Notes

[1]Refer to pages 121 to 140 for reporting changes.

[2]Consists of unclaimed value added tax of **R402 million** (30 June 2012: R274 million; 31 December: R599 million); training levy of **R63 million** (30 June 2012: R59 million; 31 December: R106 million) and stamp duty on deposits and Regional Service Council levies of **R1 million** (30 June 2012: R1 million; 31 December 2012: R1 million).

Condensed consolidated statement of comprehensive income

for the reporting period ended

	30 June			31 December
	2013 Rm	2012[1] Rm	Change %	2012[1] Rm
Profit for the reporting period	**4 944**	4 301	15	8 672
Other comprehensive income				
Items that will not be reclassified to the profit and loss component of the statement of comprehensive income				
Movement in retirement benefit fund assets and liabilities	**60**	(12)	>100	(84)
Increase/(decrease) in retirement benefit surplus	**3**	(17)	>100	(61)
Decrease/(increase) in retirement benefit deficit	**75**	—	100	(59)
Deferred tax	**(18)**	5	>(100)	36
Total items that will not be reclassified to the profit and loss component of the statement of comprehensive income	**60**	(12)	>100	(84)
Items that are or may be reclassified subsequently to the profit and loss component of the statement of comprehensive income				
Foreign exchange differences on translation of foreign operations	**454**	32	>100	140
Movement in cash flow hedging reserve	**(1 707)**	286	>(100)	405
Fair value (losses)/gains arising during the reporting period	**(1 467)**	1 409	>(100)	2 650
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income	**(906)**	(1 012)	10	(2 088)
Deferred tax	**666**	(111)	>100	(157)
Movement in available-for-sale reserve	**75**	370	(80)	1 109
Fair value gains arising during the reporting period	**105**	510	(79)	1 532
Amortisation of government bonds – release to the profit and loss component of the statement of comprehensive income	**4**	5	(20)	10
Deferred tax	**(34)**	(145)	77	(433)
Total items that are or may be reclassified subsequently to the profit and loss component of the statement of comprehensive income	**(1 178)**	688	>(100)	1 654
Total comprehensive income for the reporting period	**3 826**	4 977	(23)	10 242
Total comprehensive income attributable to:				
Ordinary equity holders	**3 525**	4 851	(27)	9 901
Non-controlling interest – ordinary shares	**155**	(14)	>100	46
Non-controlling interest – preference shares	**146**	140	4	295
	3 826	4 977	(23)	10 242

Note

[1]Refer to pages 121 to 140 for reporting changes.

Condensed consolidated statement of financial position

as at

	Note	30 June 2013 Rm	30 June 2012[1] Rm	Change %	31 December 2012[1] Rm
Assets					
Cash, cash balances and balances with central banks		**26 315**	26 032	1	26 547
Statutory liquid asset portfolio		**66 902**	60 061	11	63 020
Loans and advances to banks		**56 307**	58 044	(3)	44 651
Trading portfolio assets		**81 780**	96 867	(16)	87 317
Hedging portfolio assets		**3 567**	4 868	(27)	5 439
Other assets		**20 996**	19 930	5	14 189
Current tax assets		**561**	702	(20)	303
Non-current assets held for sale		**4 314**	6	>100	4 052
Loans and advances to customers	6	**539 343**	505 730	7	527 328
Reinsurance assets		**769**	1 010	(24)	1 003
Investment securities		**27 028**	25 974	4	25 624
Investments in associates and joint ventures		**642**	373	72	569
Investment properties		**1 125**	2 699	(58)	1 220
Property and equipment		**8 696**	7 781	12	8 397
Goodwill and intangible assets		**2 571**	2 115	22	2 561
Deferred tax assets		**417**	455	(8)	366
Total assets		**841 333**	812 647	4	812 586
Liabilities					
Deposits from banks		**44 110**	25 917	70	36 184
Trading portfolio liabilities		**56 549**	60 446	(6)	51 684
Hedging portfolio liabilities		**2 505**	3 251	(23)	3 855
Other liabilities		**25 531**	30 139	(15)	18 412
Provisions		**868**	1 136	(24)	1 681
Current tax liabilities		**490**	246	99	58
Non-current liabilities held for sale		**1 495**	—	100	1 480
Deposits due to customers	7	**490 394**	458 344	7	477 853
Debt securities in issue	7	**106 235**	123 786	(14)	106 779
Liabilities under investment contracts		**19 261**	20 219	(5)	18 768
Policyholder liabilities under insurance contracts		**3 506**	3 239	8	3 550
Borrowed funds	8	**15 657**	14 268	10	17 907
Deferred tax liabilities		**1 068**	1 549	(31)	1 595
Total liabilities		**767 669**	742 540	3	739 806
Equity					
Capital and reserves					
Attributable to ordinary equity holders:					
Share capital	8	**1 435**	1 434	0	1 435
Share premium	8	**4 467**	4 572	(2)	4 604
Retained earnings		**58 922**	55 341	6	56 889
Other reserves		**2 860**	2 725	5	3 941
		67 684	64 072	6	66 869
Non-controlling interest – ordinary shares		**1 336**	1 391	(4)	1 267
Non-controlling interest – preference shares		**4 644**	4 644	—	4 644
Total equity		**73 664**	70 107	5	72 780
Total liabilities and equity		**841 333**	812 647	4	812 586

Note

[1]Refer to pages 121 to 140 for reporting changes.

Condensed consolidated statement of financial position – IAS 39 classification

as at

	30 June				31 December	
	2013		2012[1]		2012[1]	
	Assets Rm	Liabilities and equity Rm	Assets Rm	Liabilities and equity Rm	Assets Rm	Liabilities and equity Rm
Fair value through profit or loss	**138 431**	**112 068**	154 645	120 949	140 495	108 522
Designated at fair value	**54 608**	**53 014**	53 837	57 252	48 212	52 983
Cash, cash balances and balances with central banks	**3 135**	**—**	3 493	—	2 833	—
Statutory liquid asset portfolio	**3**	**—**	805	—	800	—
Loans and advances to banks	**13 786**	**—**	15 543	—	9 728	—
Other assets	**25**	**—**	56	—	16	—
Loans and advances to customers	**13 530**	**—**	9 708	—	11 941	—
Investment securities	**24 129**	**—**	24 232	—	22 894	—
Deposits from banks	**—**	**10 352**	—	6 417	—	11 132
Other liabilities	**—**	**23**	—	73	—	18
Deposits due to customers	**—**	**21 014**	—	27 035	—	19 089
Debt securities in issue	**—**	**2 364**	—	2 727	—	3 198
Liabilities under investment contracts	**—**	**19 261**	—	20 219	—	18 768
Borrowed funds	**—**	**—**	—	781	—	778
Held for trading	**80 256**	**56 549**	95 940	60 446	86 844	51 684
Trading portfolio assets	**80 232**	**—**	95 899	—	86 803	—
Investment securities	**24**	**—**	41	—	41	—
Trading portfolio liabilities	**—**	**56 549**	—	60 446	—	51 684
Hedging instruments	**3 567**	**2 505**	4 868	3 251	5 439	3 855
Hedging portfolio assets	**3 567**	**—**	4 868	—	5 439	—
Hedging portfolio liabilities	**—**	**2 505**	—	3 251	—	3 855
Available-for-sale	**69 917**	**—**	60 910	—	64 975	—
Designated as available-for-sale	**43 195**	**—**	35 923	—	37 802	—
Cash, cash balances and balances with central banks	**787**	**—**	364	—	537	—
Statutory liquid asset portfolio	**40 177**	**—**	34 269	—	35 047	—
Investment securities	**2 231**	**—**	1 290	—	2 218	—
Hedged items						
Statutory liquid asset portfolio	**26 722**	**—**	24 987	—	27 173	—
Amortised cost	**608 400**	**644 879**	577 152	612 518	585 041	619 877
Designated at amortised cost	**603 796**	**631 612**	571 529	591 815	580 070	605 983
Cash, cash balances and balances with central banks	**21 179**	**—**	21 476	—	22 442	—
Loans and advances to banks	**42 521**	**—**	42 501	—	34 923	—
Other assets	**18 887**	**—**	17 153	—	12 289	—
Loans and advances to customers	**521 209**	**—**	490 399	—	510 416	—
Deposits from banks	**—**	**33 758**	—	19 500	—	25 052
Other liabilities	**—**	**22 213**	—	27 163	—	15 351
Deposits due to customers	**—**	**469 380**	—	431 309	—	458 764
Debt securities in issue	**—**	**94 562**	—	105 889	—	93 694
Borrowed funds	**—**	**11 699**	—	7 954	—	13 122
Hedged items	**4 604**	**13 267**	5 623	20 703	4 971	13 894
Loans and advances to customers	**4 604**	**—**	5 623	—	4 971	—
Debt securities in issue	**—**	**9 309**	—	15 170	—	9 887
Borrowed funds	**—**	**3 958**	—	5 533	—	4 007
Held-to-maturity	**1 858**	**—**	1 110	—	1 206	—
Cash, cash balances and balances with central banks	**1 214**	**—**	699	—	735	—
Investment securities	**644**	**—**	411	—	471	—
Other assets and liabilities[2]	**22 727**	**10 722**	18 830	9 073	20 869	11 407
Total equity	**—**	**73 664**	—	70 107	—	72 780
	841 333	**841 333**	812 647	812 647	812 586	812 586

Notes

[1]Refer to pages 121 to 140 for reporting changes.

[2]Includes non-financial assets and liabilities and financial instruments not measured in terms of IAS 39.

Condensed consolidated statement of changes in equity

for the reporting period ended

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
Movement in general credit risk reserve
Share of post-tax results of associates and joint ventures
Acquisition of non-controlling interest and related transaction costs[1]
Balance at the end of the reporting period

Balance at the beginning of the reporting period as previously reported
Restatements
Restated 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
Movement in general credit risk reserve
Movement in insurance contingency reserve[3]
Share of post-tax results of associates and joint ventures
Increase in the interest of non-controlling equity holders
Restated balance at the end of the reporting period

Notes

[1]During the current reporting period the Group increased its percentage shareholding in National Bank of Commerce (NBC) from 55% to 66%. This increased shareholding was driven by a rights issue made by NBC. The Group exercised its rights, together with a portion of the rights relating to non-controlling shareholders. The shareholders that did not take up their portion of the rights issue were granted a one-year option to acquire such shares from Absa.

[2]Refer to pages 121 to 140 for reporting changes.

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

Condensed consolidated statement of changes in equity

for the reporting period ended

30 June 2013

Share capital Rm	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
1 435	4 604	56 889	3 941	66 869	1 267	4 644	72 780
—	—	4 761	(1 236)	3 525	155	146	3 826
—	—	4 701	—	4 701	97	146	4 944
—	—	60	(1 236)	(1 176)	58	—	(1 118)
—	—	(2 645)	—	(2 645)	(50)	(146)	(2 841)
(0)	(71)	—	—	(71)	—	—	(71)
(0)	(99)	—	—	(99)	—	—	(99)
0	34	—	(28)	6	—	—	6
0	34	—	(34)	—	—	—	—
—	—	—	6	6	—	—	6
—	—	(2)	2	—	—	—	—
—	—	(102)	102	—	—	—	—
—	—	(79)	79	—	—	—	—
—	(1)	100	—	99	(36)	—	63
1 435	4 467	58 922	2 860	67 684	1 336	4 644	73 664

30 June 2012[2]

Share capital Rm	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
—	—	(103)	—	(103)	—	—	(103)
1 434	4 676	53 710	2 385	62 205	1 453	4 644	68 302
—	—	4 158	693	4 851	(14)	140	4 977
—	—	4 170	—	4 170	(9)	140	4 301
—	—	(12)	693	681	(5)	—	676
—	—	(2 810)	—	(2 810)	(103)	(140)	(3 053)
—	(192)	—	—	(192)	—	—	(192)
0	(10)	—	—	(10)	—	—	(10)
0	98	—	(70)	28	—	—	28
0	98	—	(98)	—	—	—	—
—	—	—	28	28	—	—	28
—	—	(8)	8	—	—	—	—
—	—	2	(2)	—	—	—	—
—	—	324	(324)	—	—	—	—
—	—	(35)	35	—	—	—	—
—	—	—	—	—	55	—	55
1 434	4 572	55 341	2 725	64 072	1 391	4 644	70 107

Condensed consolidated statement of changes in equity

for the reporting period ended

Balance at the beginning of the reporting period
Restatements
Restated 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
Movement in general credit risk reserve
Movement in insurance contingency reserve[1]
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
Restated balance at the end of the reporting period

Notes

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

[2]Refer to pages 121 to 140 for reporting changes.

Condensed consolidated statement of changes in equity

for the reporting period ended

31 December 2012[2]

	Share capital Rm	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
	—	—	(103)	—	(103)	—	—	(103)
	1 434	4 676	53 710	2 385	62 205	1 453	4 644	68 302
	—	—	8 240	1 661	9 901	46	295	10 242
	—	—	8 324	—	8 324	53	295	8 672
	—	—	(84)	1 661	1 577	(7)	—	1 570
	—	—	(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	56 889	3 941	66 869	1 267	4 644	72 780

Condensed consolidated statement of cash flows

for the reporting period ended

	Note	30 June 2013 Rm	30 June 2012[1] Rm	Change %	31 December 2012[1] Rm
Net cash generated/(utilised) from operating activities		**3 314**	(2 659)	>100	5 423
Net cash (utilised)/generated in investing activities		**(1 114)**	1 830	>(100)	(1 728)
Net cash utilised in financing activities		**(4 784)**	(3 160)	(51)	(2 045)
Net (decrease)/increase in cash and cash equivalents		**(2 584)**	(3 989)	35	1 650
Cash and cash equivalents at the beginning of the reporting period	1	**11 716**	10 068	16	10 068
Effect of exchange rate movements on cash and cash equivalents		**(1)**	1	>(100)	(2)
Cash and cash equivalents at the end of the reporting period	2	**9 131**	6 080	50	11 716

Notes to the condensed consolidated statement of cash flows

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

	30 June 2013 Rm	30 June 2012[1] Rm	Change %	31 December 2012[1] Rm
Cash, cash balances and balances with central banks[2]	**8 816**	7 893	12	7 893
Loans and advances to banks[3]	**2 900**	2 175	33	2 175
	11 716	10 068	16	10 068

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

	30 June 2013 Rm	30 June 2012[1] Rm	Change %	31 December 2012[1] Rm
Cash, cash balances and balances with central banks[2]	**6 023**	4 776	26	8 816
Loans and advances to banks[3]	**3 108**	1 304	>100	2 900
	9 131	6 080	50	11 716

Notes

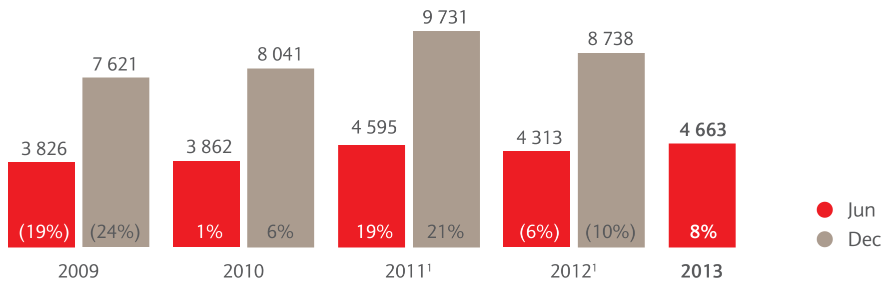
[1]Refer to pages 121 to 140 for reporting changes.

[2]Includes coins and bank notes, which are part of cash, cash balances and balances with central banks on the statement of financial position.

[3]Includes call advances, which are used as working capital of the Group and are a component of other advances within loans and advances to banks on the statement of financial position.

1. Headline earnings and earnings per share

Headline earnings (Rm and change %)



Headline earnings	30 June 2013 Gross Rm	30 June 2013 Net[2] Rm	30 June 2012[1] Gross Rm	30 June 2012[1] Net[2] Rm	Net[2] change %	31 December 2012[1] Gross Rm	31 December 2012[1] Net[2] Rm
Headline earnings is determined as follows:							
Profit attributable to ordinary equity holders		**4 701**		4 170	13		8 324
Total headline earnings adjustment:		**(38)**		143	>(100)		414
IFRS 3 – Goodwill impairment	**—**	**—**	18	18	(100)	18	18
IAS 16 – Loss/(profit) on disposal of property and equipment	**3**	**3**	(40)	(32)	>100	(81)	(63)
IAS 28 and IFRS 11 – Headline earnings component of share of post-tax results of associates and joint ventures	**—**	**—**	—	—	—	(1)	(1)
IAS 28 and IFRS 11 – Impairment of investments in associates and joint ventures	**6**	**6**	—	—	100	—	—
IAS 36 and IAS 38 – Loss on disposal and impairment of intangible assets	**0**	**0**	—	—	100	92	65
IAS 39 – Release of available-for-sale reserves	**4**	**3**	5	3	0	10	7
IAS 40 – Change in fair value of investment properties	**(56)**	**(50)**	154	154	>(100)	408	388
		4 663		4 313	8		8 738

Performance

Core drivers of improvement in headline earnings

- Overall, impairment losses on loans and advances decreased by 14%, mainly as a result of the lower charge on the mortgage legal book, which was partially offset by the acquisition of the Edcon portfolio. This resulted in the impairment losses ratio improving from 1,62% to 1,35%.
- Loans and advances to customers increased by 7%, mainly due to strong growth from Card and VAF in Retail Banking and foreign currency loans and reverse repurchase agreements in Corporate and Investment Bank.
- The net interest margin expanded by 3 basis points (bps) due to a higher overall yield received on loans and advances to customers, particularly from the Edcon portfolio. An increase in higher margin-yielding interest-bearing assets in Corporate and Investment Bank also positively contributed to an increased net interest margin. However, margin pressure was experienced across most customer deposit products due to a concerted effort in attracting deposits in a competitive environment.
- Non-interest income increased by 1%, underpinned by a 3% growth in fee and commission income. This increase was partly offset by a 13% decline in the net trading result, with Markets revenue being negatively affected by difficult trading conditions towards the end of the reporting period.

Notes

[1]Refer to pages 121 to 140 for reporting changes.

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

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

Performance *(continued)*

Core drivers of improvement in headline earnings *(continued)*

At a segment level

RBB

- Retail Banking's headline earnings increased by 46%, primarily due to lower impairment losses on loans and advances, cost containment across the business and the inclusion of the acquired Edcon portfolio in the Card portfolio. This was partly offset by the Personal Loans portfolio due to a decline in revenue attributable to a cautious approach to lending and margin pressure following intense competition with interest rates at record lows. Retail Banking's impairment losses ratio improved from 2,04% to 1,77%, despite the impact of the inclusion of the Edcon portfolio in the current reporting period.
- Business Banking's headline earnings increased by 54%, mainly driven by the stabilisation of the equity portfolio subsequent to valuation write-downs in 2012, reduction in impairment losses on loans and advances and costs as well as growth in non-interest income.

CIBW

- CIBW recorded a decline in headline earnings of 7% to R1 206 million (30 June 2012: R1 301 million), primarily due to lower revaluations from Private Equity and difficult trading conditions experienced in the Markets business towards the end of the reporting period.

Financial Services

- Financial Services achieved headline earnings growth of 5%. Life experienced strong growth in the value of new business of 21% to R183 million off the back of continued strong new business volumes into the current reporting period. The strong performance of Investments is attributable to net fund flows of R6,2 billion (30 June 2012: R0,1 billion). Significant weather-related insurance claims from crop resulted in an underwriting loss of R52 million (net of expenses) for this product for the reporting period. Non-South African operations performed strongly, with an increase in net insurance premium income of 42% to R214 million (30 June 2012: R151 million) and net operating income of 85% to R37 million (30 June 2012: R20 million).
- Embedded value of new business of R183 million (30 June 2012: R151 million) was achieved in the Life business which is attributable to the improved integration of Life's products and service offerings into Absa branches, increased leads and support from distribution due to the new advisor target operating model, the implementation of Life's multi-channel strategy and higher credit approvals.

Head office, inter-segment eliminations and Other

- Decline in headline earnings caused by the increased impact of hedge ineffectiveness due to market volatility, one-off items in previous reporting periods and corporate action items housed centrally.

Earnings per share	30 June 2013 Rm	30 June 2012[1] Rm	Change value/ %	31 December 2012[1] Rm
Basic (cents)	**655,0**	581,2	13	1 160,0
Profit attributable to ordinary equity holders	**4 701**	4 170	13	8 324
Issued shares at the beginning of the reporting period[2]	**718,2**	718,2	—	718,2
Treasury shares held by Group entities	**(0,5)**	(0,7)	0,2	(0,6)
Weighted average number of ordinary shares in issue	**717,7**	717,5	0,2	717,6
Diluted (cents)	**654,3**	579,7	13	1 157,4
Diluted earnings attributable to ordinary equity holders[3]	**4 701**	4 170	13	8 324
Weighted average number of ordinary shares in issue	**717,7**	717,5	0,2	717,6
Adjusted for share options issued at no value	**0,8**	1,8	(1,0)	1,6
Diluted weighted average number of ordinary shares in issue	**718,5**	719,3	(0,8)	719,2
Headline (cents)	**649,7**	601,1	8	1 217,7
Headline earnings attributable to ordinary equity holders	**4 663**	4 313	8	8 738
Weighted average number of ordinary shares in issue	**717,7**	717,5	0,2	717,6
Diluted (cents)	**649,0**	599,6	8	1 215,0
Diluted earnings attributable to ordinary equity holders[3]	**4 663**	4 313	8	8 738
Diluted weighted average number of ordinary shares in issue	**718,5**	719,3	(0,8)	719,2

Notes

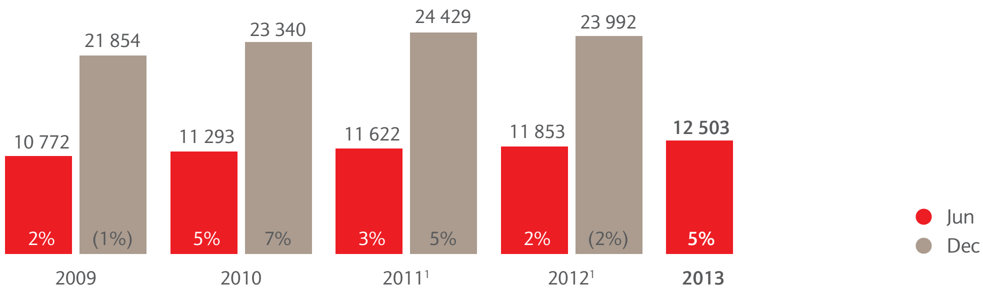
[1]Refer to pages 121 to 140 for reporting changes.

[2]Refer to page 51 for the number of ordinary shares in issue.

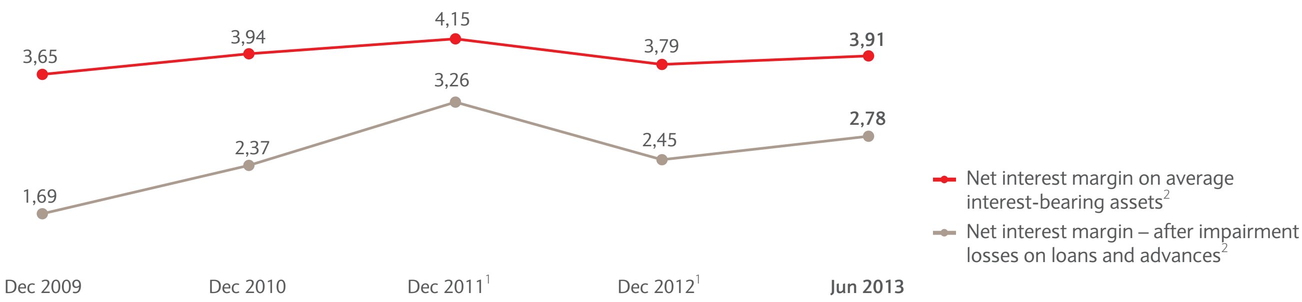
[3]There are currently no instruments in issue that will have a dilutive impact on the profit attributable to ordinary equity holders.

2. Net interest income

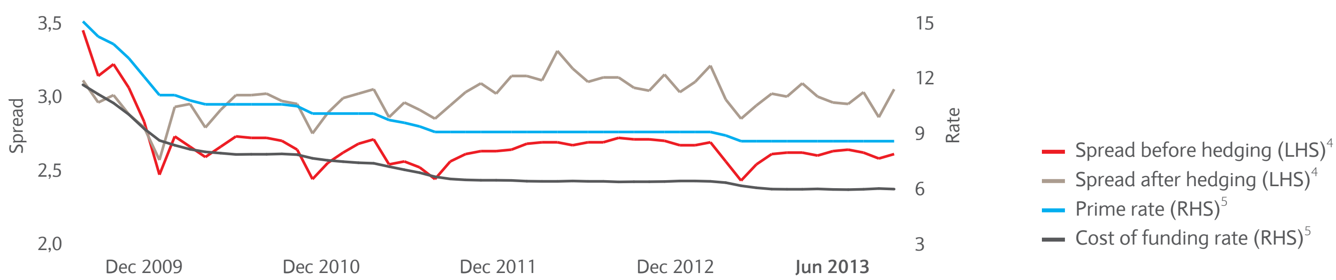
Net interest income (Rm and change %)



Net interest margin (%)



Hedging impact on net interest margin (%)[3]



Notes

[1]Refer to pages 121 to 140 for reporting changes.

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

[3]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 net interest margin while the opposite is true for an increasing rate scenario.
- Basis risk still remains between prime assets and the three-month Johannesburg Interbank Agreed Rate (JIBAR) repricing liabilities after hedging.

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

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

2. Net interest income *(continued)*

Change in net interest margin	30 June 2013 bps	30 June 2012[1] bps	31 December 2012[1] bps
Loans and advances to customers (i)	**17**	1	2
Change in customer rates (pricing)	**1**	2	(1)
Change in composition (mix)	**16**	(1)	3
Deposits due to customers (ii)	**(6)**	(3)	(3)
Change in customer rates (pricing)	**(3)**	(2)	(2)
Change in composition (mix)	**(1)**	(1)	(1)
Endowment (iii)	**(2)**	—	—
Capital (iii)	**(3)**	2	—
CIBW (iv)	**2**	(7)	(16)
Interest rate risk management (hedging)	**(4)**	3	(6)
Hedging (iii)	**(3)**	—	(2)
Other	**(1)**	3	(4)
Other	**(3)**	(1)	(1)
Restatements[2]	**—**	(11)	(12)
	3	(16)	(36)

Performance

The Group's net interest margin expanded by 3 bps during the current reporting period. The increase in the net interest margin is mainly attributable to the following:

(i) Loans and advances to customers

- The Edcon portfolio contributed significantly to the higher overall yield received on loans and advances to customers from a composition perspective.

(ii) Deposits due to customers

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

(iii) Hedging strategy

- Absa hedges its net interest 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 net interest margin stability over an interest rate cycle, notably enhancing the net interest margin in a low rate cycle and sacrificing the interest margin when rates are high.
- 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. Should market rates prevail at current levels, the cash flow hedging reserve, totalling R0,7 billion after tax (30 June 2012: R2,3 billion) as at the reporting date will be released to the statement of comprehensive income over the life of the underlying hedged item. The decline in this reserve can be ascribed to the increase in average swap rates compared to the previous reporting period as the hedging strategy continues to contribute significantly to the protection of the net interest margin. The benefit realised in the current reporting period was slightly lower when compared to the previous reporting period, resulting in an overall 3 bps decline in the margin (31 December 2012: 2 bps increase). In the current reporting period, R888 million (30 June 2012: R978 million) was released to the statement of comprehensive income.

(iv) CIBW

- CIBW activities had a 2 bps positive impact on the net interest margin, mainly due to composition changes (2 bps). While net client pricing had no impact on Group net interest margin, Corporate showed a slight improvement in client rates, notably in the sub-Saharan business (4 bps). This was offset by the increase in the average foreign currency loans and advances to banks and average foreign currency reverse repurchase agreements with banks resulting in a negative net interest margin, neutralised by positive gains on the foreign currency hedging instrument for these trades, which is recognised in gains and losses from banking and trading activities (4 bps decline).

Notes

[1]Refer to pages 121 to 140 for reporting changes.

[2]The Group reassessed its criteria applied to determine the balance of interest-bearing assets in line with best practice. This resulted in a restatement of the net interest margin on average interest-bearing assets for the previous reporting periods.

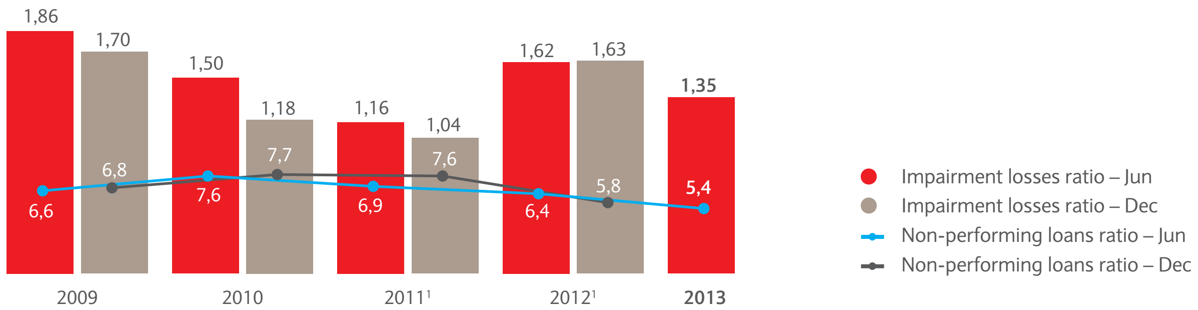
2. Net interest income *(continued)*

Group average statement of financial position	30 June 2013 Average balance[2] Rm	30 June 2013 Average rate[3,4] %	30 June 2013 Interest income/ (expense) Rm	30 June 2012[1] Average balances[2,5] Rm	30 June 2012[1] Average rate[3,4] %	30 June 2012[1] Interest income/ (expense) Rm	31 December 2012[1] Average balance[2,5] Rm	31 December 2012[1] Average rate[4] %	31 December 2012[1] Interest income/ (expense) Rm
Assets									
Cash, cash balances and balances with central banks	**1 765**	**11,43**	**100**	1 211	13,45	81	1 299	12,78	166
Statutory liquid asset portfolio	**60 758**	**7,80**	**2 199**	57 258	7,39	2 103	58 284	7,15	4 166
Loans and advances to banks and customers	**577 561**	**7,74**	**22 176**	552 556	8,17	22 439	569 130	7,71	43 859
Investment securities	**4 252**	**3,51**	**74**	2 997	7,52	112	3 766	5,36	202
Other interest[6]	**—**	**—**	**896**	—	—	990	—	—	2 206
Interest-bearing assets	**644 336**	**7,96**	**25 445**	614 022	8,43	25 725	632 479	8,00	50 599
Non-interest-bearing assets	**174 198**	**—**	**—**	170 967	—	—	177 432	—	—
Total assets	**818 534**	**6,27**	**25 445**	784 989	6,59	25 725	809 911	6,25	50 599
Liabilities									
Deposits from banks and due to customers	**494 619**	**(3,83)**	**(9 388)**	447 659	(4,29)	(9 554)	465 939	(4,00)	(18 622)
Debt securities in issue	**110 555**	**(6,43)**	**(3 527)**	124 029	(6,55)	(4 042)	121 407	(6,58)	(7 990)
Borrowed funds	**15 152**	**(10,34)**	**(777)**	12 644	(10,86)	(683)	12 432	(10,52)	(1 308)
Other interest[6]	**—**	**—**	**750**	—	—	407	—	—	1 313
Interest-bearing liabilities	**620 326**	**(4,21)**	**(12 942)**	584 332	(4,77)	(13 872)	599 778	(4,44)	(26 607)
Non-interest-bearing liabilities	**124 814**	**—**	**—**	132 187	—	—	140 548	—	—
Total liabilities	**745 140**	**(3,50)**	**(12 942)**	716 519	(3,89)	(13 872)	740 326	(3,59)	(26 607)
Total equity	**73 394**	**—**	**—**	68 470	—	—	69 575	—	—
Total equity and liabilities	**818 534**	**(3,19)**	**(12 942)**	784 989	(3,55)	(13 872)	809 901	(3,29)	(26 607)
Net interest margin on average interest-bearing assets		**3,91**			3,88			3,79	

Notes
[1]Refer to pages 121 to 140 for reporting changes.
[2]Calculated based on daily weighted average balances.
[3]The average rate has been annualised.
[4]The average prime rate for the reporting period was **8,50%** (30 June 2012: 9,00%; 31 December 2012: 8,77%).
[5]The Group reassessed its criteria applied to determine the balance of interest-bearing assets, in line with industry practice. This resulted in a restatement of the net interest margin on average interest-bearing assets for the previous reporting periods.
[6]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	30 June 2013 Rm	30 June 2012[1] Rm	Change %	31 December 2012[1] Rm
Impairments raised	**3 964**	4 341	(9)	9 258
Identified impairments	**3 879**	4 403	(12)	9 100
Unidentified impairments	**85**	(62)	>100	158
Recoveries of loans and advances previously written off[2]	**(418)**	(234)	(79)	(780)
	3 546	4 107	(14)	8 478

Impairment losses on loans and advances by segment

	2013 Rm	2012[1] Rm	Change %	2012[1] Rm
RBB				
Total charge	**3 479**	3 962	(12)	8 235
Impairment losses ratio (%)	**1,70**	1,98		2,04
Retail Banking				
Home Loans	**1 115**	2 366	(53)	4 461
Vehicle and Asset Finance	**366**	356	3	669
Card	**395**	220	80	403
Edcon portfolio	**440**	—	100	72
Personal Loans	**444**	372	19	612
Retail Bank	**289**	100	>100	385
Total charge	**3 049**	3 414	(11)	6 602
Impairment losses ratio (%)	**1,77**	2,04		1,96
Business Banking				
Business Bank	**431**	543	(21)	1 629
Business Bank Equities	**(1)**	5	>(100)	4
Total charge	**430**	548	(22)	1 633
Impairment losses ratio (%)	**1,33**	1,65		2,48
CIBW				
Total charge	**69**	51	35	223
Impairment losses ratio (%)	**0,12**	0,10		0,21
Financial Services				
Total charge	**1**	4	(75)	24
Impairment losses ratio (%)	**0,32**	5,29		12,37
Head office, inter-segment eliminations and Other				
Total charge	**(3)**	90	>(100)	(4)
Impairments losses ratio (%)	**n/a**	n/a		n/a
Charge to the statement of comprehensive income	**3 546**	4 107	(14)	8 478
Impairment losses ratio (%)	**1,35**	1,62		1,63

Notes
[1]Refer to pages 121 to 140 for reporting changes.
[2]Includes collection costs of R59 million (30 June 2012: R87 million; 31 December 2012: R188 million).

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

Performance

Impairment losses on loans and advances improved significantly relative to the previous reporting period. Deducting the impact of the Edcon portfolio acquisition, impairment losses on loans and advances are 24% lower in the statement of comprehensive income in relation to the previous reporting period. This reduced impairment charge on loans and advances has been achieved despite increasing the performing portfolio provisions by R334 million since December 2012; improving coverage on the Group's non-performing loans to 38,9% (30 June 2012: 32,5%, 31 December 2012: 37,0%) and tightening loan rehabilitation criteria.

The expected recorded increase of impairment losses on loans and advances in the card and personal loan portfolios have been partly offset by ongoing improvements in the collections environment as evident by overall improved off-balance sheet recoveries, which have been restated so as to be disclosed net of the collection costs incurred.

Retail Banking (↓11%)

- The impairment losses ratio for Retail Banking decreased from 2,04% to 1,77%, reflecting an impairment charge of R3 049 million (30 June 2012: R3 414 million). Impairment losses on loans and advances for the current reporting period include a R440 million charge related to the Edcon portfolio, which was not included in the previous reporting period. Retail Banking's impairment charge, excluding the Edcon portfolio, reduced by 24% compared with the previous reporting period.
- The predominant factor in the reduced retail charge was the improvements within mortgages. This improvement was expected, as the 2012 charge factored in a higher coverage requirement within the legal portfolio. To ensure appropriate coverage and provision for emerging risks, continued refinement and improvement of the granularity of impairment models are undertaken. The increase in coverage since December 2012 is due to a marginal increase in the average age of the legal portfolio and stricter rehabilitation criteria being applied. Both flow into legal and pre-legal delinquency rates are an indication of improvement as evident by the significant decrease in pre-legal non-performing mortgages.
- Card experienced pressure in the reporting period. Although the impairment losses ratio increased to 3,31% (30 June 2012: 2,04%), it remains at a relatively low level with the large increase in the impairment charge having come off a low base. Pressure within the portfolio is being experienced in delinquency rates as well as recovery rates in the legal portfolio. Collections and new business strategies are a key focus area.
- The Edcon portfolio performed broadly in line with expectations, with a number of initiatives across collections and new business departments being implemented to maintain an acceptable performance. The impairment losses ratio increased to 9,56% (31 December 2012: 5,03%). Absa applied conservative assumptions to the non-performing Edcon portfolio thereby resulting in a high coverage ratio. It is expected that this will decrease as models are refined.
- The impairment charge for Personal Loans increased by 19% to R444 million (30 June 2012: R372 million). The impairment losses ratio remained fairly healthy at 7,17% (30 June 2012: 6,14%), given the anticipated strain being experienced in the environment. New business in this portfolio is predominantly with existing customers in the middle market with loan size and term strategy having remained fairly constant.

Business Banking (↓22%)

- The Business Banking impairment losses ratio improved to 1,33%. Key drivers for this include:
  - An improvement in both the volume and value of new defaults experienced.
  - Continued focus on maximising recoveries of previously written-off exposures, resulting in a 42% increase in collections of R70 million (30 June 2012: R49 million).
  - The impairment charge for the commercial property finance (CPF) portfolio was 25,7% lower at R162 million (30 June 2012: R218 million) and resulted in an improved impairment losses ratio of 1,10% (30 June 2012: 1,44%).
  - The Commercial segment showed some strain in default levels as a result of continued economic weakness, albeit at improved levels as compared to the latter part of 2012.
  - Benefits from enhancements to monitoring and collection processes implemented in the latter part of 2012 have started to realise. The improved performance during the first half of the reporting period was slightly negated by continued muted demand in the property market, which negatively impacted realisation prices.
  - The increased rigour and revised valuation assumptions applied to early warning list accounts in the latter part of 2012 resulted in NPLs increasing by 47% year-on-year. NPLs have subsequently declined by 3% since 31 December 2012. Significant write-offs were made on large defaulted exposures with a minimal additional impact on impairment losses on loans and advances. The impairment coverage on this portfolio has remained broadly stable since 31 December 2012 at 38,4%.

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

Statement of financial position – Identified and unidentified impairments	30 June 2013 Rm	30 June 2012[1] Rm	Change %	31 December 2012[1] Rm
Comprising:				
Identified impairments	**13 302**	12 284	8	13 040
Performing loans	**1 653**	1 549	7	1 386
Non-performing loans	**11 649**	10 735	9	11 654
Unidentified impairments	**1 039**	745	39	972
	14 341	13 029	10	14 012

30 June 2013

Reconciliation of total impairment losses on loans and advances to customers	Opening balance[1] 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
Retail Banking	**10 283**	**(376)**	**—**	**(2 414)**	**3 326**	**70**	**10 889**
Business Banking	**2 744**	**(73)**	**—**	**(665)**	**516**	**(16)**	**2 506**
CIBW	**840**	**(2)**	**1**	**(96)**	**38**	**31**	**812**
Other[2]	**145**	**2**	**—**	**(12)**	**(1)**	**—**	**134**
	14 012	**(449)**	**1**	**(3 187)**	**3 879**	**85**	**14 341**

30 June 2012[1]

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
Retail Banking	9 337	(517)	—	(2 354)	3 654	(52)	10 068
Business Banking	1 940	(30)	—	(449)	599	(5)	2 055
CIBW	729	(2)	3	(90)	56	(5)	691
Other	125	1	—	(5)	94	—	215
	12 131	(548)	3	(2 898)	4 403	(62)	13 029

31 December 2012[1]

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
Retail Banking	9 337	(956)	(2)	(5 358)	7 084	178	10 283
Business Banking	1 940	(61)	(5)	(885)	1 787	(32)	2 744
CIBW	729	(5)	3	(110)	211	12	840
Other	125	4	—	(2)	18	—	145
	12 131	(1 018)	(4)	(6 355)	9 100	158	14 012

Note
[1]Refer to pages 121 to 140 for reporting changes.
[2]Includes Finance Services and Head office and Other.

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

Non-performing loans	30 June 2013 Outstanding balance Rm	Expected recoveries and fair value of collateral Rm	Net exposure Rm	Total identified impairment Rm	Coverage ratio %
RBB	29 082	18 023	11 059	11 059	38,0
Retail Banking	23 241	14 330	8 911	8 911	38,3
Cheque accounts	102	28	74	74	72,6
Credit cards	1 971	639	1 332	1 332	67,6
Edcon portfolio	309	53	256	256	82,8
Instalment credit agreements	1 661	852	809	809	48,7
Microloans	406	113	293	293	72,2
Mortgages	17 384	12 138	5 246	5 246	30,2
Personal loans	1 408	507	901	901	64,0
Business Banking	5 841	3 693	2 148	2 148	36,8
Cheque accounts	1 208	774	434	434	35,9
Commercial asset finance	351	88	263	263	74,9
Commercial property finance	2 893	1 829	1 064	1 064	36,8
Term loans	1 389	1 002	387	387	27,9
CIBW	862	288	574	574	66,6
Financial Services	16	—	16	16	100,0
Non-performing loans	29 960	18 311	11 649	11 649	38,9
Non-performing loans ratio (%)	5,4				

Non-performing loans	30 June 2012[1] Outstanding balance Rm	Expected recoveries and fair value of collateral Rm	Net exposure Rm	Total identified impairment Rm	Coverage ratio %
RBB	32 044	21 862	10 182	10 182	31,8
Retail Banking	28 075	19 331	8 744	8 744	31,1
Cheque accounts	206	72	134	134	65,0
Credit cards	1 937	700	1 237	1 237	63,9
Instalment credit agreements	2 443	1 115	1 328	1 328	54,4
Microloans	389	131	258	258	66,3
Mortgages	21 742	16 823	4 919	4 919	22,6
Personal loans	1 358	490	868	868	63,9
Business Banking	3 969	2 531	1 438	1 438	36,2
Cheque accounts	837	520	317	317	37,9
Commercial asset finance	496	150	346	346	69,8
Commercial property finance	1 865	1 273	592	592	31,7
Term loans	771	588	183	183	23,7
CIBW	985	432	553	553	56,2
Non-performing loans	33 029	22 294	10 735	10 735	32,5
Non-performing loans ratio (%)	6,4				

Note

[1]Refer to pages 121 to 140 for reporting changes.

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

Non-performing loans	31 December 2012[1] Outstanding balance Rm	Expected recoveries and fair value of collateral Rm	Net exposure Rm	Total identified impairment Rm	Coverage ratio %
RBB	30 296	19 319	10 977	10 977	36,2
Retail Banking	24 267	15 595	8 672	8 672	35,7
Cheque accounts	166	61	105	105	63,3
Credit cards	1 842	608	1 234	1 234	66,9
Instalment credit agreements	1 790	895	895	895	50,0
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 Banking	6 029	3 724	2 305	2 305	38,2
Cheque accounts	1 016	661	355	355	34,9
Commercial asset finance	443	146	297	297	67,0
Commercial property finance	3 222	1 882	1 340	1 340	41,6
Term loans	1 348	1 035	313	313	23,2
CIBW	1 167	510	657	657	56,3
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				

Non-performing loans – Retail Banking	30 June 2013 Rm	30 June 2012[1] Rm	Change %	31 December 2012[1] Rm
Non-mortgages	**5 857**	6 333	(8)	5 469
Mortgages pre-legal	**3 725**	7 385	(50)	4 735
Mortgages legal	**13 659**	14 357	(5)	14 063
Total Retail Banking	**23 241**	28 075	(17)	24 267
Mortgages legal as a % of Retail Banking NPLs (%)	**58,8**	51,1		58,0

Performance

Retail Banking NPLs declined to R23 241 million (30 June 2012: R28 075 million, resulting in an NPL coverage ratio of 38,3% (30 June 2012: 31,1%).

The Group's NPLs continued to show improvement as the overall exposure decreased by 9% since June 2012. As a percentage of loans and advances, the Group's NPL ratio of 5,4% is the lowest since 2009.

Debt counselling	30 June 2013 Opening balance Number of accounts	Opening balance Exposure Rm	Applications[2] Number of accounts	Applications[2] Exposure Rm	Outflows[3] Number of accounts	Outflows[3] Exposure Rm	Portfolio balance[4,5] Number of accounts	Portfolio balance[4,5] Exposure Rm
Cheque accounts	**2 669**	**39**	**1 347**	**16**	**1 387**	**12**	**2 629**	**36**
Credit cards[6]	**12 517**	**142**	**3 597**	**46**	**2 375**	**37**	**13 739**	**165**
Instalment credit agreements	**6 309**	**560**	**2 129**	**236**	**2 254**	**172**	**6 184**	**588**
Mortgages	**7 493**	**3 528**	**1 295**	**514**	**1 882**	**868**	**6 906**	**3 122**
Personal loans	**9 153**	**296**	**4 705**	**178**	**4 383**	**133**	**9 475**	**324**
Other	**201**	**136**	**120**	**22**	**79**	**56**	**242**	**102**
	38 342	**4 701**	**13 193**	**1 012**	**12 360**	**1 278**	**39 175**	**4 337**

Notes

[1]Refer to pages 121 to 140 for reporting changes.

[2]Applications include re-applications carried out in the reporting period.

[3]Outflows represent the capital balances that have either been cured from the portfolio or have been terminated due to non-performance.

[4]The reconciliation between the opening exposure balance to the closing exposure balance of the individual portfolio, taking into account the applications and outflows of each portfolio, will differ to the closing exposure balance disclosed due to payments, interest and reinstatements.

[5]Portfolio balances only include the outstanding exposure balance.

[6]The increase in the credit card portfolio in the current reporting period is attributable to a portion of the balances reflected in the legal book. Through a review of the application of the definition of debt counselling, these balances fall within the ambit of this portfolio and have been included.

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

	30 June 2012							
	Opening balance		Applications[1]		Outflows[2]		Portfolio balance[3,4]	
Debt counselling	Number of accounts	Exposure Rm	Number of accounts	Exposure Rm	Number of accounts	Exposure Rm	Number of accounts	Exposure Rm
Cheque accounts	1 920	30	1 130	16	921	9	2 129	31
Credit cards[5]	14 201	161	2 726	33	4 284	9	12 643	143
Instalment credit agreements	4 890	410	2 530	255	1 660	156	5 760	488
Mortgages	4 973	2 327	3 229	1 461	1 368	579	6 834	3 163
Personal loans	7 834	221	5 276	180	4 403	126	8 707	262
Other	130	98	79	49	67	41	142	106
	33 948	3 247	14 970	1 994	12 703	920	36 215	4 193

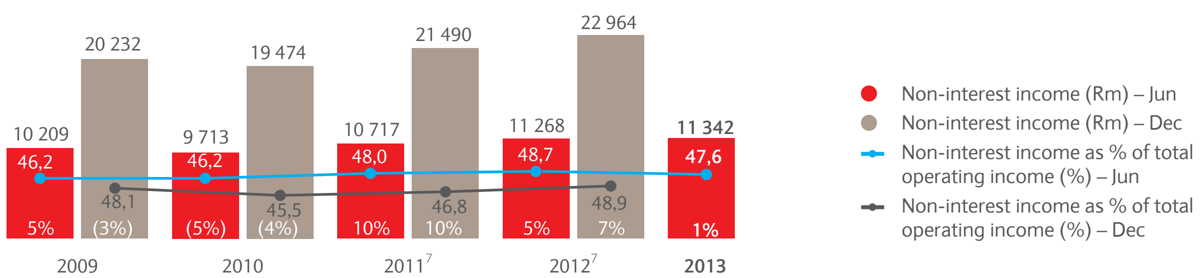
	31 December 2012							
	Opening balance		Applications[1]		Outflows[2]		Portfolio balance[3,4]	
Debt counselling	Number of accounts	Exposure Rm	Number of accounts	Exposure Rm	Number of accounts	Exposure Rm	Number of accounts	Exposure Rm
Cheque accounts	1 920	30	2 248	34	1 499	13	2 669	39
Credit cards[5]	14 201	161	5 628	67	7 312	40	12 517	142
Instalment credit agreements	4 890	410	5 041	515	3 622	314	6 309	560
Mortgages	4 973	2 327	5 073	2 350	2 553	1 069	7 493	3 528
Personal loans	7 834	221	9 770	349	8 451	249	9 153	296
Other	130	98	167	96	96	61	201	136
	33 948	3 247	27 927	3 411	23 533	1 746	38 342	4 701

Performance

Total exposure to loans subject to debt counselling has reduced by R364 million since 31 December 2012, despite the overall increase in the number of accounts. The average application exposure continues to decline since the previous reporting period. Consistent with the improvements within the pre-legal mortgage portfolio, the number and quantum of mortgage applications has decreased significantly. Similarly, the applications and exposures within the unsecured portfolios have increased or remain at high levels in line with expectations. Increased outflows are attributable to improved processes within the collections department.

4. Non-interest income

Non-interest income and non-interest income as % of total operating income (Rm, change % and %)[6]



Notes

[1]Applications include re-applications carried out in the reporting period.

[2]Outflows represent the capital balances that have been cured from the portfolio or have been terminated due to non-performance.

[3]The reconciliation between the opening exposure balance to the closing exposure balance of the individual portfolios, taking into account the applications and outflows of each portfolio, will differ to the closing exposure balance disclosed due to payments, interest and reinstatements.

[4]Portfolio balances only include the outstanding exposure balance.

[5]The increase in the credit card portfolio in the current reporting period is attributable to a portion of the balances reflected in the legal book. Through a review of the application of the definition of debt counselling, these balances fall within the ambit of this portfolio and have been included. To ensure comparability, the comparatives have been restated for this change.

[6]Excluding impairment losses on loans and advances.

[7]Refer to pages 121 to 140 for reporting changes.

4. Non-interest income *(continued)*

Non-interest income split	30 June 2013 Rm	30 June 2013 Composition %	30 June 2012[1] Rm	30 June 2012[1] Composition %	Change %	31 December 2012[1] Rm	31 December 2012[1] Composition %
Net fee and commission income	**7 800**	**69**	7 581	67	3	15 507	68
RBB	**6 604**	**58**	6 612	59	(0)	13 422	58
Retail Banking	**5 172**	**46**	5 245	47	(1)	10 644	46
Business Banking	**1 432**	**12**	1 367	12	5	2 778	12
CIBW	**734**	**5**	616	5	19	1 363	6
Financial Services[2]	**537**	**5**	429	4	25	864	4
Other	**(7)**	**2**	(17)	(0)	59	(32)	(0)
Inter-segment eliminations[3]	**(68)**	**(1)**	(59)	(1)	(15)	(110)	(0)
Net insurance premium income and claims and benefits paid	**1 404**	**12**	1 397	12	1	2 899	13
RBB – Retail Banking (Woolworths Financial Services)	**103**	**1**	87	1	18	178	1
Financial Services[2]	**1 291**	**11**	1 310	12	(1)	2 707	12
Other	**36**	**0**	0	0	>100	(28)	(0)
Inter-segment eliminations[4]	**(26)**	**(0)**	—	—	(100)	42	0
Changes in investment and insurance contract liabilities							
Financial Services[2]	**(1 194)**	**(11)**	(875)	(8)	(36)	(1 707)	(7)
Gains and losses from banking, trading and investment activities	**2 942**	**26**	2 825	26	4	5 514	23
RBB	**(42)**	**(1)**	(38)	(0)	(9)	(229)	(1)
Retail Banking	**47**	**0**	39	0	20	87	0
Business Banking	**(89)**	**(1)**	(77)	(1)	(16)	(316)	(1)
Equities – revaluations	**(91)**	**(1)**	(150)	(1)	39	(378)	(1)
Other gains and losses	**2**	**0**	73	0	(97)	62	0
CIBW	**1 671**	**15**	1 747	16	(4)	3 814	16
Markets – net trading result	**1 571**	**14**	1 519	14	3	3 415	15
Private Equity – revaluations	**16**	**0**	201	2	(92)	318	1
Other gains and losses	**84**	**1**	27	0	>100	81	0
Financial Services[2]	**1 428**	**13**	1 074	10	33	2 096	9
Other	**(26)**	**(0)**	216	2	>(100)	290	1
Inter-segment eliminations[5]	**(89)**	**(1)**	(174)	(2)	49	(457)	(2)
Other operating income	**390**	**5**	340	3	15	751	3
Property-related	**296**	**3**	256	2	16	494	2
RBB	**260**	**3**	165	1	58	318	1
Retail Banking	**78**	**1**	42	0	86	94	0
Business Banking	**182**	**2**	123	1	48	224	1
CIBW	**0**	**0**	1	0	(100)	1	0
Financial Services[2]	**10**	**0**	9	0	11	21	0
Other	**26**	**0**	81	1	(67)	154	1
Other operating income	**116**	**1**	136	1	(15)	341	1
RBB	**90**	**1**	40	0	>100	190	1
Retail Banking	**38**	**0**	68	1	(44)	145	1
Business Banking	**52**	**0**	(28)	(0)	>100	45	0
CIBW	**15**	**0**	20	0	(25)	30	0
Financial Services[2]	**24**	**0**	25	0	(7)	44	0
Other	**(13)**	**(0)**	51	0	>(100)	77	0
Inter-segment eliminations[6]	**(22)**	**(0)**	(52)	(0)	57	(84)	(0)
	11 342	**100**	11 268	100	1	22 964	100

Notes

[1]Refer to pages 121 to 140 for reporting changes.

[2]Financial Services recorded non-interest income of **R2 096 million** (30 June 2012: R1 972 million; 31 December 2012: R4 025 million). Refer to the segment performance on pages 89 to 100.

[3]Includes a debit of **R46 million** (30 June 2012: R55 million debit; 31 December 2012: R101 million debit) eliminated against gains and losses from banking and trading activities, and a debit of **R5 million** (30 June 2012: R4 million debit; 31 December 2012: R9 million debit) eliminated against operating expenses, and a debit of **R17 million** (30 June 2012: Rnil; 31 December 2012: Rnil) against net interest income.

[4]Includes a debit of **R26 million** (30 June 2012: Rnil; 31 December 2012: R42 million credit) eliminated against operating expenses.

[5]Includes a debit of **R129 million** (30 June 2012: R229 million debit; 31 December 2012: R558 million debit) eliminated against net interest income, a credit of **R46 million** (30 June 2012: R55 million credit; 31 December 2012: R101 million credit) eliminated against net fee and commission income, a debit of **R5 million** (30 June 2012: Rnil; 31 December 2012: Rnil) eliminated against other operating income and a debit of **R1 million** (30 June 2012: Rnil; 31 December 2012: Rnil) for dividend eliminations.

[6]Includes a debit of **R12 million** (30 June 2012: R52 million debit; 31 December 2012: R84 million debit) eliminated against operating expenditure, and a debit of **R11 million** (30 June 2012: Rnil; 31 December 2012: Rnil) eliminated net interest income.

4. Non-interest income *(continued)*

Performance

Non-interest income increased by 1% to R11 342 million (30 June 2012: R11 268 million) for the reporting period.

Banking operations (↓1%)

Net fee and commission income, which constitutes approximately 68% of non-interest income, remained stable at R7 178 million (30 June 2012: R7 152 million).

- The net trading result for CIBW improved by 3% while Markets revenue remained flat compared to the previous reporting period. 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. Markets revenue was also negatively impacted by difficult trading conditions towards the end of the reporting period. Investments held in Private Equity and Infrastructure Investments experienced lower revaluations in the current reporting period with a fair value increase of R16 million. Net gains on investments included income from realisations, dividends and fair value movements on investments.
- Net fee and commission income for Retail Banking decreased by 3%, due to the loss of the AllPay contract in 2012, fewer transactional accounts and lower volumes, the migration of transactions to lower revenue generating channels and a deliberate migration from 'pay as you transact' pricing offers to packaged offerings, and in particular Value Bundles. The Absa Rewards programme partly offset this decline, with an increase in transaction volumes for Rewards members.
- Business Banking experienced growth in net fee and commission income due to an 8% growth in electronic banking and growth in the African operations, which was partly offset by lower cheque fee income.

Financial services operations (↓11%)

Non-interest income relating to the Group's financial services operations consists of gross premium income, net commission from distribution business, non-insurance related income and other income. Gross premium income increased by 8% to R3 388 million. Strong growth in the rest of Africa was offset by muted growth in the South African insurance business due to the exiting of non-core product lines in the second half of 2012. Revenue relating to net commission from distribution business, non-insurance related income and other income increased 13% to R1 049 million.

	30 June			31 December	
	2013 Rm	2012[1] Rm	Change %	2012[1] Rm	**Where included in Group**
Operating expenses	**(1 130)**	(1 033)	(9)	(2 138)	Operating expenses
Revenue	**4 437**	4 057	9	8 846	
Gross premium income	**3 388**	3 145	8	6 969	Net insurance premium income
Net commission from distribution business	**232**	205	13	407	Net fee and commission income
Non-insurance related income[2]	**622**	671	(7)	1 117	Net fee and commission income
Other income	**195**	36	>100	353	Net fee and commission income and other operating income
Cost efficiency ratio (%)	**25,5**	25,5	(0)	24,2	

Notes
[1]Refer to pages 121 to 140 for reporting changes.
[2]Fee income relating to employee benefits, trust, estate and portfolio management fees.

4. Non-interest income *(continued)*

Reconciliation of Financial Services non-interest income to Group

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.

	30 June			31 December	
	2013 Rm	2012[1] Rm	Change %	2012[1] Rm	**Where included in Group**
Revenue as per above	**4 437**	4 057	9	8 846	
Fee and commission expense[2]	**(463)**	(460)	(1)	(966)	Net fee and commission income
Reinsurance premiums	**(740)**	(483)	(53)	(1 546)	Net insurance premium income
Net insurance claims and benefits paid	**(1 357)**	(1 352)	(0)	(2 716)	Net insurance claims and benefits paid
Changes in investment contracts and insurance liabilities	**(1 194)**	(875)	(36)	(1 707)	Changes in investment and insurance contract liabilities
Gains and losses from investment activities	**1 428**	1 074	33	2 096	Gains and losses from investment activities
Other operating income	**(15)**	11	>(100)	18	Other operating income
Non-interest income	**2 096**	1 972	6	4 025	

	30 June			31 December
	2013 Rm	2012[1] Rm	Change %	2012[1] Rm
Fee and commission income				
Asset management and other related fees	**86**	34	>100	158
Consulting and administration fees	**258**	257	0	566
Credit-related fees and commissions	**6 141**	6 125	0	12 404
Cheque accounts	**1 779**	1 790	(1)	3 589
Credit cards[3]	**350**	224	56	617
Electronic banking	**1 997**	1 996	0	4 068
Savings accounts	**1 160**	1 223	(5)	2 488
Other[4]	**855**	892	(4)	1 642
Insurance commission received	**616**	452	36	1 077
Investment banking fees	**123**	104	18	252
Merchant income	**1 027**	948	8	2 013
Pension fund payment services[5]	**—**	122	(100)	122
Trust and other fiduciary services	**657**	663	(1)	1 120
Portfolio and other management fees	**531**	546	(3)	870
Trust and estate income	**126**	117	8	250
Other	**102**	80	28	224
	9 010	8 785	3	17 936

Notes

[1]Refer to pages 121 to 140 for reporting changes.

[2]Includes insurance and non-insurance related fees and commission paid.

[3]Includes acquiring and issuing fees.

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

[5]During the previous 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)*

	30 June			31 December
	2013 Rm	2012[1] Rm	Change %	2012[1] Rm
Fee and commission expense				
Cheque processing fees	**(75)**	(81)	7	(161)
Insurance commission paid	**(484)**	(447)	(8)	(945)
Transaction-based legal fees	**(67)**	(112)	40	(209)
Trust and other fiduciary service fees	**(36)**	(114)	68	(73)
Valuation fees	**(71)**	(58)	(22)	(127)
Other	**(477)**	(392)	(22)	(914)
	(1 210)	(1 204)	(0)	(2 429)
Net insurance premium income				
Gross insurance premiums	**3 737**	3 435	9	7 073
Premiums ceded to reinsurers	**(977)**	(678)	(44)	(1 455)
	2 760	2 757	0	5 618
Net insurance claims and benefits paid				
Gross claims and benefits paid on insurance contracts	**(2 346)**	(1 829)	(28)	(3 657)
Reinsurance recoveries	**990**	469	>100	938
	(1 356)	(1 360)	0	(2 719)
Changes in investment and insurance contract liabilities				
Increase in investment contract liabilities	**(1 172)**	(782)	(50)	(1 363)
Increase in insurance contract liabilities	**(22)**	(93)	76	(344)
	(1 194)	(875)	(36)	(1 707)
Gains and losses from banking and trading activities				
Net gains on investments	**(22)**	151	>(100)	93
Debt instruments designated at fair value through profit or loss	**75**	71	6	179
Equity instruments designated at fair value through profit or loss	**(93)**	85	>(100)	(76)
Available-for-sale unwind from reserves	**(4)**	(5)	20	(10)
Net trading result[2]	**1 540**	1 776	(13)	3 674
Net trading income excluding the impact of hedge accounting	**1 619**	1 756	(8)	3 652
Ineffective portion of hedges	**(79)**	20	>(100)	22
Cash flow hedges	**(83)**	19	>(100)	45
Fair value hedges	**4**	1	>100	(23)
Other[2]	**66**	(10)	>100	11
	1 584	1 917	(17)	3 778

Notes

[1]Refer to pages 121 to 140 for reporting changes.

[2]In order to provide for improved disclosure, certain revenue streams have been reclassified. This resulted in a reclassification from 'other' to 'net trading result'.

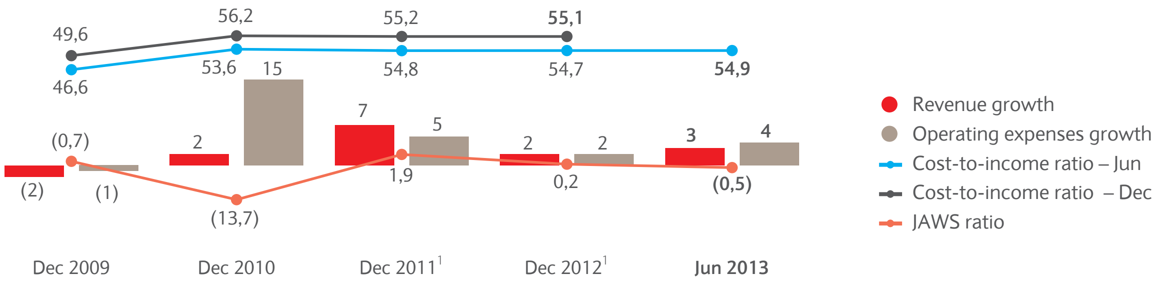
4. Non-interest income *(continued)*

	30 June			31 December
	2013 Rm	2012[1] Rm	Change %	2012[1] Rm
Gains and losses from banking and trading activities by segment[2]				
RBB	**(42)**	(52)	19	(242)
Retail Banking	**47**	39	21	87
Business Banking	**(89)**	(91)	2	(329)
CIBW	**1 671**	1 742	(4)	3 814
Head office and Other	**(47)**	196	>(100)	264
Inter-segment eliminations	**2**	31	(94)	(58)
	1 584	1 917	(17)	3 778
Gains and losses from investment activities				
Available-for-sale unwind from reserves	**1**	1	0	2
Net gains on investments from insurance activities[3]	**1 345**	867	55	1 686
Policyholder – insurance contracts	**95**	125	(24)	329
Policyholder – investment contracts	**1 129**	626	80	1 086
Shareholder funds	**121**	116	4	271
Other	**12**	40	(70)	48
	1 358	908	50	1 736
Gains and losses from investment activities by segment[2]				
RBB – Business Banking	**—**	13	(100)	13
CIBW	**—**	5	(100)	—
Financial Services	**1 428**	1 074	33	2 096
Head office and Other	**21**	21	0	26
Inter-segment eliminations	**(91)**	(205)	56	(399)
	1 358	908	50	1 736
Other operating income				
Exchange differences	**22**	21	5	41
Income from investment properties	**72**	13	>100	30
Change in fair value	**61**	—	100	—
Rentals	**11**	13	(15)	30
Income from maintenance contracts	**6**	10	(40)	25
Loss on disposal of computer software development costs	**—**	—	—	(3)
(Loss)/profit on disposal of property and equipment	**(3)**	40	>(100)	81
Profit on disposal of developed properties	**48**	20	>100	32
Profit on disposal of repossessed properties	**19**	10	90	14
Rental income	**153**	163	(6)	312
Sundry income[4]	**73**	63	16	219
	390	340	15	751
Total non-interest income	**11 342**	11 268	1	22 965

Notes
[1]Refer to pages 121 to 140 for reporting changes.
[2]Refer to the segment performance on pages 52 to 100.
[3]Includes treasury shares held by Group entities, which are eliminated on consolidation.
[4]Includes service fees levied on sundry non-core business activities.

5. Operating expenses

Growth, cost-to-income ratio and JAWS ratio (%)



Breakdown of operating expenses	30 June 2013 Rm	2012[1] Rm	Change %	31 December 2012[1] Rm
Amortisation of intangible assets	**174**	132	32	255
Auditors' remuneration	**102**	99	3	177
Cash transportation	**336**	377	(11)	646
Depreciation	**724**	683	6	1 303
Equipment costs	**135**	197	(31)	287
Information technology (IT)	**1 042**	1 154	(10)	2 134
Investment properties charges – change in fair value	**5**	154	(97)	408
Marketing costs	**486**	355	37	1 024
Operating lease expenses on properties	**563**	545	3	1 058
Other property costs	**132**	198	(33)	399
Printing and stationery	**113**	110	3	220
Professional fees	**578**	271	>100	860
Property costs	**578**	640	(10)	1 270
Staff costs	**6 776**	6 537	4	13 159
Bonuses	**425**	425	—	985
Current service costs on post-retirement benefits	**395**	363	9	721
Salaries	**5 335**	5 177	3	10 308
Share-based payments	**223**	221	1	463
Training costs	**132**	96	38	212
Other[2]	**266**	255	4	470
Telephone and postage	**392**	434	(10)	794
Other[3]	**958**	757	26	1 887
	13 094	12 643	4	25 881

Breakdown of IT-related spend included in operating expenses	30 June 2013 Rm	2012[1] Rm	Change %	31 December 2012[1] Rm
Amortisation of intangible assets and depreciation of equipment	**541**	462	17	836
Information technology	**1 042**	1 154	(10)	2 134
Staff costs	**513**	615	(17)	1 165
Other	**527**	383	38	968
	2 623	2 614	0	5 103

Notes

[1]Refer to pages 121 to 140 for reporting changes.

[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.

5. Operating expenses *(continued)*

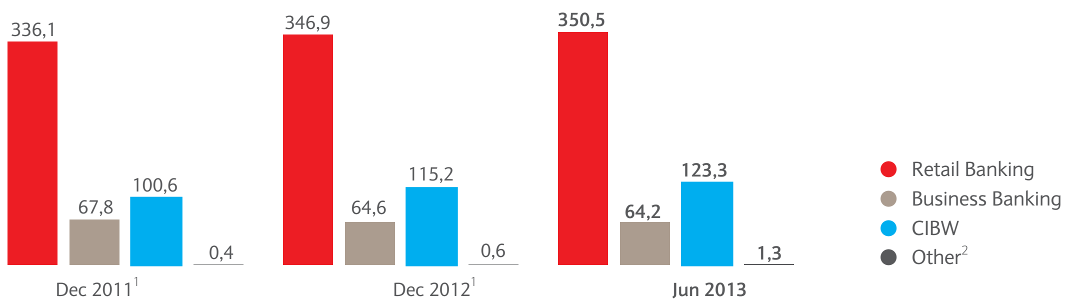
Performance

Operating expenses increased by 4% to R13 094 million (30 June 2012: R12 643 million). The Group's cost-to-income ratio marginally deteriorated to 54,9% from 54,7%.

- Staff costs grew by 4% to R6,8 billion, reflecting 3% higher salary costs and a 38% growth in staff training costs, together with a continued focus on operational efficiencies. Non-staff expenses increased by 3%, with marketing costs increasing by 37% due to the renewal of certain sponsorship rights affecting the timing of the recognition of marketing costs. However, these costs are expected to remain in line with 2012. Good progress was made on optimising property costs, which fell by 10% to R578 million. Telephone and postage costs also declined by 10% to R392 million, and cash transportation costs decreased by 11% to R336 million.
- Total IT-related spend was flat at R2,6 billion and accounted for 20% of the Group's operating expenses. Amortisation of intangible assets increased by 32% to R174 million, reflecting the continued investment in new systems and applications predominantly focusing on the Group's digital and mobile platforms, together with its expansion into Africa, branch transformation and increased regulatory requirements. This is also reflected in the doubling of spend on professional fees to R578 million. The Group plans to continue to invest in these areas through to 2015.
- Other expenses increased by 26% reflecting the administration fees paid to Edcon for the servicing of accounts and to a lesser extent Barclays Africa transaction costs.
- Retail Banking's operating expenses increased by 7%, or 4% excluding the Edcon portfolio. Business Banking's operating expenses fell by 8% due to large declines in Equities and Africa expenses. CIBW grew operating expenses by 3%, at below inflation despite investing in systems. Financial Services grew operating expenses by 9% due to its expansion into the rest of Africa and the amortisation of new operating systems.

6. Loans and advances to customers

Loans and advances to customers by segment (Rbn)



Loans and advances mix	30 June 2013 %	30 June 2012[1] %	31 December 2012[1] %
RBB	**76,9**	80,2	78,0
Retail Banking	**65,0**	66,5	65,7
Business Banking	**11,9**	13,7	12,3
CIBW	**22,9**	19,8	21,8
Financial Services[2]	**0,2**	0,0	0,1
Head office, inter-segment eliminations and Other	**0,0**	0,0	0,1
	100,0	100,0	100,0

Notes

[1]Refer to pages 121 to 140 for reporting changes.

[2]Includes loans and advances to customers for Financial Services. Refer to pages 44 for further information.

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

Loans and advances to customers by segment	30 June 2013 Rm	30 June 2012[1] Rm	Change %	31 December 2012[1] Rm	Annualised change[2] %
RBB					
Gross loans and advances to customers	**428 078**	417 086	3	424 554	2
Impairment losses on loans and advances	**(13 395)**	(12 123)	(10)	(13 027)	(6)
	414 683	404 963	2	411 527	2
Retail Banking					
Cheque accounts	**2 521**	2 287	10	2 340	16
Credit cards[3]	**34 783**	22 686	53	33 034	11
Instalment credit agreements	**61 344**	56 110	9	58 504	10
Loans to associates and joint ventures	**8 801**	8 113	8	8 393	10
Mortgages	**235 227**	239 200	(2)	237 073	(2)
Personal loans	**18 299**	17 262	6	17 482	9
Other loans and advances	**393**	300	31	379	7
Gross loans and advances to customers	**361 368**	345 958	4	357 205	2
Impairment losses on loans and advances	**(10 889)**	(10 068)	(8)	(10 283)	(12)
	350 479	335 890	4	346 922	2
Business Banking					
Cheque accounts and specialised finance[4]	**20 998**	21 288	(1)	20 243	8
Foreign currency loans	**1 410**	1 130	25	987	87
Instalment credit agreements	**1 552**	2 294	(32)	1 876	(35)
Loans to associates and joint ventures	**665**	605	10	627	12
Mortgages (including commercial property finance)	**32 317**	36 249	(11)	33 604	(8)
Term loans	**9 768**	9 562	2	10 012	(5)
Gross loans and advances to customers	**66 710**	71 128	(6)	67 349	(2)
Impairment losses on loans and advances	**(2 506)**	(2 055)	(22)	(2 744)	17
	64 204	69 073	(7)	64 605	(1)
CIBW					
Cheque accounts	**12 436**	12 909	(4)	12 813	(6)
Corporate overdrafts	**42 535**	37 276	14	37 762	26
Foreign currency loans	**16 384**	8 455	94	12 151	70
Mortgages	**11 865**	11 853	0	11 716	3
Overnight finance	**16 743**	13 095	28	18 314	(17)
Preference shares	**6 613**	6 873	(4)	6 342	9
Reverse repurchase agreements	**6 309**	2 045	>100	4 698	69
Other loans and advances	**11 247**	8 536	32	12 204	(16)
Gross loans and advances to customers	**124 132**	101 042	23	116 000	14
Impairment losses on loans and advances	**(812)**	(691)	(18)	(840)	7
	123 320	100 351	23	115 160	14

Notes

[1]Refer to pages 121 to 140 for reporting changes.

[2]Annualised growth calculated for a 12-month period, based on 31 December 2012 balances.

[3]Includes **R9 806 million** (30 June 2012: Rnil; 31 December 2012: R9 358 million) relating to the Edcon portfolio.

[4]Includes corporate and wholesale overdrafts.

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

Loans and advances to customers by segment *(continued)*	30 June 2013 Rm	30 June 2012[1] Rm	Change %	31 December 2012[1] Rm	Annualised change[2] %
Financial Services					
Mortgages	**1 208**	189	>100	316	>100
Gross loans and advances to customers	**1 208**	189	>100	316	>100
Impairment losses on loans and advances	**(16)**	(4)	>(100)	(20)	40
	1 192	185	>100	296	>100
Head office, inter-segment eliminations and Other					
Other loans and advances	**266**	442	(40)	470	(88)
Gross loans and advances to customers	**266**	442	(40)	470	(88)
Impairment losses on loans and advances	**(118)**	(211)	44	(125)	11
	148	231	(36)	345	>(100)
Gross loans and advances to customers	**553 684**	518 759	7	541 340	5
Impairment losses on loans and advances	**(14 341)**	(13 029)	(10)	(14 012)	(5)
Net loans and advances to customers	**539 343**	505 730	7	527 328	5

Performance

Loans and advances to customers increased by 7% to R539 billion, largely driven by the acquisition of the Edcon portfolio, instalment credit agreements, elevated levels of customer spend and account acquisitions in Card as well as new loan growth in CIBW.

At a segment level

RBB (↑2%)

Retail Banking (↑4%)

- Instalment credit agreement balances increased by 9% due to growth in sales production, flow of new and pre-owned vehicle sales as well as strategic alliances. A marked improvement in the quality of the book has been realised from improvements to collection processes.
- Mortgages declined by 2% as a result of book run-off due to an ageing book and increased NPL coverage. However, there have been significant reductions in the mortgages legal portfolio. The performing loans book remained in line with previous reporting period levels. The decision to engage a broader origination channel strategy and an improvement in the process of converting applications to registered loans resulted in a 31% increase in new business production with an increase in front book market share from 16,4% to 21,2%.
- Card recorded growth in loans and advances to customers of 53%, mainly attributable to the acquisition of the Edcon portfolio in November 2012. Growth excluding the Edcon portfolio acquisition was 12% due to elevated levels of customer spend and an upward trend in account acquisitions resulting from an improved credit appetite and the realisation of the multi-channel strategy.

Business Banking (↑7%)

- In line with the strategic decision taken in 2010 to reduce the relative concentration risk of the CPF book, this portfolio declined by 11% compared with the previous reporting period. Lengthy sales cycles and payout periods of typical CPF transactions also contributed to the decline in this portfolio.
- Term loans reflected positive growth of 2% as a result of increased cross-selling to customers with stand-alone products, a dedicated sales force to target specific market segments and regions as well as the extension of term loans close to maturity. These initiatives are expected to continue contributing to further growth.
- The negative growth in cheque account balances is attributable to the agricultural season not coinciding with those of previous years and harvesting that occurred earlier than usual.

Notes
[1]Refer to pages 121 to 140 for reporting changes.
[2]Annualised growth calculated for a 12-month period, based on 31 December 2012 balances.

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

Performance *(continued)*

At a segment level (continued)

CIBW (↑23%)

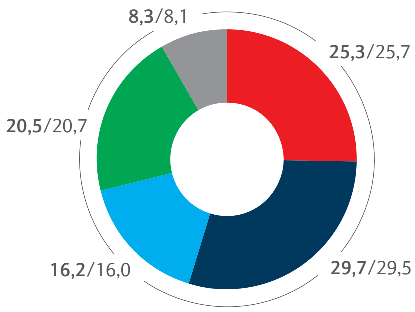
- The increase in CIBW loans and advances to customers is largely driven by growth in foreign currency loans (94%) and corporate overdrafts (14%). This is mainly attributable to increased client activity in the power, utilities and infrastructure, metals and mining and consumer sectors. Overnight finance increased by 28%, mainly in the manufacturing sector while reverse repo agreements, facing the financial sector, more than doubled in the reporting period.

Financial Services (↑>100%)

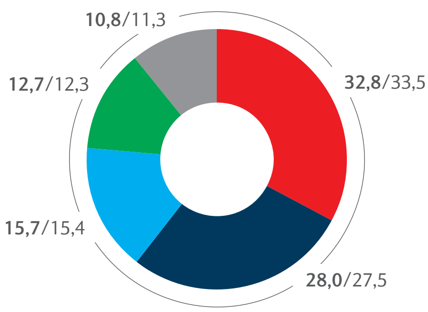
- The participation bonds of Mortgage Fund Managers have been brought on statement of financial position due to investor loans being replaced with Absa funds. This business is being closed in the second half of 2013.

Loans and advances to customers – Market share (%)

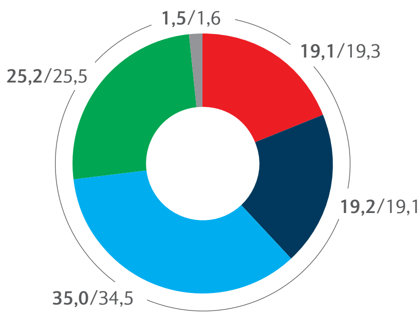
Mortgages[1]



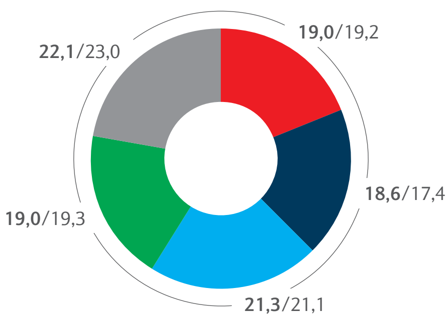
Credit cards



Instalment credit agreements



Overdrafts and other loans



- Absa
- Standard Bank
- FirstRand
- Nedbank
- Other

May 2013[2]/December 2012

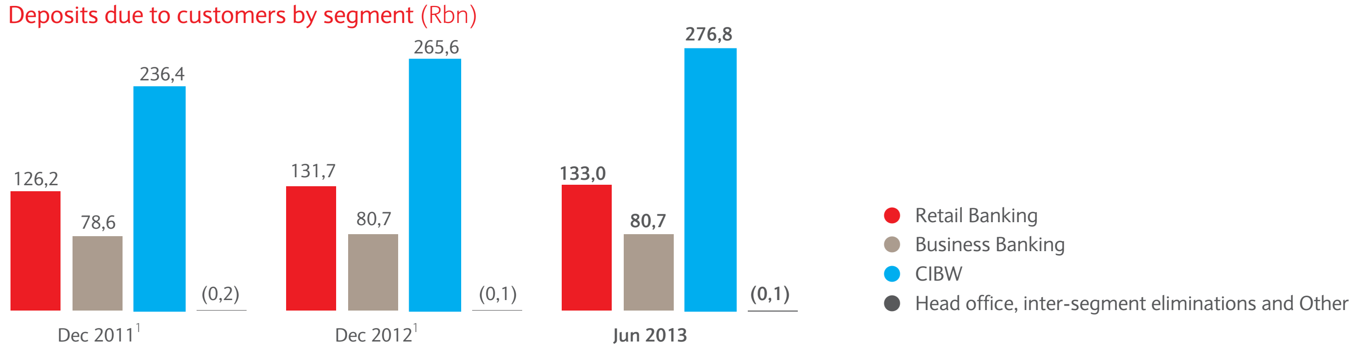
Notes

[1]Securitisation of **R4 405 million – 0,4% of market share** (30 June 2012: R4 938 million – 0,5% of market share; 31 December 2012: R4 652 million – 0,4% of market share) has been excluded from the Absa mortgage book.

[2]At the date of publishing, the market share information for 30 June 2013 was not available.

7. Deposits due to customers and debt securities in issue

Deposits due to customers by segment (Rbn)



Total funding mix	30 June 2013 %	30 June 2012[1] %	31 December 2012[1] %
Deposits due to customers	**76,5**	75,4	77,0
RBB	**33,3**	33,5	34,2
Retail Banking	**20,7**	21,0	21,2
Business Banking	**12,6**	12,5	13,0
CIBW	**43,2**	41,9	42,8
Head office, inter-segment eliminations and Other	**0,0**	0,0	0,0
Deposits from banks	**6,9**	4,3	5,8
Debt securities in issue	**16,6**	20,3	17,2
	100,0	100,0	100,0

Total funding composition	30 June 2013 Rm	30 June 2012[1] Rm	Change %	31 December 2012[1] Rm	Annualised change[2] %
Retail Banking deposits	**133 029**	127 483	4	131 739	2
Low margin	**62 790**	59 074	6	60 448	8
High margin	**70 239**	68 409	3	71 291	(3)
Business Banking deposits	**80 715**	76 345	6	80 744	(0)
Corporate and institutional funding[3]	**426 995**	404 219	6	408 333	9
	640 739	608 047	5	620 816	6

Notes
[1]Refer to pages 121 to 140 for reporting changes.
[2]Annualised growth calculated for a 12-month period, based on 31 December 2012 balances.
[3]Includes deposits from banks, debt securities in issue as well as deposits due to customers.

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

Deposits due to customers by segment	30 June 2013 Rm	30 June 2012[1] Rm	Change %	31 December 2012[1] Rm	Annualised change[2] %
RBB	**213 744**	203 828	5	212 483	1
Retail Banking					
Call deposits	**388**	437	(11)	425	(18)
Cheque account deposits	**19 891**	18 365	8	19 442	5
Credit card deposits	**1 807**	1 823	(1)	1 938	(14)
Fixed deposits	**30 901**	29 663	4	30 636	2
Investment products	**30 766**	28 284	9	28 748	14
Notice deposits	**11 094**	11 377	(2)	11 308	(4)
Savings and transmission deposits	**37 059**	36 407	2	38 178	(6)
Other deposits	**1 123**	1 127	(0)	1 064	11
	133 029	127 483	4	131 739	2
Business Banking					
Call deposits	**11 175**	10 941	2	11 582	(7)
Cheque account deposits	**37 685**	37 221	1	38 511	(4)
Fixed deposits	**15 639**	15 330	2	16 864	(15)
Foreign currency deposits	**2 400**	1 353	77	1 960	45
Notice deposits	**1 668**	1 786	(7)	1 633	4
Savings and transmission deposits	**12 102**	9 657	25	10 062	41
Other deposits	**46**	57	(19)	132	>(100)
	80 715	76 345	6	80 744	(0)
CIBW					
Call deposits	**40 173**	36 169	11	44 661	(20)
Cheque account deposits	**94 579**	84 085	12	85 907	20
Fixed deposits	**83 043**	77 762	7	78 300	12
Foreign currency deposits	**9 532**	7 158	33	9 512	0
Notice deposits	**42 644**	33 920	26	42 787	(1)
Repurchase agreements with non-banks	**3 813**	12 432	(69)	1 503	>100
Other deposits	**2 986**	3 229	(8)	2 892	7
	276 770	254 755	9	265 562	9
Head office, inter-segment eliminations and Other					
Other deposits	**(120)**	(239)	50	(192)	76
Deposits due to customers	**490 394**	458 344	7	477 853	14

Notes

[1]Refer to pages 121 to 140 for reporting changes.

[2]Annualised growth calculated for a 12-month period, based on 31 December 2012 balances.

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

	30 June			31 December	
Debt securities in issue	**2013 Rm**	2012[1] Rm	Change %	2012[1] Rm	Annualised change[2] %
Credit linked notes	**9 451**	10 169	(7)	9 800	(7)
Floating rate notes	**49 113**	63 981	(23)	52 638	(14)
Liabilities arising from securitised special purpose entities	**2 372**	4 219	(44)	2 391	(2)
Negotiable certificates of deposits	**23 040**	21 372	8	17 575	63
Promissory notes	**833**	1 316	(37)	1 378	(80)
Structured notes and bonds	**543**	1 253	(57)	1 098	>(100)
Senior notes	**20 876**	21 476	(3)	21 892	(9)
Other	**7**	—	100	7	—
	106 235	123 786	(14)	106 779	(29)

Performance

The funding balance increase is largely driven by the growth in deposits from banks and wholesale funding. The increase in deposits due to customers is mainly attributable to the increased foreign currency deposits and investment products in Business Banking and foreign currency, cheque and call deposits from CIBW.

At a segment level

RBB (↑5%)

Retail Banking (↑4%)

- Savings and transmission deposit balances increased by 2% to R37 billion (30 June 2012: R36 billion) attributable to the new product Depositor Plus launched during the reporting period. Depositor Plus experienced strong growth with inflows in excess of R3 billion generated during the latter part of the reporting period.
- Investment products generated strong growth of 9% due to favourable rates being offered on the money market product.
- Notice deposits declined by 2% in spite of the launch of Notice Select.

Business Banking (↑6%)

- Foreign currency deposits in the Africa operations increased by 77% driven by high value clients and positive benefits realised from exchange rates.
- The strong growth of 25% in savings and transmission deposits is attributable to the Depositor Plus product that was introduced during the reporting period.
- Moderate growth of 2% was achieved in fixed deposits.
- An enhanced product offering to attorneys and the introduction of new term deposit products attracted additional depositors.

CIBW (↑9%)

- CIBW's deposits grew mainly as a result of increased notice deposits (26%), cheque account deposits (12%) and fixed deposits (7%) largely driven by continued growth in Ratchet deposits and increased client flow into cheque accounts.

Notes

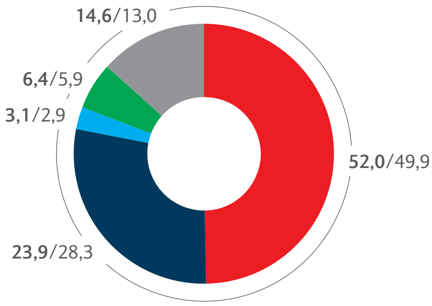
[1]Refer to pages 121 to 140 for reporting changes.

[2]Annualised growth calculated for a 12-month period, based on 31 December 2012 balances.

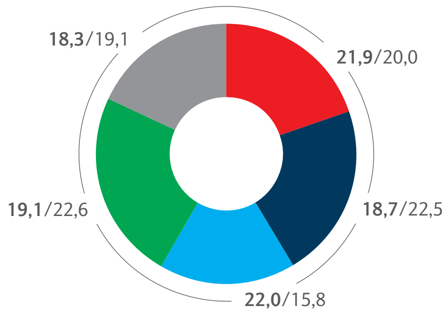
7. Deposits due to customers and debt securities in issue *(continued)*

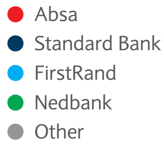
Deposits due to customers – Market share (%)

Savings

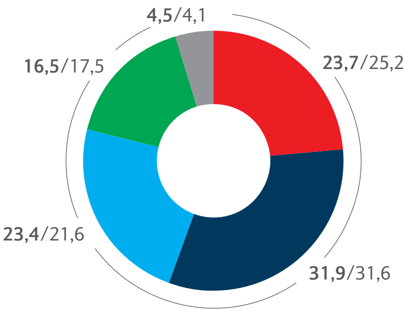


Medium-term

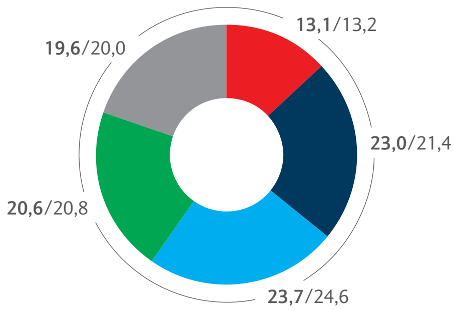




Cash and transmission



Short-term and other demand



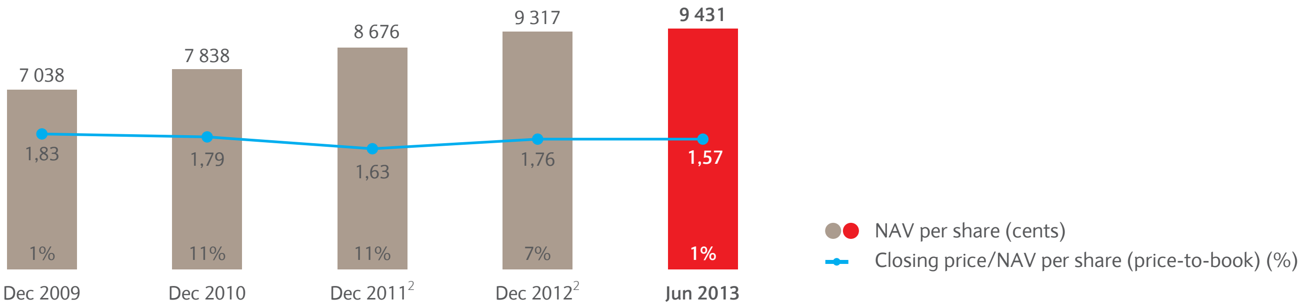
May 2013[1]/December 2012

Note

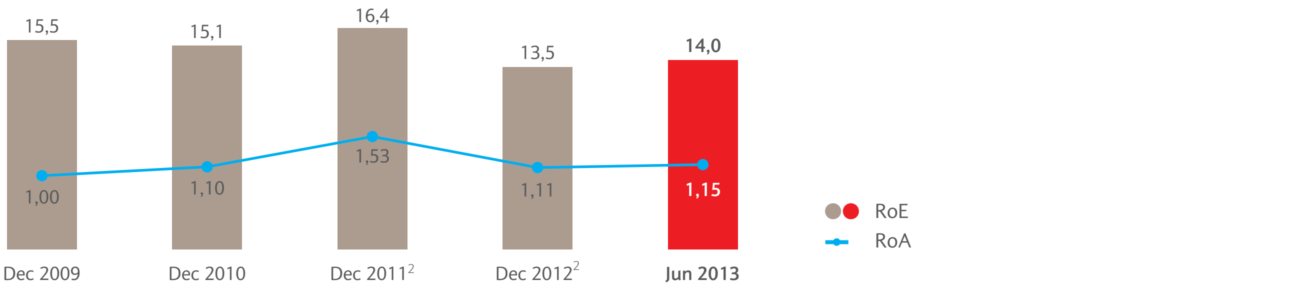
[1]At the date of publishing, the market share information for 30 June 2013 was not available.

8. Equity and borrowed funds[1]

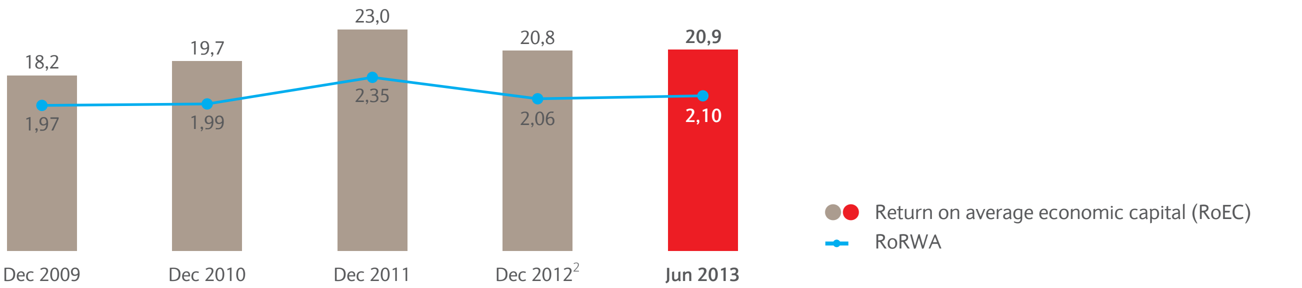
NAV per share and closing price/NAV per share (cents, change % and %)



Return on average equity and assets (%)



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



Performance

The Group's RoE increased to 14,0% (30 June 2012: 13,7%) mainly driven by improvements to RoA. This is above the Group's internal CoE of 13,0% (30 June 2012: 13,5%).

The Group's RoA improved to 1,15% (30 June 2012: 1,07%) due to the reduction in impairments as a percentage of average assets, with a smaller contribution from the improvement in the net interest margin. These positive factors were partially offset by a the marginal deterioration in the cost-to-income ratio.

Return on average economic capital (RoEC) increased to 20,9%, compared to the 20,8% recorded in December 2012.

The Group maintained its strong capital position above Board-approved target ranges and regulatory requirements as at the reporting date. After implementing Basel III on 1 January 2013 and growing loans and advances by 7% in 2013, the Group's RWAs increased by 7% to R457,5 billion (30 June 2012: R426,5 billion).

Absa Group's Common Equity Tier 1 capital adequacy ratio of 12,5% (30 June 2012: 13,0%) is well above regulatory requirements and the Group's Board targets.

Notes

[1]Refer to pages 103 to 118 for the risk management section.

[2]Refer to pages 121 to 140 for reporting changes.

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

Total qualifying capital	30 June 2013 Shareholders' equity Rm	30 June 2013 Economic capital Rm	30 June 2013 Tier 1 regulatory capital[2] Rm	30 June 2012 Shareholders' equity[2] Rm	30 June 2012 Economic capital Rm	30 June 2012 Tier 1 regulatory capital Rm	31 December 2012 Shareholders' equity[2] Rm	31 December 2012 Economic capital Rm	31 December 2012 Tier 1 regulatory capital Rm
Ordinary share capital and share premium	**5 902**	**5 902**	**5 902**	6 006	6 006	6 006	6 039	6 039	6 039
Preference share capital and share premium	**—**	**4 644**	**4 627**	—	4 644	4 644	—	4 644	4 644
Retained earnings	**58 922**	**58 922**	**55 344**	55 341	55 502	52 009	56 889	56 902	53 394
Other reserves	**2 860**	**2 140**	**2 020**	2 725	261	—	3 941	618	—
Non-controlling interest	**—**	**—**	**383**	—	—	1 391	—	—	1 268
Expected loss adjustment	**—**	**—**	**(2 558)**	—	—	(1 220)	—	—	(1 401)
Other deductions	**—**	**(2 571)**	**(3 780)**	—	(2 115)	(1 837)	—	(2 561)	(2 283)
	67 684	**69 037**	**61 938**	64 072	64 298	60 993	66 869	65 642	61 661
Average capital for the reporting period	**65 878**	**66 668**	**61 466**	65 471	63 654	60 307	64 539	64 326	60 641

Capital demand – closing balance	30 June 2013 Risk-weighted assets Rm	30 June 2013 Economic capital[3] Rm	30 June 2012 Risk-weighted assets Rm	30 June 2012 Economic capital[3] Rm	31 December 2012 Risk-weighted assets Rm	31 December 2012 Economic capital[3] Rm
Credit risk	**338 075**	**31 623**	311 737	27 695	321 500	28 895
RBB[4]	**230 126**	**22 748**	218 519	21 014	228 887	20 901
CIBW	**97 214**	**8 705**	88 576	6 607	87 716	7 806
Other	**10 735**	**170**	4 642	74	4 897	188
Equity investment risk	**22 081**	**2 883**	23 864	3 084	22 735	3 059
Market risk	**13 907**	**1 905**	13 354	1 666	13 797	1 700
Operational risk	**63 035**	**4 398**	60 786	4 088	62 385	4 094
Other	**20 382**	**5 392**	16 711	6 249	17 799	5 862
	457 480	**46 201**	426 452	42 782	438 216	43 610

Share capital and share premium	30 June 2013 Rm	30 June 2012 Rm	Change %	31 December 2012 Rm
Authorised				
Ordinary shares of R2,00 each	**1 761**	1 761	—	1 761
Issued				
Ordinary shares of R2,00 each	**1 436**	1 436	—	1 436
Treasury shares held by Group entities	**(1)**	(2)	50	(1)
	1 435	1 434	0	1 435
Total issued capital				
Share capital	**1 435**	1 434	0	1 435
Share premium	**4 467**	4 572	(2)	4 604
	5 902	6 006	(2)	6 039

Notes
[1]Changes have been impacted by the implementation of Basel III. Refer to pages 103 to 118 for the risk management section.
[2]Refer to pages 121 to 140 for reporting changes.
[3]Represents the average required economic capital (EC) (demand) and not economic capital (supply).
[4]The increase from the previous reporting period is as a result of the Edcon portfolio acquisition.

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

Number of ordinary shares in issue (after deduction of treasury shares) – closing balance	30 June 2013 Number of shares million	30 June 2012 Number of shares million	Change value million	31 December 2012 Number of shares million
Ordinary shares in issue of R2,00 each	**718,2**	718,2	—	718,2
Treasury shares held by Group entities	**(0,5)**	(1,0)	0,5	(0,5)
	717,7	717,2	0,5	717,7

Borrowed funds		30 June 2013 Rm	30 June 2012 Rm	Change %	31 December 2012 Rm
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	—	1 725
8,10%	27 March 2020	**2 000**	2 000	—	2 000
10,28%	3 May 2022	**600**	600	—	600
8,295%	21 November 2023	**1 188**	—	100	1 188
Three-month JIBAR + 2,10%	3 May 2022	**400**	400	—	400
Three-month JIBAR + 1,95%	21 November 2022	**1 805**	—	100	1 805
Three-month JIBAR + 2,05%	21 November 2023	**2 007**	—	100	2 007
CPI-linked notes, fixed at the following coupon rates:					
6,25%	31 March 2018	**—**	1 886	(100)	1 886
6,00%	20 September 2019	**3 000**	3 000	—	3 000
5,50%	7 December 2028	**1 500**	1 500	—	1 500
Accrued interest		**1 358**	1 339	1	1 462
Fair value adjustment		**74**	318	(77)	334
		15 657	14 268	10	17 907

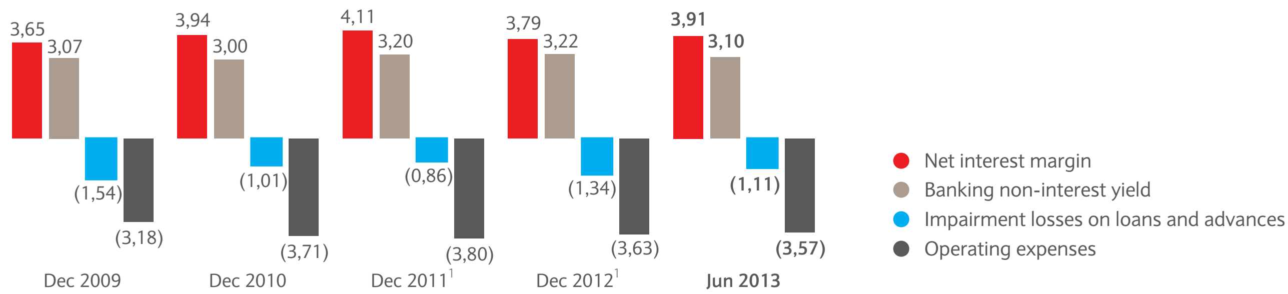
Note
[1]Refer to pages 103 to 118 for the risk management section.

9. RoE decomposition

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

		30 June		31 December
		2013 %	2012[1] %	2012[1] %
Net interest margin (average interest-bearing assets)		**3,91**	3,88	3,79
	less			
Impairment losses on loans and advances/average interest-bearing assets		**1,11**	1,34	1,34
	equals			
Net interest margin – after impairment losses (average interest-bearing assets)		**2,80**	2,54	2,45
	multiply			
Average interest-bearing assets/average banking assets		**0,87**	0,88	0,89
	equals			
Banking interest yield		**2,44**	2,24	2,18
	plus			
Banking non-interest yield		**3,10**	3,24	3,22
	equals			
Banking revenue yield		**5,54**	5,48	5,40
	less			
Operating expenses/average banking assets		**3,57**	3,64	3,63
	equals			
Net banking return		**1,97**	1,84	1,77
	less			
Other[2]		**0,70**	0,60	0,54
	equals			
Banking return		**1,27**	1,24	1,23
	multiply			
Average banking assets/total average assets		**0,91**	0,89	0,88
	equals			
Return on average assets		**1,15**	1,10	1,08
	multiply			
Leverage		**12,2**	12,4	12,5
	equals			
Return on average equity		**14,0**	13,7	13,5

Major drivers of RoE (%)



Notes

[1] Refer to pages 121 to 140 for reporting changes.

[2] 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

	30 June			31 December
	2013 Rm	2012 Rm	Change %	2012 Rm
Assets under management and administration				
Alternative asset management and exchange-traded funds	**51 039**	36 773	39	41 957
Deceased estates	**2 182**	2 258	(3)	2 012
Participation bond schemes	**1 287**	2 533	(49)	2 184
Portfolio management	**45 374**	28 161	61	44 222
Private equity	**811**	762	6	819
Trusts	**3 967**	3 508	13	3 783
Unit trusts	**145 463**	134 591	8	138 978
Other	**13 704**	11 155	23	12 995
	263 827	219 741	20	246 950
Financial guarantee contracts[1]				
Financial guarantee contracts	**96**	157	(39)	146
Commitments				
Authorised capital expenditure[2]				
Contracted but not provided for	**942**	970	(3)	578
Contingencies				
Guarantees[3]	**17 204**	14 158	22	16 217
Irrevocable debt facilities[4]	**48 408**	44 842	8	46 483
Irrevocable equity facilities[4]	**510**	538	(5)	543
Letters of credit	**4 254**	5 513	(23)	6 670
Other	**6**	4	50	6
	70 382	65 055	8	69 919

Notes

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

[2]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.

[3]Guarantees include performance and payment guarantee contracts.

[4]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

RBB experienced strong headline earnings growth of 48% due to lower credit impairments, the inclusion of the Edcon portfolio and the stabilisation of the equity portfolio. Difficult trading conditions and lower revaluations from Private Equity resulted in a 7% decline in CIBW's headline earnings. Financial Services grew headline earnings by 5%, primarily due to improved new business volumes.

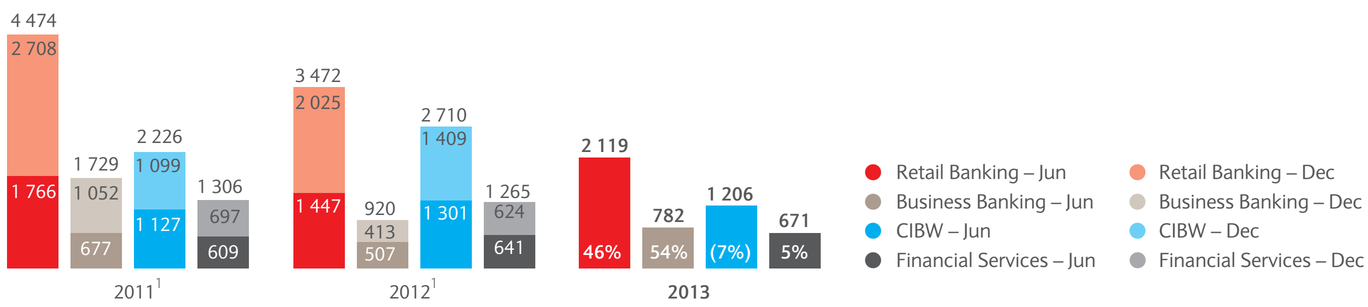
Favourable

- RBB's headline earnings increased by 48% to R2 901 million, with Retail Banking and Business Banking increasing headline earnings by 46% and 54% respectively.
- Sizeable decline in credit impairments of Retail Banking and Business Banking.
- Stabilisation of the equity portfolio of Business Banking.
- Continued cost containment, specifically in RBB and CIBW.
- Deposits due to customers increased by 7% on the back of solid deposit growth in RBB.
- Retail Banking introduced two new deposit offerings, Depositor Plus and Notice Select.
- CIBW launched NewPlat to the market – South Africa's first fully backed physical platinum exchange traded fund (ETF) and the JSE's third largest ETF product.
- Net investment fund inflows of R6,2 billion in Financial Services.
- CIBW awarded the African Wind Deal of the Year 2012 for financing the Dorper Wind Farm project by the *Project Finance* magazine.

Unfavourable

- African operations remained under pressure.
- Lower insurance earnings in Financial Services following crop cover underwriting losses.
- Private Equity performance negatively impacted CIBW's earnings.

Headline earnings (Rm and change %)



Note

[1]Refer to pages 121 to 140 for reporting changes.

Financial reporting structure

Absa Group Limited

RBB[1]

Retail Banking[2]

- Home Loans
- Vehicle and Asset Finance (VAF)
  - Commercial Asset Finance (CAF)[3]
  - Absa Vehicle Management Solutions[3]
- Card[4]
  - Woolworths Financial Services
  - Edcon portfolio
- Personal Loans
- Retail Bank (including Absa Private Bank and debit card)[4]
- Absa Development Company Holdings
- AllPay Consolidated Investment Holdings

African operations[5]

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

Business Banking[2]

- Business Banking[3]
  - Commercial Property Finance (CPF)
  - Debt Products
- Investment Products
- Commercial Business
- Enterprise Business
- Equities

African operations[5]

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

International operations

- Absa Bank London[6]

CIBW[1]

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

African operations[5]

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

International operations

- Absa Bank London[6]

Financial Services[1]

Life Insurance

- Absa Life

Investments

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

Short-term Insurance

- Absa Insurance Company
- Absa *idirect*
- Absa Insurance Risk Management Services[7]

Fiduciary Services

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

Distribution

- Absa Insurance and Financial Advisers

African operations[5]

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

Head office, inter-segment eliminations and Other[1]

- Enterprise Functions[8,9]
  - Corporate Real Estate Services (CRES)
- Group Treasury[8]
- Consolidation Centre[9]

African operations[5]

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

International operations

- Absa Bank London[6]
- Absa Manx Insurance Company[10]

Notes

[1]Refer to pages 121 to 140 for reporting changes.

[2]Retail Banking (previously Retail Markets) and Business Banking (previously Business Markets) were renamed to align with industry naming conventions.

[3]The CAF and Absa Vehicle Management Solutions businesses, previously reported within the Business Banking segment, have been transferred to the Retail Banking segment to take advantage of synergies within the existing VAF portfolio in Retail Banking.

[4]The debit card operations, previously reported as part of the Card sub-segment were transferred to the Retail Bank sub-segment in Retail Banking. This ensures better alignment of this business with the products that utilise the operational base.

[5]The Group's African operations have been allocated to the various segments where those businesses are managed. African operations relating to the Head office, inter-segment eliminations and Other segment have been allocated between the Group Treasury and Consolidation Centre business units.

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

[7]Absa Insurance Risk Management Services has been classified as 'held-for-sale' since the intention is to dispose of the company.

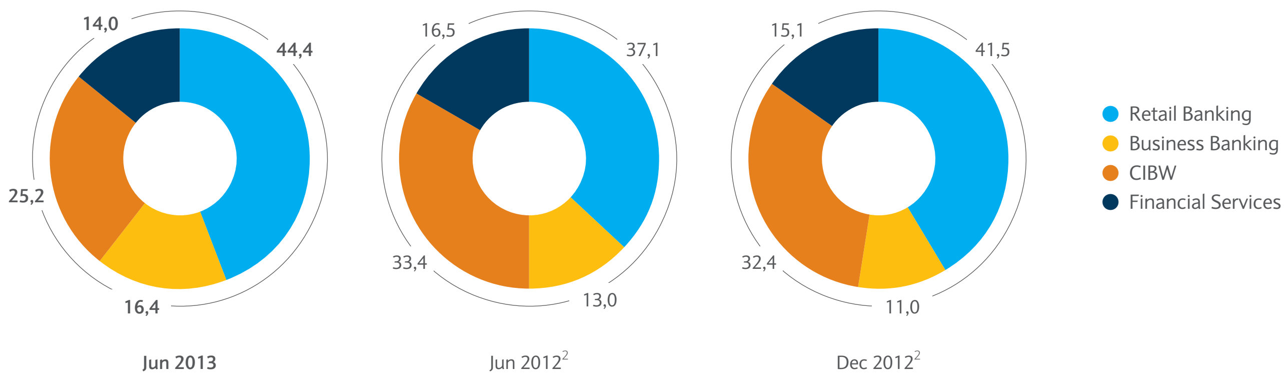
[8]Enterprise Core Services was renamed to Enterprise Functions. Capital and funding centres were renamed to Group Treasury.

[9]The business unit previously reported as the Corporate Centre was disaggregated into two separate sub-segments: Enterprise Functions and Consolidation Centre.

[10]The intention is to liquidate and deregister Absa Manx Insurance Company by 2014.

Headline earnings by segment

Headline earnings (%)[1]



	30 June 2013 Rm	30 June 2012[2] Rm	Change %	31 December 2012[2] Rm
Banking operations				
RBB	**2 901**	1 954	48	4 392
Retail Banking	**2 119**	1 447	46	3 472
Home Loans	**156**	(623)	>100	(992)
Vehicle and Asset Finance	**523**	377	39	847
Card	**896**	811	10	1 888
Personal Loans	**148**	253	(42)	587
Retail Bank	**413**	588	(30)	1 127
AllPay	**(17)**	41	>(100)	15
Business Banking	**782**	507	54	920
CIBW	**1 206**	1 301	(7)	2 710
Head office, inter-segment eliminations and Other	**(115)**	417	>(100)	371
Enterprise Functions	**29**	152	(81)	443
Group Treasury	**(81)**	76	>(100)	122
Consolidation Centre	**(63)**	189	>(100)	(194)
Total banking	**3 992**	3 672	9	7 473
Financial Services	**671**	641	5	1 265
Headline earnings	**4 663**	4 313	8	8 738

Notes

[1] Calculation based on the exclusion of Head office, inter-segment eliminations and Other.

[2] Refer to pages 121 to 140 for reporting changes.

Segment report per market segment

	RBB				CIBW			
	30 June			31 December	30 June			31 December
	2013	2012[1]	Change %	2012[1]	**2013**	2012[1]	Change %	2012[1]
Statement of comprehensive income (Rm)								
Net interest income	**10 744**	9 848	9	20 270	**1 818**	1 726	5	3 321
Impairment losses on loans and advances	**(3 479)**	(3 962)	12	(8 235)	**(69)**	(51)	(35)	(223)
Non-interest income	**7 016**	6 866	2	13 879	**2 420**	2 383	2	5 208
Operating expenses	**(9 745)**	(9 513)	(2)	(19 194)	**(2 522)**	(2 439)	(3)	(4 906)
Other	**(161)**	(193)	17	(374)	**(52)**	(52)	0	21
Operating profit before income tax	**4 375**	3 046	44	6 346	**1 595**	1 567	2	3 421
Taxation expense	**(1 252)**	(1 161)	(80)	(2 081)	**(323)**	(235)	(37)	(618)
Profit for the reporting period	**3 123**	1 885	66	4 265	**1 272**	1 332	(5)	2 803
Profit attributable to:								
Ordinary equity holders	**2 944**	1 791	64	4 007	**1 206**	1 301	(7)	2 710
Non-controlling interest – ordinary shares	**85**	(1)	>100	58	**14**	(14)	>100	(2)
Non-controlling interest – preference shares	**94**	95	(1)	200	**52**	45	16	95
	3 123	1 885	66	4 265	**1 272**	1 332	(5)	2 803
Headline earnings	**2 901**	1 954	48	4 392	**1 206**	1 301	(7)	2 710
Operating performance (%)								
Net interest margin on average interest-bearing assets	**3,98**	3,78		3,82	**0,98**	0,83		0,82
Impairment losses on loans and advances as % of average loans and advances to customers	**1,70**	1,98		2,04	**0,12**	0,10		0,21
Non-interest income as % of total operating income	**39,5**	41,1		40,6	**57,1**	58,0		61,1
Revenue growth[2]	**6**	2		1	**3**	8		11
Cost growth[2]	**(2)**	(4)		(4)	**(3)**	(5)		(3)
Cost-to-income ratio[3]	**54,9**	56,9		56,2	**59,5**	59,4		57,5
Cost-to-assets ratio	**3,3**	3,3		3,3	**1,0**	0,9		0,9
Statement of financial position (Rm)								
Loans and advances to customers	**414 683**	404 963	2	411 527	**123 320**	100 351	23	115 160
Investment securities	**959**	1 253	(23)	1 042	**7 766**	6 884	13	7 919
Other assets	**195 805**	180 866	8	199 130	**380 546**	371 125	3	350 374
Total assets	**611 447**	587 082	4	611 699	**511 632**	478 360	7	473 453
Deposits due to customers	**213 744**	203 828	5	212 483	**276 770**	254 755	9	265 562
Debt securities in issue	**3 313**	4 256	(22)	3 636	**83 351**	94 043	(11)	82 987
Other liabilities	**387 819**	374 902	3	388 418	**147 837**	125 417	18	119 286
Total liabilities	**604 876**	582 986	4	604 537	**507 958**	474 215	7	467 835
Financial performance (%)								
Return on average economic capital[4]	**20,9**	14,7		16,5	**18,0**	22,7		21,8
Return on average risk-weighted assets	**2,08**	1,43		1,59	**1,70**	1,98		1,99
Return on average assets	**0,99**	0,68		0,75	**0,48**	0,51		0,50
Other								
Banking customer base per segment (millions)[5]	**9,9**	11,2	(12)	10,2	**0,1**	0,1	0	0,1
Attributable income from the rest of Africa (Rm)	**(129)**	(143)	10	(250)	**64**	66	(3)	181

Notes

[1] Refer to pages 121 to 140 for reporting changes.

[2] The figures for 2011 were not restated for the implementation of IFRS 10 Consolidated Financial Statements and are therefore not comparable.

[3] The cost efficiency ratio of Financial Services, based on insurance industry norms is **25,4%** (30 June 2012: 25,5%; 31 December 2012: 24,2%). The revenue used in this ratio for Financial Services is gross insurance premiums, net commission from the distribution business and non-insurance related income. Refer to pages 89 to 100.

[4] Financial Services' RoE is **28,4%** (30 June 2012: 27,8%, 31 December 2012: 27,2%) and Absa Group's RoE is **14%** (30 June 2012: 13,7%; 31 December 2012 13,5%).

[5] Excludes Absa African operations, the Edcon portfolio and Woolworths Financial Services.

Segment report per market segment

Financial Services				Head office, inter-segment eliminations and Other				Group			
30 June			31 December	30 June			31 December	30 June			31 December
2013	2012[1]	Change %	2012[1]	**2013**	2012[1]	Change %	2012[1]	**2013**	2012[1]	Change %	2012[1]
10	2	>100	6	**(69)**	277	>(100)	395	**12 503**	11 853	5	23 992
(1)	(4)	75	(24)	**3**	(90)	>100	4	**(3 546)**	(4 107)	14	(8 478)
2 096	1 972	6	4 025	**(190)**	47	>(100)	(148)	**11 342**	11 268	1	22 964
(1 130)	(1 033)	(9)	(2 138)	**303**	342	(12)	357	**(13 094)**	(12 643)	(4)	(25 881)
(51)	(49)	(9)	(119)	**(135)**	(16)	>(100)	(98)	**(399)**	(310)	(29)	(570)
924	888	4	1 750	**(88)**	560	>(100)	510	**6 806**	6 061	12	12 027
(254)	(248)	(2)	(502)	**(33)**	(116)	72	(154)	**(1 862)**	(1 760)	(6)	(3 355)
670	640	5	1 248	**(121)**	444	>(100)	356	**4 944**	4 301	15	8 672
670	640	5	1 248	**(119)**	438	>(100)	359	**4 701**	4 170	13	8 324
—	—	—	—	**(2)**	6	>(100)	(3)	**97**	(9)	>100	53
—	—	—	—	**—**	—	—	—	**146**	140	4	295
670	640	5	1 248	**(121)**	444	>(100)	356	**4 944**	4 301	15	8 672
671	641	5	1 265	**(115)**	417	>(100)	371	**4 663**	4 313	8	8 738
n/a	n/a		n/a	**n/a**	n/a		n/a	**3,91**	3,88		3,79
0,32	5,29		12,37	**n/a**	n/a		n/a	**1,35**	1,62		1,63
99,5	99,9		99,9	**n/a**	n/a		n/a	**47,6**	48,7		48,9
7	3		0	**n/a**	n/a		n/a	**3**	4		2
(9)	(2)		(1)	**n/a**	n/a		n/a	**(4)**	(4)		(2)
53,7	52,3		53,1	**n/a**	n/a		n/a	**54,9**	54,7		55,1
7,0	6,7		7,0	**n/a**	n/a		n/a	**3,2**	3,2		3,2
1 192	185	>100	296	**148**	231	(36)	345	**539 343**	505 730	7	527 328
20 700	22 167	(7)	19 846	**(2 397)**	(4 330)	45	(3 183)	**27 028**	25 974	4	25 624
10 743	8 901	21	10 778	**(312 132)**	(279 949)	(11)	(300 648)	**274 962**	280 943	(2)	259 634
32 635	31 253	4	30 920	**(314 381)**	(284 048)	(11)	(303 486)	**841 333**	812 647	4	812 586
—	—	—	—	**(120)**	(239)	50	(192)	**490 394**	458 344	7	477 853
—	—	—	—	**19 571**	25 487	(23)	20 156	**106 235**	123 786	(14)	106 779
27 820	26 428	5	26 222	**(392 436)**	(366 337)	(7)	(378 752)	**171 040**	160 410	7	155 174
27 820	26 428	5	26 222	**(372 985)**	(341 089)	(9)	(358 788)	**767 669**	742 540	3	739 806
82,8	77,2		72,7	**n/a**	n/a		n/a	**20,4**	20,3		20,0
n/a	n/a		n/a	**n/a**	n/a		n/a	**2,10**	2,07		2,06
4,13	4,18		4,12	**n/a**	n/a		n/a	**1,15**	1,10		1,08
n/a	n/a		n/a	**n/a**	n/a		n/a	**10,0**	11,3	(12)	10,3
26	13	100	18	**(36)**	(3)	>(100)	(14)	**(75)**	(67)	(12)	(65)

Segment report per geographical segment

	South Africa and other international operations			
	30 June			31 December
	2013 Rm	2012[1] Rm	Change %	2012[1] Rm
Statement of comprehensive income				
Net interest income	**12 091**	11 615	4	23 378
Impairment losses on loans and advances	**(3 435)**	(3 977)	14	(8 256)
Non-interest income	**10 954**	10 982	(0)	22 354
Operating expenses	**(12 332)**	(11 964)	(3)	(24 516)
Other	**(385)**	(295)	(31)	(539)
Operating profit before income tax	**6 893**	6 361	8	12 421
Taxation expense	**(1 814)**	(1 822)	0	(3 413)
Profit for the reporting period	**5 079**	4 539	12	9 008
Profit attributable to:				
Ordinary equity holders	**4 839**	4 316	12	8 566
Non-controlling interest – ordinary shares	**94**	83	13	147
Non-controlling interest – preference shares	**146**	140	4	295
	5 079	4 539	12	9 008
Headline earnings	**4 796**	4 460	8	8 979
Statement of financial position				
Loans and advances to customers	**532 819**	500 305	6	521 894
Investment securities	**25 986**	25 284	3	24 823
Other assets	**263 703**	275 245	(4)	252 359
Total assets	**822 508**	800 834	3	799 076
Deposits due to customers	**478 527**	449 428	6	467 729
Debt securities in issue	**106 235**	123 786	(14)	106 779
Other liabilities	**166 340**	158 723	5	153 529
Total liabilities	**751 102**	731 937	3	728 037

	RBB				CIBW			
	30 June			31 December	30 June			31 December
Rest of Africa per market segment	**2013 Rm**	2012[1] Rm	Change %	Rm	**2013 Rm**	2012[1] Rm	Change %	2012[1] Rm
Statement of comprehensive income								
Revenue	**465**	269	73	570	**266**	154	73	424
Impairment losses on loans and advances	**(74)**	(89)	17	(120)	**(38)**	(42)	10	(102)
Operating expenses	**(508)**	(458)	(11)	(813)	**(200)**	(155)	(29)	(351)
Other	**(8)**	(10)	20	(16)	**—**	(1)	100	(2)
Operating profit before income tax	**(125)**	(288)	57	(379)	**28**	(44)	>100	(31)
Taxation expense	**(13)**	61	>(100)	40	**(13)**	17	>(100)	33
Profit for the reporting period	**(138)**	(227)	39	(339)	**15**	(27)	>100	2
Statement of financial position								
Loans and advances to customers	**2 982**	2 384	25	2 420	**3 543**	3 041	17	3 014
Other assets	**7 193**	2 469	>100	5 625	**665**	650	2	813
Total assets	**10 175**	4 853	>100	8 045	**4 208**	3 691	14	3 827
Deposits due to customers	**8 195**	6 021	36	6 491	**3 792**	3 134	21	3 825
Other liabilities	**1 039**	(1 252)	>100	1 171	**354**	(201)	>100	(683)
Total liabilities	**9 234**	4 769	94	7 662	**4 146**	2 933	41	3 142

Notes

[1]Refer to pages 121 to 140 for reporting changes.

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

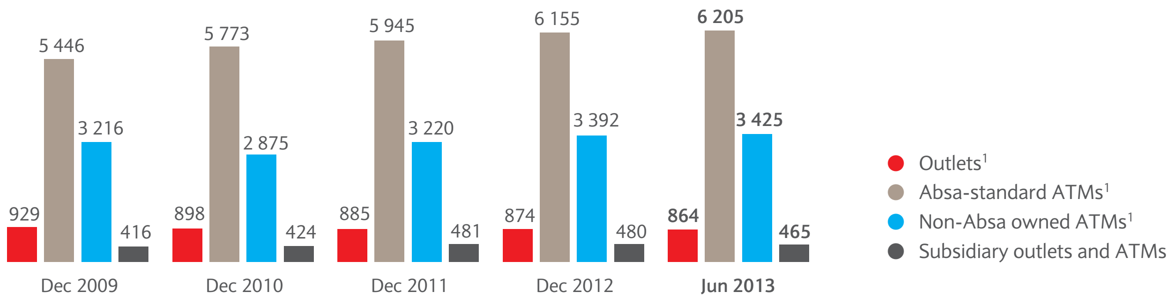
Segment report per geographical segment

Rest of Africa[2]				Group			
30 June			31 December	30 June			31 December
2013 Rm	2012[1] Rm	Change %	2012 Rm	**2013 Rm**	2012[1] Rm	Change %	2012[1] Rm
412	238	73	614	**12 503**	11 853	5	23 992
(111)	(130)	15	(222)	**(3 546)**	(4 107)	14	(8 478)
388	286	36	610	**11 342**	11 268	1	22 964
(762)	(679)	(12)	(1 365)	**(13 094)**	(12 643)	(4)	(25 881)
(14)	(15)	7	(31)	**(399)**	(310)	(29)	(570)
(87)	(300)	71	(394)	**6 806**	6 061	12	12 027
(48)	62	>(100)	58	**(1 862)**	(1 760)	(6)	(3 355)
(135)	(238)	43	(336)	**4 944**	4 301	15	8 672
(138)	(146)	5	(242)	**4 701**	4 170	13	8 324
3	(92)	>100	(94)	**97**	(9)	>100	53
—	—	—	—	**146**	140	4	295
(135)	(238)	43	(336)	**4 944**	4 301	15	8 672
(133)	(147)	10	(241)	**4 663**	4 313	8	8 738
6 524	5 425	20	5 434	**539 343**	505 730	7	527 328
1 042	690	51	801	**27 028**	25 974	4	25 624
11 259	5 698	98	7 275	**274 962**	280 943	(2)	259 634
18 825	11 813	59	13 510	**841 333**	812 647	4	812 586
11 867	8 916	33	10 124	**490 394**	458 344	7	477 853
—	—	—	—	**106 235**	123 786	(14)	106 779
4 700	1 687	>100	1 645	**171 040**	160 410	7	155 174
16 567	10 603	56	11 769	**767 669**	742 540	3	739 806

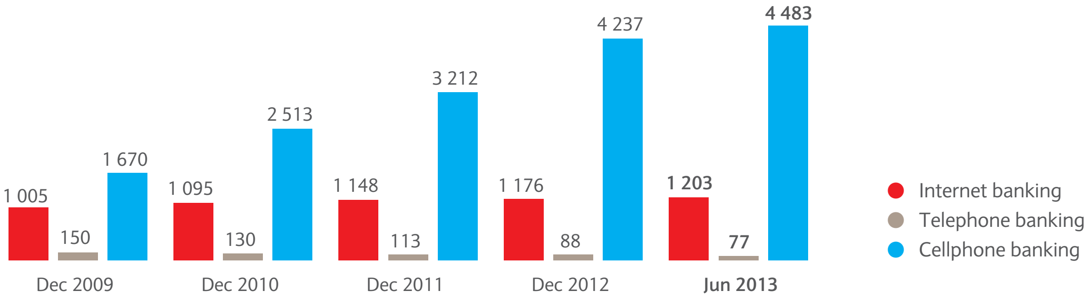
Financial Services				Head office, inter-segment eliminations and Other				Rest of Africa[2]			
30 June			31 December	30 June			31 December	30 June			31 December
2013 Rm	2012[1] Rm	Change %	2012[1] Rm	**2013 Rm**	2012[1] Rm	Change %	2012[1] Rm	**2013 Rm**	2012[1] Rm	Change %	2012[1] Rm
99	63	57	132	**(30)**	38	(>100)	98	**800**	524	53	1 224
—	—	—	—	**1**	1	0	—	**(111)**	(130)	15	(222)
(54)	(39)	(38)	(89)	**—**	(27)	100	(112)	**(762)**	(679)	(12)	(1 365)
(6)	(4)	(50)	(14)	**—**	—	—	1	**(14)**	(15)	7	(31)
39	20	95	29	**(29)**	12	>(100)	(13)	**(87)**	(300)	71	(394)
(13)	(7)	(86)	(11)	**(9)**	(9)	0	(4)	**(48)**	62	>(100)	58
26	13	100	18	**(38)**	3	>(100)	(17)	**(135)**	(238)	43	(336)
—	—	—	—	**(1)**	—	(100)	—	**6 524**	5 425	20	5 434
809	544	49	617	**3 634**	2 725	33	1 021	**12 301**	6 388	93	8 076
809	544	49	617	**3 633**	2 725	33	1 021	**18 825**	11 813	59	13 510
—	—	—	—	**(120)**	(239)	50	(192)	**11 867**	8 916	33	10 124
590	546	8	448	**2 717**	2 594	5	709	**4 700**	1 687	>100	1 645
590	546	8	448	**2 597**	2 355	10	517	**16 567**	10 603	56	11 769

Operational key performance indicators

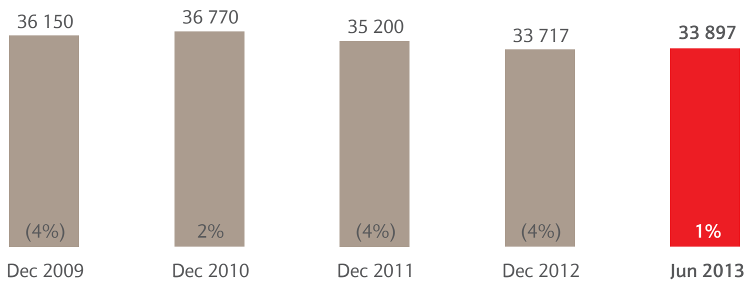
Delivery footprint (number)



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



Employee complement[2] (number of employees and change %)



Notes

[1]South Africa.

[2]Excludes contract workers.

RBB – Retail Banking

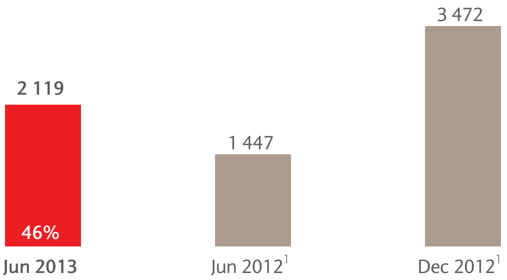
Favourable

- Headline earnings increased by 46% to R2 119 million, resulting in an improvement in RoRWA to 2,11% from 1,62%.
- Credit impairments declined by 11% to R3 049 million and the credit loss ratio declined from 2,04% to 1,77% due to a significant decline in impairments for the mortgages portfolio.
- Loans and advances to customers grew by 4%, with good growth in credit cards and instalment credit agreements.
- Deposits due to customers increased by 4% driven by an increase in individual deposits and, in particular, fixed deposits and investment products.
- Home Loans recorded a profit of R156 million compared with a R623 million loss for the previous reporting period.
- Rewards customers increased by 20% to 1,3 million.
- Introduced two new deposit offerings, Depositor Plus and Notice Select.
- Continued growth in Value Bundles, with 150 000 Value Bundles at the reporting date, up 27% from the previous financial year-end.

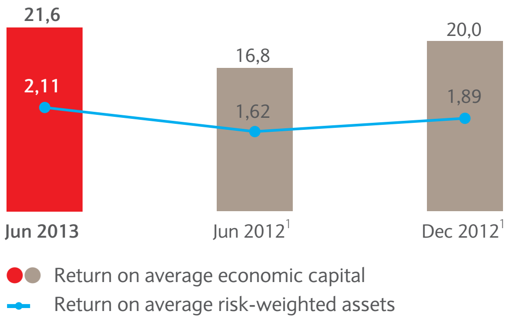
Unfavourable

- Fee-based revenue growth impacted by the loss of business from social grants (AllPay).
- Decline in transactional customer numbers from 9,7 million to 9,4 million during the reporting period[2].
- Net mortgage loans and advances decreased by 2%, driven by a lower non-performing book, with a subsequent decline in market share.

Headline earnings (Rm and change %)



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



Salient features	30 June 2013	30 June 2012[1]	Change %	31 December 2012[1]
Revenue (Rm)	**13 625**	12 723	7	26 120
Attributable earnings (Rm)	**2 120**	1 447	47	3 488
Headline earnings (Rm)	**2 119**	1 447	46	3 472
Credit loss ratio (%)	**1,77**	2,04		1,96
Cost-to-income ratio (%)	**53,2**	53,4		52,7
Return on average risk-weighted assets (%)	**2,11**	1,62		1,89
Return on average economic capital (%)	**21,6**	16,8		20,0

Notes

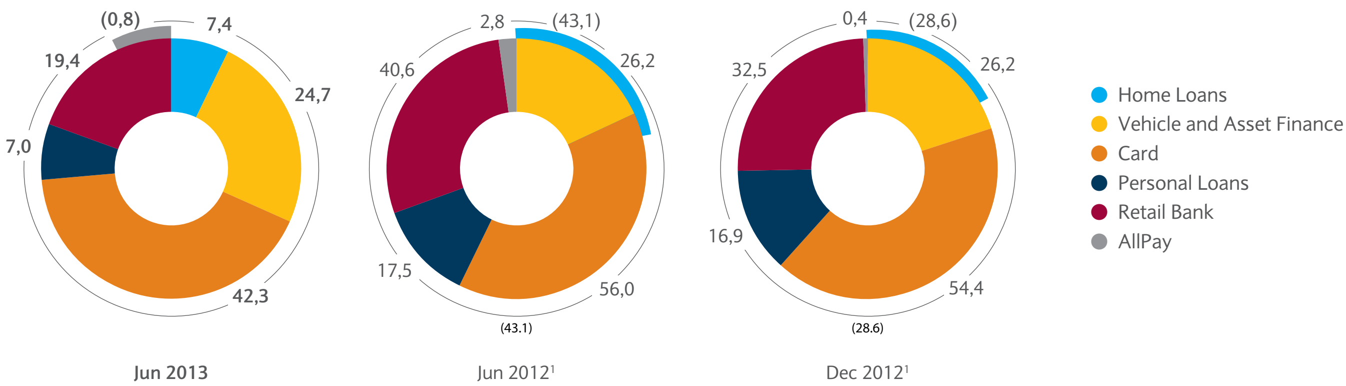
[1]Refer to pages 121 to 140 for reporting changes.

[2]Excludes the Edcon portfolio and Woolworths Financial Services.

RBB – Retail Banking

	Home Loans				Vehicle and Asset Finance			
	30 June			31 December	30 June			31 December
	2013	2012[1]	Change %	2012[1]	**2013**	2012[1]	Change %	2012[1]
Statement of comprehensive income (Rm)								
Net interest income	**1 751**	1 920	(9)	3 954	**1 304**	1 211	8	2 445
Impairment losses on loans and advances	**(1 115)**	(2 366)	53	(4 461)	**(366)**	(356)	(3)	(669)
Non-interest income	**154**	132	17	256	**315**	267	18	607
Operating expenses	**(549)**	(560)	(2)	(1 113)	**(603)**	(621)	3	(1 267)
Other	**(11)**	11	>(100)	(10)	**36**	20	80	54
Operating profit before income tax	**230**	(863)	>100	(1 374)	**686**	521	32	1 170
Taxation expense	**(74)**	240	>(100)	382	**(155)**	(138)	(12)	(312)
Profit for the reporting period	**156**	(623)	>100	(992)	**531**	383	39	858
Profit attributable to:								
Ordinary equity holders	**156**	(623)	>100	(992)	**525**	379	39	850
Non-controlling interest – ordinary shares	**—**	—	—	—	**—**	—	—	—
Non-controlling interest – preference shares	**—**	—	—	—	**6**	4	50	8
	156	(623)	>100	(992)	**531**	383	39	858
Headline earnings	**156**	(623)	>100	(992)	**523**	377	39	847
Operating performance (%)								
Impairment losses on loans and advances as % of average loans and advances to customers	**1,07**	2,20		2,09	**1,11**	1,24		1,08
Cost-to-income ratio	**28,8**	27,3		26,4	**37,2**	42,0		41,5
Statement of financial position (Rm)								
Loans and advances to customers	**208 580**	213 021	(2)	210 515	**69 521**	63 137	10	66 219
Other assets	**15 623**	16 588	(6)	16 623	**5 881**	5 493	7	6 172
Total assets	**224 203**	229 609	(2)	227 138	**75 402**	68 630	10	72 391
Deposits due to customers	**152**	—	100	123	**28**	35	(20)	27
Other liabilities	**223 607**	230 020	(3)	227 796	**74 107**	67 525	10	70 823
Total liabilities	**223 759**	230 020	(3)	227 919	**74 135**	67 560	10	70 850
Financial performance (%)								
Return on average economic capital	**4,5**	(20,5)		(15,9)	**26,2**	19,2		21,9
Return on average risk-weighted assets	**0,52**	(2,25)		(1,74)	**2,19**	1,62		1,83

Headline earnings (%)



Notes

[1]Refer to pages 121 to 140 for reporting changes.

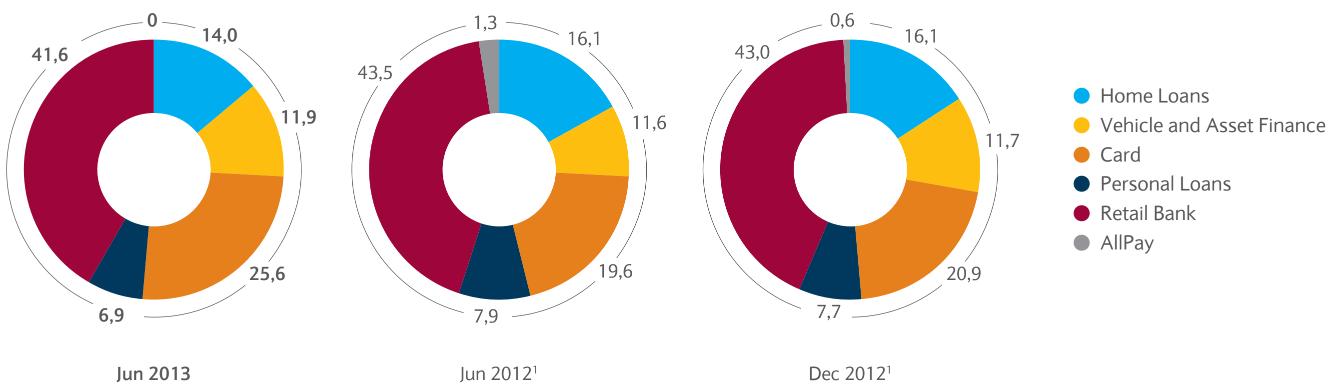
[2]Balances inclusive of Woolworths Financial Services.

[3]Comparative figures only applicable for 31 December 2012 since the effective date of acquisition was 1 November 2012.

RBB – Retail Banking

Card				Card[2]				Edcon[3] portfolio			
30 June			31 December	30 June			31 December	30 June			31 December
2013	2012[1]	Change %	2012[1]	**2013**	2012[1]	Change %	2012[1]	**2013**	2012	Change %	2012
2 210	1 263	75	2 913	**1 365**	1 263	8	2 608	**845**	—	100	305
(835)	(220)	>(100)	(475)	**(395)**	(220)	(80)	(403)	**(440)**	—	(100)	(72)
1 275	1 230	4	2 545	**1 299**	1 230	6	2 561	**(24)**	—	(100)	(16)
(1 222)	(957)	(28)	(1 993)	**(997)**	(957)	(4)	(1 974)	**(225)**	—	(100)	(19)
(42)	(27)	(56)	(39)	**(26)**	(27)	0	(37)	**(16)**	—	(100)	(2)
1 386	1 289	8	2 951	**1 246**	1 289	(3)	2 755	**140**	—	100	196
(388)	(398)	3	(893)	**(349)**	(398)	12	(838)	**(39)**	—	(100)	(55)
998	891	12	2058	**897**	891	1	1 917	**101**	—	100	141
897	811	11	1 888	**796**	811	(2)	1 747	**101**	—	100	141
92	73	26	155	**92**	73	26	155	**—**	—	—	—
9	7	29	15	**9**	7	29	15	**—**	—	—	—
998	891	12	2 058	**897**	891	1	1 917	**101**	—	100	141
896	811	10	1 888	**795**	811	(2)	1 747	**101**	—	100	141
5,04	2,04		2,01	**3,31**	2,04		1,82	**9,56**	—		5,03
35,1	38,4		36,5	**37,4**	38,4		38,2	**27,4**	—		6,57
34 220	22 336	53	32 802	**24 926**	22 336	12	23 444	**9 294**	—	100	9 358
9 954	8 507	17	10 857	**9 296**	8 507	9	10 190	**658**	—	100	667
44 174	30 843	43	43 659	**34 222**	30 843	11	33 634	**9 952**	—	100	10 025
1 805	1 821	(1)	1 936	**1 805**	1 821	(1)	1 936	**—**	—	—	—
40 655	27 809	46	39 163	**30 804**	27 809	11	29 279	**9 851**	—	100	9 884
42 460	29 630	43	41 099	**32 609**	29 630	10	31 215	**9 851**	—	100	9 884
41,8	60,1		66,3	**37,1**	60,1		65,8	**11,9**	—		71,6
3,70	5,16		5,61	**4,61**	5,16		5,46	**1,45**	—		8,54

Revenue (%)



Personal Loans				Retail Bank				Retail Banking (excluding AllPay)			
30 June			31 December	30 June			31 December	30 June			31 December
2013	2012[1]	Change %	2012[1]	**2013**	2012[1]	Change %	2012[1]	**2013**	2012[1]	Change %	2012[1]
768	836	(8)	1 672	**2 149**	1 999	8	3 970	**8 182**	7 229	13	14 954
(444)	(372)	(19)	(612)	**(289)**	(100)	>(100)	(385)	**(3 049)**	(3 414)	11	(6 602)
170	169	1	338	**3 527**	3 536	(0)	7 252	**5 441**	5 334	2	10 998
(286)	(278)	(3)	(576)	**(4 571)**	(4 315)	(6)	(8 730)	**(7 231)**	(6 731)	(7)	(13 679)
(2)	(4)	50	(7)	**(112)**	(152)	26	(300)	**(131)**	(152)	14	(302)
206	351	(41)	815	**704**	968	(27)	1 807	**3 212**	2 266	42	5 369
(58)	(98)	41	(228)	**(240)**	(344)	30	(592)	**(915)**	(738)	(24)	(1 643)
148	253	(42)	587	**464**	624	(26)	1 215	**2 297**	1 528	50	3 726
148	253	(42)	587	**413**	586	(30)	1 140	**2 139**	1 406	52	3 473
—	—	—	—	**(1)**	(16)	94	(39)	**91**	57	58	116
—	—	—	—	**52**	54	(4)	114	**67**	65	3	137
148	253	(42)	587	**464**	624	(26)	1 215	**2 297**	1 528	50	3 726
148	253	(42)	587	**413**	588	(30)	1 127	**2 136**	1 406	52	3 457
7,17	6,14		5,00	**2,24**	0,79		1,48	**2,12**	2,04		1,96
30,5	27,7		28,7	**80,5**	77,9		77,8	**53,1**	53,6		52,7
12 527	12 111	3	12 410	**25 631**	25 285	1	24 976	**350 479**	335 890	4	346 922
882	849	4	908	**138 304**	129 797	7	140 425	**170 644**	161 234	6	174 985
13 409	12 960	3	13 318	**163 935**	155 082	6	165 401	**521 123**	497 124	5	521 907
9	7	29	9	**131 035**	125 560	4	129 584	**133 029**	127 423	4	131 679
13 252	12 700	4	12 722	**31 584**	28 249	12	33 827	**383 205**	366 303	4	384 331
13 261	12 707	4	12 731	**162 619**	153 809	6	163 411	**516 234**	493 726	4	516 010
22,2	37,8		43,6	**26,4**	37,5		36,8	**21,8**	16,4		19,9
1,88	3,38		5,18	**2,86**	3,81		3,13	**2,12**	1,57		1,88

RBB – Retail Banking

AllPay				Total Retail Banking			
30 June			31 December	30 June			31 December
2013	2012[1]	Change %	2012[1]	**2013**	2012[1]	Change %	2012[1]
5	12	(58)	19	**8 187**	7 241	13	14 973
—	—	—	—	**(3 049)**	(3 414)	11	(6 602)
(3)	148	>(100)	149	**5 438**	5 482	(1)	11 147
(18)	(66)	73	(98)	**(7 249)**	(6 797)	(7)	(13 777)
1	—	100	(5)	**(130)**	(152)	14	(307)
(15)	94	>(100)	65	**3 197**	2 360	35	5 434
(4)	(46)	91	(41)	**(919)**	(784)	(17)	(1 684)
(19)	48	>(100)	24	**2 278**	1 576	44	3 750
(19)	41	>(100)	15	**2 120**	1 447	46	3 488
—	7	(100)	9	**91**	64	41	125
—	—	—	—	**67**	65	3	137
(19)	48	>(100)	24	**2 278**	1 576	44	3 750
(17)	41	>(100)	15	**2 119**	1 447	46	3 472
n/a	n/a		n/a	**1,77**	2,04		1,96
n/a	41,9		58,3	**53,2**	53,4		52,7
—	—	—	—	**350 479**	335 890	4	346 922
157	58	>100	187	**170 801**	161 292	6	175 172
157	58	>100	187	**521 280**	497 182	5	522 094
—	60	(100)	60	**133 029**	127 483	4	131 739
(2)	(119)	98	34	**383 203**	366 184	5	384 365
(2)	(59)	97	94	**516 232**	493 667	4	516 104
n/a	n/a		n/a	**21,6**	16,8		20,0
n/a	n/a		n/a	**2,11**	1,62		1,89

RBB – Retail Banking

Business profile

Retail Banking[1] offers a comprehensive suite of retail banking products and services to both individual and commercial asset finance customers. It provides products and services through an extensive branch and self-service terminal network, electronic and mobile phone channels, relationship managers as well as call centre agents. Retail Banking caters for the full spectrum of customers, from those needing basic banking services to those requiring sophisticated financial solutions. Retail Banking's focus 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 cards and merchant acquiring. It includes the Edcon portfolio as well as Woolworths Financial Services, which offers credit cards, personal loans and short-term insurance products.
- **Personal Loans** – offers unsecured instalment loans, including fixed and variable loans through face-to-face engagements, call centre agents as well as electronic and mobile channels.
- **Retail Bank** – offers financial solutions to individuals in South Africa and Absa's African operations in Mozambique and Tanzania, ranging from those entering the market with basic banking needs, to affluent individuals who require sophisticated banking solutions.

Organisational structure changes took place during the reporting period that have a bearing on Retail Banking's reporting structure:

- The Commercial Asset Finance (CAF) and Absa Vehicle Management Solutions businesses, previously reported in the Business Banking segment, have been transferred to Retail Banking to take advantage of synergies within the existing VAF portfolio and to more closely reflect the management structure.
- The debit card operations, previously reported as part of the Card sub-segment, were transferred to the Retail Bank sub-segment. This ensures better alignment of this business with the products that utilise the operational base.

Financial performance

Headline earnings increased by 46% to R2 119 million (30 June 2012: R1 447 million), largely attributable to lower credit impairments and the inclusion of the Edcon portfolio. Headline earnings excluding the Edcon portfolio increased by 40% to R2 018 million.

Revenue excluding the Edcon portfolio grew marginally by 1% due to a combination of the loss of the AllPay contract in 2012, pressure on transaction volumes and muted growth in loans and advances to customers. Net interest income experienced marginal growth while non-interest income declined by 1%.

Credit impairments declined by 11% to R3 049 million, mainly due to a significant decrease in provisions of 53% for the mortgages portfolio. The decline in the mortgages portfolio was somewhat offset by the inclusion of credit impairments of R440 million for the Edcon portfolio and an increase in credit impairments for Retail Banking's unsecured portfolios. Retail Banking's credit loss ratio improved to 1,77% (30 June 2012: 2,04%).

Retail Banking's cost-to-income ratio improved to 53,2% compared with that of 53,4% for the previous reporting period due to focused operating expense management, in spite of continued investment spend and low revenue growth.

Loans and advances to customers increased by 4% to R350 billion (30 June 2012: R336 billion). The acquisition of the Edcon portfolio, a 12% growth in Card (excluding the Edcon portfolio), and a 10% increase in VAF's book largely drove this improvement. Deposits due to customers increased by 4% due to growth in individual deposits and, in particular, fixed deposits and investment products.

Retail Banking's business areas, with the exception of Personal Loans and Retail Bank, recorded higher headline earnings compared with the previous reporting period. VAF reported an increase of 39% in headline earnings, largely due to solid net interest income growth as well as contained operating expenses. Home Loans recorded a profit of R156 million as a result of lower credit impairments. Card achieved a 10% increase in headline earnings as a result of the Edcon portfolio acquisition in the latter part of 2012. Pressure on revenue and higher credit impairments resulted in headline earnings declining for Personal Loans and Retail Bank by 42% and 30% respectively.

Despite solid balance sheet growth, headline earnings from Retail Banking's African operations declined significantly on the back of higher credit impairments.

Note

[1]Previously Retail Markets. The name change was undertaken to align with industry naming conventions and does not reflect a change in the Group's operating structure.

Operating environment

During the reporting period, household finances remained under pressure, with real disposable income and consumption growth slowing and savings levels remaining low. The household debt ratio remained high at 75,4% at the end of the first quarter of 2013, which limited consumers' ability to take up further credit. A relatively large number of credit-active consumers are struggling with impaired credit records, impacting the accessibility of credit, while consumer confidence dropped to its lowest level since early 2004.

Interest rates remained unchanged during the reporting period. Despite the low interest rates, residential property market conditions remained challenging.

Business performance

Retail Banking experienced an improvement in underlying operational performance. Focus was placed on enhancing processes, resulting in better customer service and turnaround times.

Retail Banking continued to experience strong revenue growth in the Card and VAF portfolios, with production volumes returning to targeted levels. In spite of a 31% increase in the level of home loan registrations, the overall portfolio continued to decline due to a combination of the high run-off experienced and a lower non-performing portfolio. The risk grades on new book growth are well within Retail Banking's risk appetite and are appropriately priced.

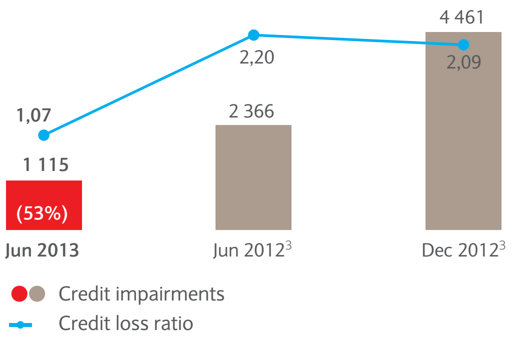
Home Loans

Home Loans experienced a headline earnings profit of R156 million (30 June 2012: R623 million loss) for the reporting period. Revenue declined by 7% due to a decrease in loans and advances to customers. Operating costs remained well-controlled with a reduction in operating expenses of 2% from the previous reporting period.

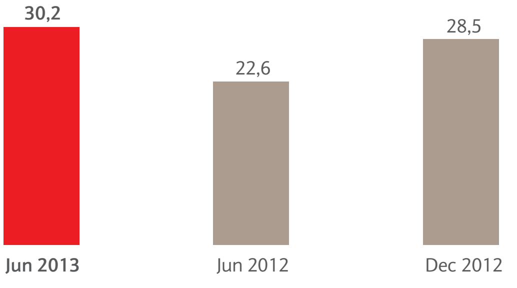
Credit impairments decreased by 53% to R1 115 million (30 June 2012: R2 366 million) while the NPL coverage ratio increased from 22,6% to 30,2%. This increase is not an indication of further deterioration in the portfolio but the result of the extensive work in the previous financial year to account for the continued strain facing customers and the refinement of credit impairment models.

Net loans and advances to customers declined by 2% to R209 billion (30 June 2012: R213 billion) as a result of book run-off due to an ageing book and increased coverage on NPLs. As a result, market share[1] declined to 28,0% as at 31 May 2013 (30 June 2012: 28,2% and 31 December 2012: 28,4%). The decision to engage a broader origination channel strategy and improve the processes of converting applications to registered loans resulted in a 31% increase in new business production with an increase in front book market share from 16,4% to 21,2%.

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



Non-performing loans – coverage ratio[2] (%)



Notes
[1]At the date of publishing, the market share information for 30 June 2013 was not available.
[2]This ratio refers to the mortgage portfolio and not to the Home Loans business segment.
[3]Refer to pages 121 to 140 for reporting changes.

Business performance *(continued)*

Vehicle and Asset Finance

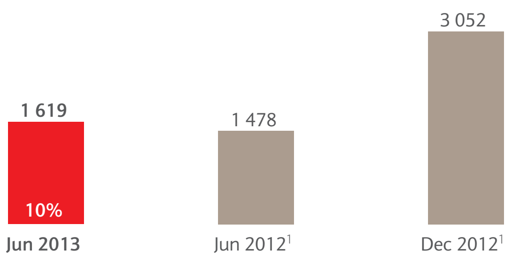
Headline earnings increased by 39% to R523 million (30 June 2012: R377 million), largely due to solid net interest income growth as well as contained costs. This was slightly offset by higher credit impairments as a result of consumer credit strain becoming more prevalent.

Loans and advances to customers increased by 10% driven by improved market growth and business initiatives bearing results. The production value in the personal vehicle market grew by 14% compared with the previous reporting period while commercial vehicle market production grew by 6%.

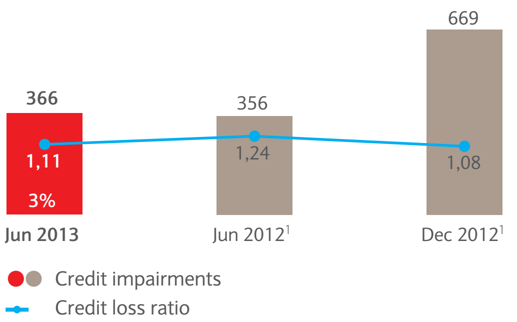
During the reporting period, early successes of VAF's turnaround strategy were evident:

- Solid growth in the flow of new vehicle sales (Naamsa) and pre-owned vehicle sales (Nada).
- The alliance with John Deere achieved a R1 billion book.
- MAN Financial Services provided a strong contribution in the commercial segment of the business.
- The Absa/Ford Financial Services credit alliance achieved robust and higher production growth of 27%.
- Marked improvement in the quality of the book through an improvement in the collection processes and enhanced effectiveness.

Revenue (Rm and change %)



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



Card

Headline earnings increased by 10% to R896 million (30 June 2012: R811 million), primarily due to the acquisition of the Edcon portfolio during the latter part of 2012. Headline earnings excluding the Edcon portfolio declined by 2% to R795 million (30 June 2012: R811 million), mainly due to a significant increase in credit impairments of 80%. Operating expenses (excluding the Edcon portfolio) increased by 4%, within inflation.

The growth in revenue (excluding the Edcon portfolio) of 7% was due to improved spend and payment acceptance volume growth underpinned by customer management campaigns across all lines of the business, an improved payment acceptance sales pipeline, an enhanced customer on-boarding process as well as a focused sales workforce.

Credit impairments (excluding the Edcon portfolio) increased due to higher delinquencies with more recent customers being impacted the most.

Loans and advances to customers (excluding the Edcon portfolio) increased by 12% mainly attributable to robust growth in new account acquisition as well as elevated levels of customer spend. The upward trend in new account acquisition resulted from an improvement in consumer appetite for credit as well as the realisation of the business' multi-channel strategy.

Note

[1]Refer to pages 121 to 140 for reporting changes.

Business performance *(continued)*

Card *(continued)*

Edcon portfolio

Absa acquired the Edcon portfolio on 1 November 2012, consisting of 3,7 million active store cards with a gross receivable value amounting to approximately R9,4 billion. Absa is responsible for credit management, fraud, risk, finance, legal, compliance and key back office operations, while Edcon manages the front office operations and primary customer interaction.

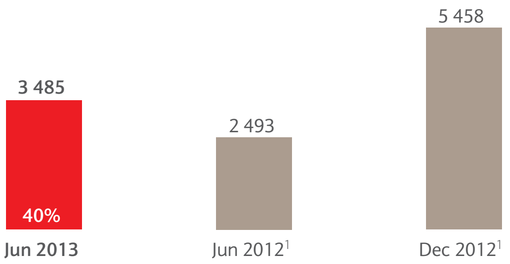
The Edcon portfolio recorded headline earnings of R101 million for the reporting period, compared to headline earnings of R141 million for November and December 2012.

Net account balances decreased by 3% from 31 December 2012 mainly due to seasonality, as the balances as at 31 December 2012 were boosted by the festive season spend. Net asset growth was assisted by the acquisition of a second tranche of the South African store card portfolio of R469 million in May 2013 but was offset by an increase in provisioning for NPLs as well as improved repayment volumes during the second quarter of 2013.

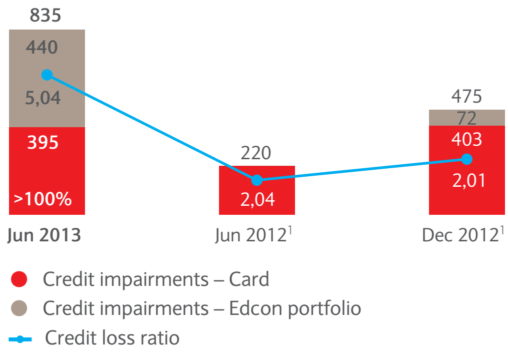
The Group's relationship with Edcon remains strong with several initiatives and strategic options being investigated over and above those contractually envisaged. As a result of the lower book acquired and the lower capital utilised, returns in excess of the cost of capital are still envisaged.

The transaction to acquire Edcon's remaining South African store card portfolio was finalised on 1 July 2013. The acquisition of Edcon's portfolio in foreign jurisdictions with a gross book value of approximately R500 million is likely to be concluded in early 2014.

Revenue – Total Card (Rm and change %)



Credit impairments and credit loss ratio – Total Card (Rm, % and change %)



Personal Loans

Headline earnings decreased by 42% to R148 million (30 June 2012: R253 million) as a result of a decline in revenue and higher credit impairments.

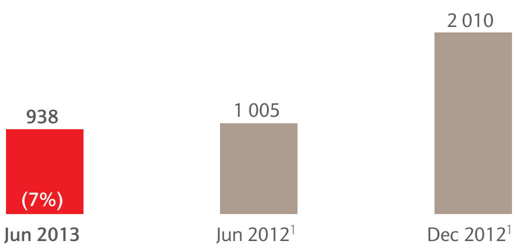
The decline in revenue of 7% to R938 million (30 June 2012: R1 005 million) was mainly attributable to the increased prepayment rate in the portfolio combined with margin pressure following an improved portfolio mix to lower risk customers, intense competition and interest rates remaining at record lows.

The increase in credit impairments of 19% was underpinned by higher debt counselling volumes and reduced recovery levels. Operating expenses were well-controlled, increasing by 3% on the previous reporting period.

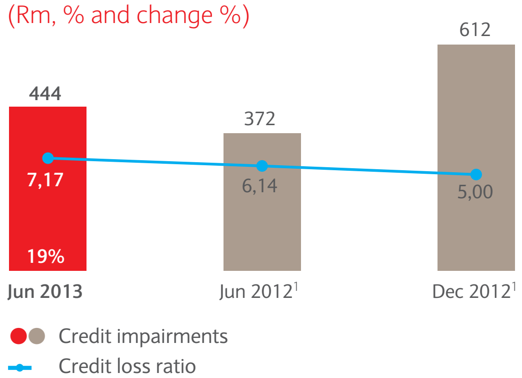
Marginal growth in loans and advances of 3% was achieved driven by focused sales efforts and enhanced prospecting strategies. The business remains focused on its strategy to grow this portfolio in a risk-controlled manner.

Improved processes, including a paperless end-to-end application process, have also contributed towards the improvement in overall customer experience. The drive to optimise the channel mix resulted in an increase of 22% in new loans during the reporting period.

Revenue (Rm and change %)



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



Note

[1]Refer to pages 121 to 140 for reporting changes.

Business performance *(continued)*

Retail Bank

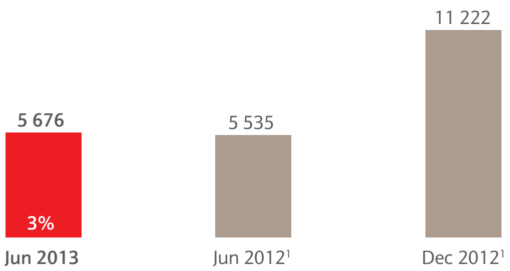
Headline earnings declined by 30% to R413 million (30 June 2012: R588 million), mainly due to continued pressure on revenue and higher credit impairments. Continued focus on operating efficiency resulted in a 6% increase in operating expenses.

Revenue increased by 3% from the previous reporting period. Net interest income increased by 8% due to increased lending in the African operations. Non-interest income remained flat mainly due to the lower 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, and in particular Value Bundles.

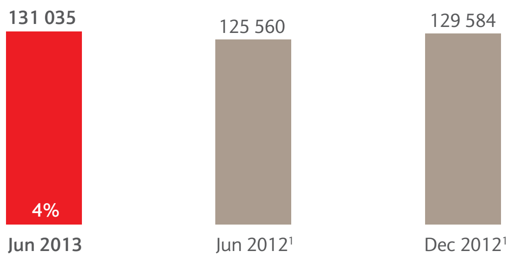
The number of transactional customers declined from 9,7 million to 9,4 million over the reporting period. The decline in account numbers is due to system-led closures in the transactional savings account portfolio based on dormancy, particularly in the Sekulula portfolio. Transaction volumes decreased, driven by a lower number of transactional savings accounts, reduced activity and increased levels of dormancy. This, together with product migration to more affordable bundle offerings and lower priced transacting channels contributed, to non-interest revenue remaining flat. The Absa Rewards programme assisted in mitigating this decline, with an increase in transaction volumes for Rewards members. The Rewards programme's membership increased by 20% during the reporting period, with membership currently in excess of 1,3 million members.

Savings and deposit balances increased by 4% to R131 billion (30 June 2012: R126 billion). Two new savings and investment products were launched, namely Depositor Plus and Notice Select. Depositor Plus experienced strong growth with inflows in excess of R5 billion generated during a period of three months.

Revenue (Rm and change %)



Deposits due to customers (Rm and change %)



AllPay

The business continues to be wound down following the loss of the social grant payment contract in early 2012.

AllPay has appealed the decision of the Supreme Court to uphold the awarding of the social grants contract to another party. This appeal is scheduled to be heard in the Constitutional Court in the second half of the year.

Note

[1]Refer to pages 121 to 140 for reporting changes.

Looking ahead

Retail Banking intends to become the ‘Go-To’ bank in South Africa. Retail Banking aims to achieve this through continuous improvement in service offerings to both existing and new customers. The focus is on providing better customer experiences and improved access, while shortening processing turnaround times.

The launch of targeted customer solutions, competitive and transparent market pricing as well as Retail Banking’s multi-channel approach will assist in improving Retail Banking’s transactional performance over the short to medium term.

Balanced growth for deposits due to customers and deposit pricing optimisation remains a priority.

RBB – Business Banking

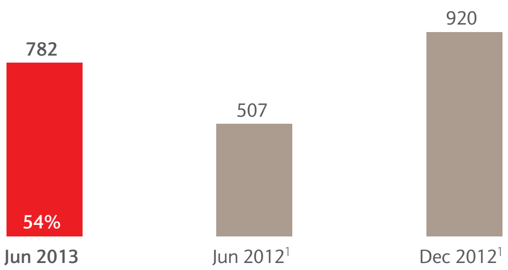
Favourable

- Increase in headline earnings of 54%.
- Credit impairments declined by 22%.
- Stabilisation of the equity portfolio.
- Increase in deposits due to customers of 6% to R81 billion, driven by refining core investment products.
- Solid growth in electronic banking fees of 8%.
- Strong cost management with a decrease of 8% in operating expenses.
- Improved return on average regulatory capital (RoRC) from 10,5% to 19,6%.

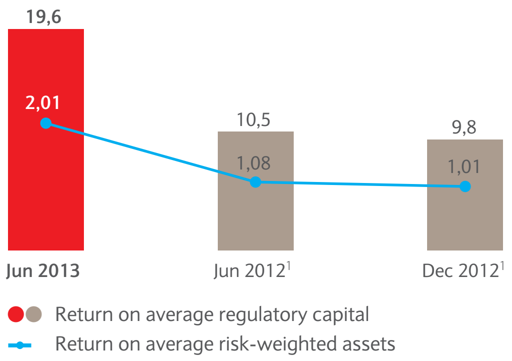
Unfavourable

- Gross loans and advances to customers declined by 6%, largely due to an 11% reduction in the CPF book (48% of total book).
- Africa's operational performance remained under pressure.
- Cheque payment volumes continued to decline in line with industry trends.

Headline earnings (Rm and change %)



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



Salient features – Total Business Banking	30 June 2013	30 June 2012[1]	Change %	31 December 2012[1]
Revenue (Rm)	**4 135**	3 991	4	8 029
Attributable earnings (Rm)	**824**	344	>100	519
Headline earnings (Rm)	**782**	507	54	920
Credit loss ratio (%)	**1,33**	1,65		2,48
Cost-to-income ratio (%)	**60,4**	68,1		67,5
Return on average risk-weighted assets (%)	**2,01**	1,08		1,01
Return on average regulatory capital (%)	**19,6**	10,5		9,8

Salient features – Business Banking (excluding Equities and Africa)	30 June 2013 Rm	30 June 2012[1] Rm	Change %	31 December 2012 Rm
Revenue	**4 040**	4 169	(3)	8 364
Credit impairments	**(418)**	(453)	8	(1 528)
Operating expenses	**(2 284)**	(2 322)	2	(4 556)
Headline earnings	**929**	944	(2)	1 489
Loans and advances to customers	**62 670**	69 269	(10)	64 785

[1]Refer to pages 121 to 140 for reporting changes.

RBB – Business Banking

Salient features – Business Banking Equities	30 June 2013 Rm	30 June 2012 Rm	Change %	31 December 2012[1] Rm
Revenue	**7**	(177)	>100	(418)
Credit impairments	**1**	(5)	>100	(4)
Operating expenses	**(107)**	(274)	61	(699)
Headline earnings	**(129)**	(335)	61	(466)
Loans and advances to customers[2]	**—**	(1 368)	>100	(1 375)

Salient features – Business Banking Africa	30 June 2013 Rm	30 June 2012[1] Rm	Change %	31 December 2012[1] Rm
Revenue	**88**	(1)	>100	83
Credit impairments	**(13)**	(90)	86	(101)
Operating expenses	**(105)**	(120)	13	(162)
Headline earnings	**(18)**	(102)	82	(103)
Loans and advances to customers	**1 534**	1 172	31	1 195

Business profile

Business Banking[3] offers a comprehensive range of banking products and specialised services, ranging from off-the-shelf transactional products to complex customised financial solutions. Commercial customers have an annual turnover of between R20 million and R500 million, while enterprise customers have an annual turnover of less than R20 million. The commercial segment value 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** – CPF, term loans, cheque accounts, technology finance solutions and overnight finance. Fees earned from debt products include upfront, structuring, restructuring, commitment and transactional fees.
- **Investment products** – term, notice, fixed, cheque, savings and call deposits.
- **Transactional products** – including cash, cheque accounts and electronic banking.
- **Equities** – investment portfolio in listed and unlisted equities, property and other equities.
- **Africa** – business units in Mozambique, Tanzania and Namibia.

An organisational structure change took place during the reporting period that has a bearing on Business Banking's reporting structure:

- The CAF and Absa Vehicle Management Solutions business, previously reported in the Business Banking segment, have been transferred to Retail Banking to take advantage of synergies within the existing VAF portfolio in Retail Banking.

Notes

[1]Refer to pages 121 to 140 for reporting changes.

[2]The movement from 30 June 2012 to the reporting date is due to structural changes between Equities and Business Bank.

[3]Previously Business Markets. The name change was undertaken to align with industry naming conventions and does not reflect a change in the Group's operating structure.

RBB – Business Banking

	Total Business Banking			
	30 June			31 December
	2013	2012[1]	Change %	2012[1]
Statement of comprehensive income (Rm)				
Net interest income	**2 557**	2 607	(2)	5 297
Impairment losses on loans and advances	**(430)**	(548)	22	(1 633)
Non-interest income	**1 578**	1 384	14	2 732
Operating expenses	**(2 496)**	(2 716)	8	(5 417)
Other	**(31)**	(41)	24	(67)
Operating profit before income tax	**1 178**	686	72	912
Taxation expense	**(333)**	(377)	12	(397)
Profit for the reporting period	**845**	309	>100	515
Profit attributable to:				
Ordinary equity holders	**824**	344	>100	519
Non-controlling interest – ordinary shares	**(6)**	(65)	91	(67)
Non-controlling interest – preference shares	**27**	30	(10)	63
	845	309	>100	515
Headline earnings	**782**	507	54	920
Operating performance (%)				
Impairment losses on loans and advances as % of average loans and advances to customers	**1,33**	1,65		2,48
Non-interest income as % of total operating income	**38,2**	34,7		34,0
Revenue growth	**4**	0		(3)
Cost growth	**8**	(14)		(12)
Cost-to-income ratio	**60,4**	68,1		67,5
Cost-to-assets ratio	**5,6**	6,1		6,1
Statement of financial position (Rm)				
Loans and advances to customers	**64 204**	69 073	(7)	64 605
Other assets	**25 963**	20 827	25	25 000
Total assets	**90 167**	89 900	0	89 605
Deposits due to customers	**80 715**	76 345	6	80 744
Other liabilities	**7 929**	12 974	(39)	7 689
Total liabilities	**88 644**	89 319	(1)	88 433
Financial performance (%)				
Return on average economic capital	**19,1**	10,8		10,0
Return on average risk-weighted assets	**2,01**	1,08		1,01
Return on average assets	**1,77**	1,14		1,03

Notes

[1]Refer to pages 121 to 140 for reporting changes.

RBB – Business Banking

Financial performance

Business Banking's headline earnings increased by 54% to R782 million (30 June 2012: R507 million), mainly due to the stabilisation of the equity portfolio following the valuation write-downs in 2012, a reduction in credit impairments as well as growth in non-interest income.

Net fee and commission income increased by 5% to R1 432 million (30 June 2012: R1 367 million), mainly as a result of growth in income from electronic banking and African operations. Net interest income remained under pressure and declined by 2%, primarily due to lower advance volumes as well as rate compression in deposits.

Credit impairments improved by 22% to R430 million (30 June 2012: R548 million) notwithstanding the current economic conditions. The improvement was largely driven by lower defaults and improved book construct for all Business Banking segments. Notwithstanding the improved performance, strain is still being experienced in the realisation of distressed collateral on existing defaulted exposures.

Marginal equity write-downs and continued cost management resulted in an 8% decrease in operating expenses to R2 496 million (30 June 2012: R2 716 million).

Gross loans and advances to customers declined by 6% largely due to an 11% reduction in the CPF book. Despite this, Business Banking experienced an increase in loans and advances to customers in the agriculture and term loans businesses. Deposits due to customers increased by 6%, benefiting from an enhanced product offering to attorneys, a refinement of core investment products as well as the introduction of new term deposit products.

Operating environment

Subdued global economic trading conditions and uncertainty resulting from the eurozone crisis continued to impact local business, negatively affecting confidence and leading to reduced business volumes. As a result, consumer and corporate credit appetite remained subdued. Deposits increased marginally due to increased competition for liquidity and pressure on margins.

Business performance

A number of initiatives were implemented during the reporting period with the aim of improving the operational performance of the business and through this enhancing the customer experience. This included the introduction of sales tools, streamlining processes, introducing new products and enhancing Business Banking's multi-channel capabilities. Business efficiencies continued to receive attention with the centralisation of middle office environments.

Value propositions were strengthened through the streamlining of the business. This resulted in a greater emphasis on, in particular, the Agri business. The Agri value proposition has been enhanced to provide dedicated relationship management support and expertise through reasonable portfolio sizes. Agri remains the market leader and has increased its market share from 35,1% to 36,1% during the reporting period.

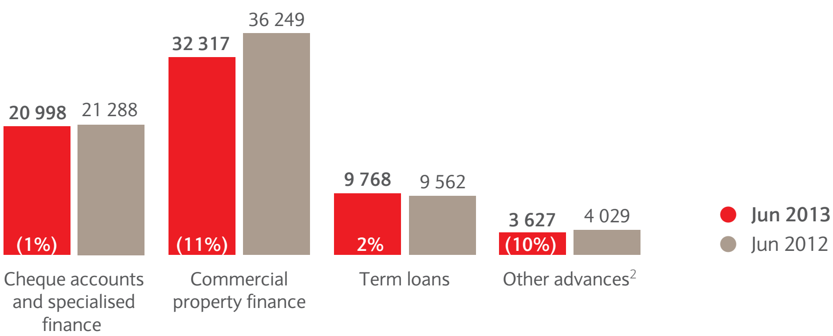
Debt products

Gross loans and advances to customers declined by 6% in line with the strategy of the business to decrease its relative concentration risk of the CPF book. Loans and advances relating to the CPF book declined by 11% (48% of total book). Lengthy sales cycles and payout periods of typical CPF transactions further contributed to the decline in the CPF book. However, an increase in the agriculture loans and advances was experienced.

Cheque accounts and specialised finance loans decreased marginally mainly due to the agricultural season not coinciding with those of previous years and harvesting that occurred earlier than usual, but this was partially offset by the implementation of the overdraft pricing and utilisation improvement initiative, which identifies low usage cheque overdrafts and promotes better use and/or solutions. In collaboration with CIBW, the business has continued to focus on growing customer portfolios. As a result specialised finance deals were transferred to CIBW.

Term loans increased by 2% to R9 768 million (30 June 2012: R9 562 million), despite the current economic environment. Cross selling to customers with standalone products, a dedicated sales force to target specific market segments and regions as well as a focus on extending term loans close to maturity are all strategies expected to contribute to further growth in the second half of 2013.

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



Notes

[1]Refer to pages 121 to 140 for reporting changes.

[2]Includes Absa Technology Financial Solutions and foreign currency loans.

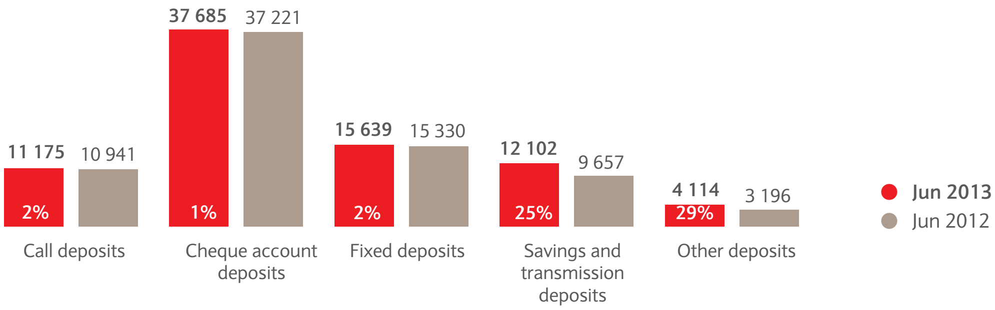
Business performance *(continued)*

Investment products

Demand for liquidity remained high in a competitive market that continued to place pressure on volume growth and margins. Continuing volatility in international markets and the uncertainty in interest rate movements resulted in customers keeping funds predominantly on the short side. This is evident from volume growth in cheque as well as savings and transmission deposits of 1% and 25% respectively. Moderate growth of 2% was achieved in fixed deposits. Two new products, Notice Select and Depositor Plus, were introduced during the reporting period.

Business Banking continued to pursue its strategic imperatives to retain existing customers and promote customised solutions, including assisting customers with cash flow management and yield optimisation. In addition, Business Banking continued to focus on growing its commercial customer base. The strategy to improve customised solutions for the enterprise segment resulted in an increase in deposits of R2 billion. The improved targeting of selected market segments (including professional markets, the public sector and Islamic banking customers) and regions further contributed to the positive growth in deposits.

Deposits (Rm and change %)[1]

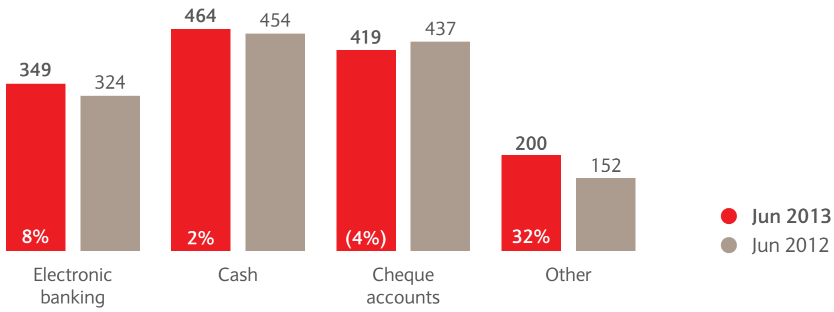


Transactional products

The business continued to focus on delivering solutions at competitive pricing while closing the gap on revenue leakages. As a result, net fee and commission income increased by 5% to R1 432 million (30 June 2012: R1 367 million), despite reduced fees on debit orders. Cheque payment volumes continued to decline in line with industry trends, whereas volumes in electronic payments increased by 2%. Business Banking's unique cash solutions achieved strong growth, primarily due to an increase in income per transaction of 2% compared with the previous reporting period. Enhanced security features on the electronic banking platform resulted in improved system stability and assisted in accelerating the migration of more than 60% of customers from Business Integrator Online to Absa Online Business at the end of the reporting period.

Focused employee training and awareness on the digital offerings of Business Banking customers are enhancing customer interactions. New innovations such as the recent launch of the electronic banking application, new functionality such as scan and pay, cardless deposits and e-statements have provided customers with alternative access to transact, strengthening the electronic customer value proposition. There are more developments planned for 2014 to further enhance the digital capability.

Fee income (Rm and change %)[1]



Note

[1]Refer to pages 121 to 140 for reporting changes.

Business performance *(continued)*

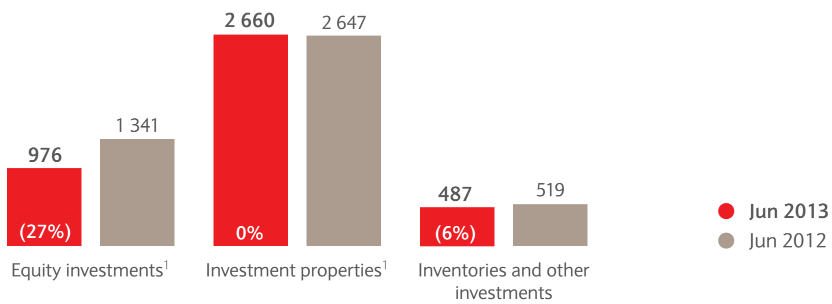
Equities

The volatility experienced in 2012 has since normalised and the portfolio is now stable, with Business Banking also experiencing some positive upside on the property portfolio. However, continued unfavourable market conditions in some sectors resulted in marginal negative fair value adjustments to the equity and property portfolios during the reporting period.

The overall portfolio reduced by R29 million from 31 December 2012, mainly due to the disposal of equity investments of R82 million and negative fair value adjustments of R47 million. This was offset by the acquisition of investment properties of R74 million from remaining commitments and the impact of foreign exchange and other movements of R26 million.

The focus remains on balancing the equity portfolio in line with Group's risk appetite.

Equities – including investment properties, inventories and other investments (Rm and change %)



Business Banking – Equities

Statement of comprehensive income	30 June 2013 CPF Equities Rm	30 June 2013 Other Equities Rm	30 June 2013 Total Equities Rm	30 June 2012 CPF Equities Rm	30 June 2012 Other Equities Rm	30 June 2012 Total Equities Rm	Total change %	31 December 2012 CPF Equities Rm	31 December 2012 Other Equities Rm	31 December 2012 Total Equities Rm
Net interest income	**(106)**	**(1)**	**(107)**	(174)	(3)	(177)	40	(336)	(10)	(346)
Impairment losses on loans and advances	**1**	**—**	**1**	(5)	—	(5)	>100	(4)	—	(4)
Non-interest income	**142**	**(28)**	**114**	29	(29)	—	>100	80	(152)	(72)
Operating expenses[2]	**(107)**	**—**	**(107)**	(274)	—	(274)	61	(699)	—	(699)
Other	**(14)**	**—**	**(14)**	(22)	—	(22)	36	(31)	—	(31)
Operating profit before income tax	**(84)**	**(29)**	**(113)**	(446)	(32)	(478)	76	(990)	(162)	(1 152)

Notes

[1]Certain equity investments (R25 million), investment properties (R1 570 million) and inventories and other investments (R22 million) have been classified as non-current assets held-for-sale during the reporting period. As at 30 June 2012 no equities were classified as non-current assets held-for-sale. As at 31 December 2012 certain equity investments (R30 million) and investment properties (R1 375 million) were classified as non-current assets held-for-sale.

[2]A portion of fair value adjustments to the amount of **R27 million** (30 June 2012: R235 million; 31 December 2012: R584 million) is included in operating expenses for CPF equities.

Looking ahead

Business Banking's strategy for 2013 aims to realign the business to be customer-centric, to provide tailored solutions to customers' needs by offering superior products through multiple channels and to enhance capabilities to ensure excellent service delivery. The strategy includes harnessing synergies to improve cost and operational efficiencies across the business.

To achieve this, emphasis will be placed on:

- A new leadership team to refocus the business.
- Sustainable growth to increase the customer base.
- Strengthening Agri, local government, retail and franchise value propositions in order to improve profitability.
- Managing concentration risk.
- Implementing external marketing and brand building initiatives.
- Enhancing digital capabilities to make it easier and more cost-effective for customers to transact.
- Integration of Barclays Africa and strategic review of Business Banking for growth in 2014 and beyond.
- Facilitating closer collaboration between Absa business units to enhance customer experience and leverage opportunities.

Favourable

- Investment Banking net revenue growth of 31% on the back of solid client activity.
- Corporate business starts to show growth with net revenue up 14%.
- Costs contained within inflation while continuing to invest in key growth areas.
- Launch of NewPlat to the market – South Africa's first fully backed physical platinum ETF and the JSE's third largest ETF product.
- Awarded the 2012 African Wind Deal of the Year for financing the Dorper Wind Farm project by the *Project Finance* magazine.
- Awarded the Best Debt House in Africa at the 2013 Euromoney awards.

Unfavourable

- Markets revenue impacted by difficult trading conditions in the second quarter of 2013.
- Private Equity performance negatively impacted the Investment Bank earnings.
- Net revenue for Wealth adversely impacted by higher unidentified credit impairments and reduced referrals for large investment market trades.

Salient features	30 June 2013	30 June 2012[1]	Change %	31 December 2012[1]
Net revenue (Rm)[2]	**4 169**	4 058	3	8 306
Headline earnings (Rm)	**1 206**	1 301	(7)	2 710
Cost-to-income ratio (%)	**59,5**	59,4		57,5
Revenue on average risk-weighted assets (%)	**1,70**	1,98		1,99
Return on average regulatory capital (%)[3]	**16,6**	19,3		19,5

Business profile

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 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]Refer to pages 121 to 140 for reporting changes.

[2]Includes net interest income and non-interest income, net of credit impairments.

[3]Return on average regulatory capital is calculated at the midpoint of the Board target ratio.

CIBW

	Note	30 June 2013 Rm	30 June 2012[1] Rm	Change %	31 December 2012[1] Rm
Statement of comprehensive income					
Net interest income	1	**1 818**	1 726	5	3 321
Impairment losses on loans and advances	1	**(69)**	(51)	(35)	(223)
Non-interest income	1	**2 420**	2 383	2	5 208
Gains and losses from banking and trading activities	2	**1 671**	1 742	(4)	3 814
Other non-interest income		**749**	641	17	1 394
Operating expenses		**(2 522)**	(2 439)	(3)	(4 906)
Other		**(52)**	(52)	0	21
Operating profit before income tax		**1 595**	1 567	2	3 421
Taxation expense		**(323)**	(235)	(37)	(618)
Profit for the reporting period		**1 272**	1 332	(5)	2 803
Profit attributable to:					
Ordinary equity holders		**1 206**	1 301	(7)	2 710
Non-controlling interest – ordinary shares		**14**	(14)	>100	(2)
Non-controlling interest – preference shares		**52**	45	16	95
		1 272	1 332	(5)	2 803
Headline earnings		**1 206**	1 301	(7)	2 710
Notes					
1. Net revenue contribution[2]					
Investment Bank					
Markets		**1 606**	1 610	(0)	3 440
Investment Banking		**654**	499	31	1 111
Private Equity and Infrastructure Investments		**58**	240	(76)	395
Other		**0**	19	(100)	96
Corporate		**1 668**	1 465	14	2 819
Wealth		**183**	225	(19)	445
		4 169	4 058	3	8 306
2. Gains and losses from banking and trading activities					
Net gains on investments		**57**	248	(77)	418
Debt instruments		**75**	71	6	179
Equity instruments		**(18)**	177	>(100)	239
Net trading results		**1 571**	1 519	3	3 415
Net trading income excluding the impact of hedge accounting		**1 591**	1 517	5	3 432
Ineffective portion of hedges		**(20)**	2	>(100)	(17)
Cash flow hedges		**(26)**	(2)	>(100)	—
Fair value hedges		**6**	4	50	(17)
Other		**43**	(25)	>100	(19)
		1 671	1 742	(4)	3 814

Notes

[1]Refer to pages 121 to 140 for reporting changes.

[2]Includes net interest income and non-interest income, net of credit impairments.

CIBW

Financial performance

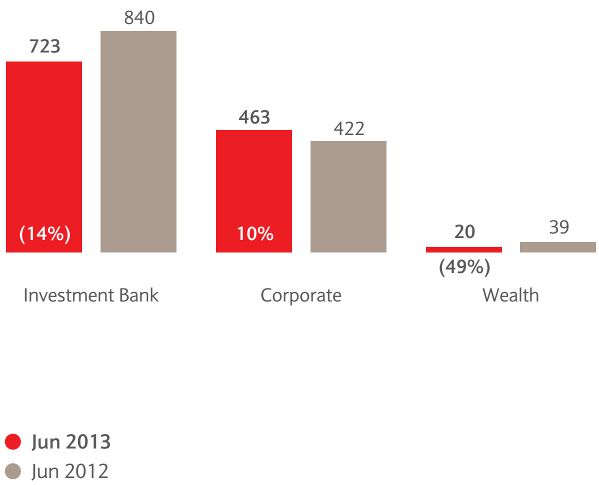
Headline earnings declined by 7% to R1 206 million (30 June 2012: R1 301 million), reflecting lower Private Equity performance and difficult trading conditions experienced in Markets in the second quarter of 2013.

Net revenue increased by 3% to R4 169 million (30 June 2012: R4 058 million) with Corporate increasing by 14% to R1 668 million (30 June 2012: R1 465 million) due to strong growth in corporate debt and increased volumes in trade products. Investment Banking net revenue increased by 31% to R654 million (30 June 2012: R499 million) as solid client activity drove higher average loans and advances and increased advisory mandates, together with related fee income. Markets revenue was flat at R1 606 million compared to R1 610 million for the previous reporting period. Revenue for Private Equity and Infrastructure Investments declined by 76% due to lower revaluations of investments. Wealth's net revenue declined by 19% reflecting higher unidentified credit impairments and reduced referrals for large investment market trades.

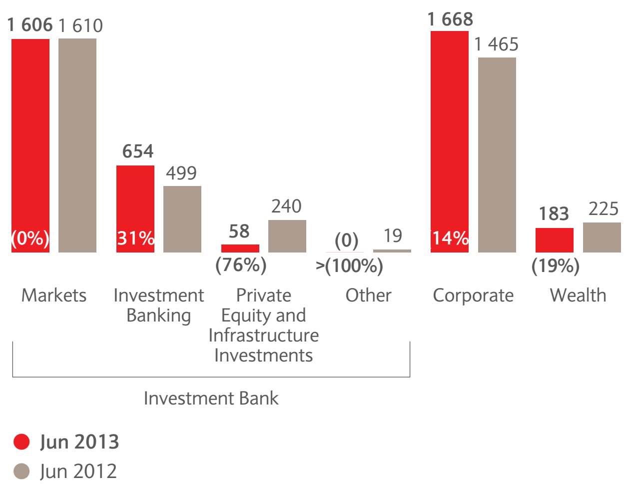
Growth in operating expenses was contained within inflation to 3%, while continued investment was made in key growth areas. CIBW's cost-to-income ratio for the reporting period was 59,5% (30 June 2012: 59,4%).

The RoRC declined to 16,6% from 19,3% due to lower earnings and an increase in market risk RWAs as a result of the implementation of Basel III.

Headline earnings (Rm and change %)[1]



Net revenue mix (Rm and change %)[1, 2]



Operating environment

The global and domestic environment remained challenging during the reporting period. Globally, the European economy remained mired in recession and signs of an economic slowdown in China became evident. The global sentiment and markets responded positively to Japan's extraordinary monetary policy experiment but remained fearful to the prospects that the US quantitative easing might end. In the domestic environment, economic growth achieved a low performance of 0,9% on an annualised basis in the first quarter of 2013. Growth for the second quarter was mixed. A combination of a weak growth environment, domestic labour unrest and uncertainties around the economic health of the local consumer contributed to the country's higher risk premium. This was evidenced by the significantly weaker rand and an increase in term interest rates.

Notes

[1]Refer to pages 121 to 140 for reporting changes.

[2]Includes net interest income and non-interest income, net of credit impairments.

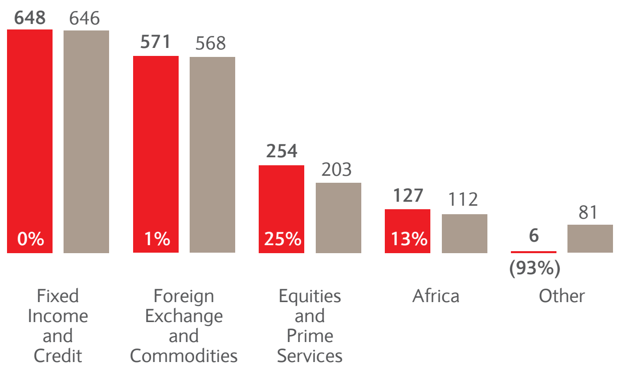
Business performance

Investment Bank

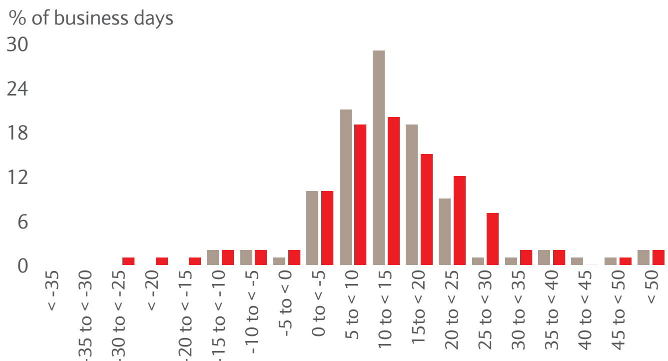
Markets

Markets revenue was negatively impacted by difficult trading conditions, but remained largely unchanged at R1 606 million (30 June 2012: R1 610 million). Fixed Income and Credit remained flat at R648 million (30 June 2012: R646 million) compared to the previous reporting period. This can be partly attributed to the resilient trading opportunities in Credit. Foreign Exchange and Commodities revenue remained flat at R571 million (30 June 2012: R568 million), hampered by the volatility in the foreign exchange market in the second quarter of 2013. The successful launch of the NewPlat ETF as well as various customer trades contributed to the good revenue growth in Commodities. Equities and Prime Services experienced strong revenue growth of 25% for the reporting period, due to the continued build-out of the cash equities franchise and the continued on-boarding of prime broking clients.

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



Daily Markets revenue distribution (Rm)



Investment Banking

Net revenue from Investment Banking increased by 31% to R654 million (30 June 2012: R499 million) for the reporting period. The margin business delivered strong growth in net revenue of 38% because of higher average loans and advances driven by increased client activity in the power, utilities and infrastructure, metals and mining as well as consumer sectors. The fee business is supported by the Mergers and Acquisitions franchise, which continues to gain traction.

	30 June			31 December
Salient features	**2013**	2012[1]	Change %	2012[1]
Margin business (Rm)	**554**	402	38	868
Fee business (Rm)	**100**	97	3	243
Net revenue (Rm)	**654**	499	31	1 111
Average loans and advances (Rbn)	**56,1**	44,8	25	48,4

Note

[1]Refer to pages 121 to 140 for reporting changes.

Business performance *(continued)*

Investment Bank *(continued)*

Private Equity and Infrastructure Investments

Private Equity and Infrastructure Investments reported a decrease in net revenue to R58 million (30 June 2012: R240 million), primarily driven by lower revaluations on investments. The portfolio is stable but is under pressure in the short term in line with global markets. The increase in book size is largely attributable to foreign exchange movements and committed drawdowns. The business continues to position the portfolio in line with the Group's risk appetite.

Salient features	30 June 2013	30 June 2012[1]	Change %	31 December 2012[1]
Revaluations (Rm)	**16**	201	(92)	318
Debt instruments	**69**	70	(1)	165
Equity instruments	**(53)**	131	>(100)	153
Realisations, dividends, interest and fees (Rm)	**73**	82	(11)	179
Funding (Rm)	**(31)**	(43)	28	(102)
Net revenue (Rm)	**58**	240	(76)	395
Total portfolio size (Rbn)	**6,0**	5,5	9	5,7

Corporate

Corporate net revenue increased by 14% to R1 668 million (30 June 2012: R1 465 million), mainly as a result of strong growth in corporate debt off a low base, as well as increased volumes and profitability in trade products, which increased by 19% on the previous reporting period. Despite growth in average deposit balances on the previous reporting period, revenue was constrained by increased margin pressure.

Salient features	30 June 2013	30 June 2012[1]	Change %	31 December 2012[1]
Gross revenue (Rm)	**1 688**	1 499	13	2 973
Net interest income	**1 121**	1 001	12	2 021
Non-interest income	**567**	498	14	952
Impairments losses on loans and advances (Rm)	**(20)**	(34)	41	(154)
Net revenue (Rm)	**1 668**	1 465	14	2 819
Average loans and advances to customers (Rbn)	**36,3**	38,9	(7)	38,8
Average deposits due to customers (Rbn)	**116,9**	107,8	8	111,1

Note

[1]Refer to pages 121 to 140 for reporting changes.

Business performance *(continued)*

Wealth

Wealth net revenue decreased by 19% to R183 million (30 June 2012: R225 million), largely due to increased unidentified credit impairments and reduced referrals for large investment market trades. Although new client balances increased during the reporting period, margins were compressed due to an ever-increasing competitive market. Increased credit activity resulted in a satisfactory performance in credit-related fees. The business continues to make progress on shifting the revenue mix from credit (capital intensive) towards investment management and advisory to improve the long-term sustainability of revenues.

Salient features	30 June 2013	30 June 2012[1]	Change %	31 December 2012[1]
Gross revenue (Rm)	**229**	248	(8)	504
Net interest income	**160**	169	(5)	346
Non-interest income	**69**	79	(13)	158
Impairment losses on loans and advances (Rm)	**(46)**	(23)	(100)	(59)
Net revenue (Rm)	**183**	225	(19)	445
Average loans and advances (Rbn)	**11,0**	10,9	1	10,9
Client assets (Rbn)[2]	**15,1**	15,2	(1)	15,0

Looking ahead

CIBW's strategy is to become the 'Go-To' CIBW offering in Africa. Through collaboration with the Barclays Africa businesses, there is a significant opportunity to build a strong wholesale offering for African clients. Continued emphasis on client needs will remain a priority throughout 2013.
The CIBW value proposition remains to leverage off the global platform to deliver to clients the benefits of the entire local and global operating model.

Notes

[1]Refer to pages 121 to 140 for reporting changes.

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

Financial Services

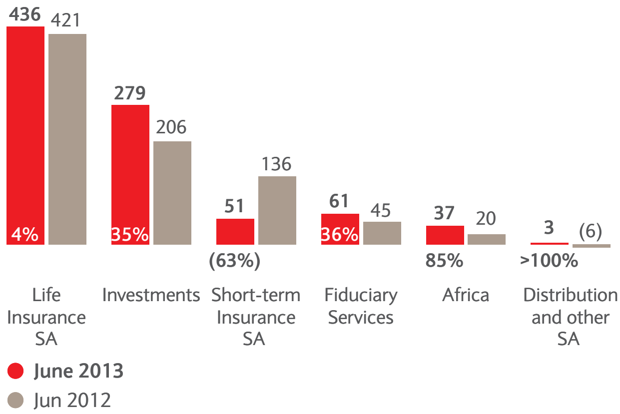
Favourable

- 20% earnings growth excluding Short-term Insurance South Africa (SA).
- New business volumes continued its growth momentum into the current reporting period.
- Embedded value (EV) of new business of R183 million, 21% up on the previous reporting period.
- Net investment fund inflows of R6,2 billion.
- Non-South African operations doubled earnings.
- The new distribution operating model resulted in improved new business flows and the business achieved break-even for the reporting period.

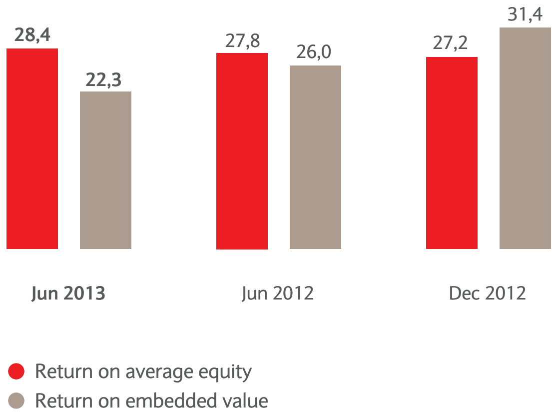
Unfavourable

- Lower insurance earnings following crop cover underwriting losses.
- New business strain in Life negatively impacting earnings growth.
- Modest premium growth.

Net operating income per business unit (Rm and change %)



Return on average equity and embedded value (%)



Salient features	30 June 2013	30 June 2012[1]	Change %	31 December 2012[1]
Net operating income (Rm)	**867**	822	5	1 569
Headline earnings (Rm)	**671**	641	5	1 265
Cost-efficiency ratio (%)	**25,4**	25,5		24,2
Combined ratio (%)	**99,4**	93,8		94,9
Assets under management and administration (Rbn) – Investments	**199**	171	16	192
Embedded value of new business (Rm)	**183**	151	21	362
Return on average equity (%)	**28,4**	27,8		27,2

Note

[1]Refer to pages 121 to 140 for reporting changes.

Financial Services

	Life Insurance			
	30 June			31 December
	2013 Rm	2012[1] Rm	Change %	2012[1] Rm
Statement of comprehensive income				
Net insurance premium income	**1 157**	1 071	8	2 312
Net insurance claims and benefits paid	**(312)**	(272)	(15)	(577)
Investment income				
Policyholder investment contracts	**1 034**	813	27	1 397
Policyholder insurance contracts	**66**	98	(33)	277
Changes in investment and insurance contract liabilities				
Policyholder investment contracts	**(993)**	(775)	(28)	(1 303)
Policyholder insurance contracts	**(22)**	(93)	76	(344)
Other income[2]	**(17)**	(17)	0	(43)
Gross operating income	**913**	825	11	1 719
Net commission paid by insurance companies[3]	**(233)**	(222)	(5)	(490)
Operating expenses	**(180)**	(125)	(44)	(305)
Other operating expenditure	**(42)**	(39)	(8)	(87)
Net operating income	**458**	439	4	837
Investment income on shareholder funds	**41**	39	5	103
Shareholder expenses[4]	**—**	—	—	—
Taxation expense	**(133)**	(129)	(3)	(266)
Profit for the reporting period	**366**	349	5	674
Headline earnings	**366**	349	5	676
Note				
1. Investment income				
Policyholder investment contracts	**1 034**	813	27	1 397
Net interest income	**225**	148	52	523
Dividend income	**59**	81	(27)	145
Fair value gains	**750**	584	28	729
Policyholder insurance contracts	**66**	98	(33)	277
Net interest income	**31**	30	3	60
Dividend income	**6**	—	100	15
Fair value gains	**29**	68	(57)	202
Shareholder funds	**41**	39	5	103
Net interest income	**17**	18	(6)	35
Dividend income	**4**	6	(33)	10
Fair value gains/(losses)	**20**	15	31	58
Total	**1 141**	950	20	1 777
Net interest income	**273**	196	40	618
Dividend income	**69**	87	(21)	170
Fair value gains/(losses)	**799**	667	20	989

	30 June			31 December
Net fee and commission income	**2013 Rm**	2012 Rm	Change %	2012 Rm
Employee benefit-related fees	**164**	159	3	320
Investment management and related fees	**473**	414	14	866
Net commission from distribution business	**232**	205	13	407
Net commission paid by insurance companies[3]	**(462)**	(462)	0	(959)
Trust and estate income	**131**	128	2	266
Other	**(1)**	(15)	93	(36)
Total	**537**	429	25	864

Notes

[1]Refer to pages 121 to 140 for reporting changes.

[2]Includes impairment losses on loans and advances.

[3]Includes internal commission, eliminated on consolidation of the Group's results.

[4]Shareholder expenses previously retained at a Group level now charged to the business..

Financial Services

Investments				Short-term Insurance				Fiduciary Services			
30 June			31 December	30 June			31 December	30 June			31 December
2013 Rm	2012 Rm	Change %	2012 Rm	**2013 Rm**	2012 Rm	Change %	2012 Rm	**2013 Rm**	2012 Rm	Change %	2012 Rm
—	—	—	—	**1 488**	1 585	(6)	3 108	**3**	6	(50)	3
—	—	—	—	**(1 043)**	(1 078)	3	(2 138)	**(1)**	(2)	50	(1)
—	—	—	—	**—**	—	—	—	**—**	—	—	—
—	—	—	—	**29**	27	7	52	**—**	—	—	—
—	—	—	—	**—**	—	—	—	**—**	—	—	—
—	—	—	—	**—**	—	—	—	**—**	—	—	—
494	425	16	871	**20**	14	43	29	**293**	288	2	589
494	425	16	871	**494**	548	(10)	1 051	**295**	292	1	591
—	—	—	—	**(228)**	(238)	4	(468)	**(1)**	(2)	(50)	(1)
(214)	(213)	0	(422)	**(188)**	(168)	(12)	(344)	**(232)**	(242)	4	(486)
(1)	(6)	83	(12)	**(1)**	3	>(100)	7	**(1)**	(3)	67	(4)
279	206	35	437	**77**	145	(47)	246	**61**	45	36	100
11	11	0	26	**39**	54	(28)	102	**4**	4	0	8
—	—	—	—	**—**	—	—	—	**—**	—	—	—
(79)	(62)	(27)	(133)	**(34)**	(55)	38	(94)	**(18)**	(15)	(20)	(32)
211	155	36	330	**82**	144	(43)	254	**47**	34	38	76
211	155	36	334	**82**	144	(43)	255	**48**	35	37	76
—	—	—	—	**—**	—	—	—	**—**	—	—	—
—	—	—	—	**—**	—	—	—	**—**	—	—	—
—	—	—	—	**—**	—	—	—	**—**	—	—	—
—	—	—	—	**—**	—	—	—	**—**	—	—	—
—	—	—	—	**29**	27	7	52	**—**	—	—	—
—	—	—	—	**29**	27	7	52	**—**	—	—	—
—	—	—	—	**—**	—	—	—	**—**	—	—	—
—	—	—	—	**—**	—	—	—	**—**	—	—	—
11	11	0	26	**39**	54	(28)	102	**4**	4	0	8
11	11	0	26	**44**	46	(4)	94	**—**	—	—	—
—	—	—	—	**4**	5	(20)	8	**—**	—	—	—
—	—	—	—	**(9)**	3	>(100)	—	**4**	4	0	8
11	11	0	26	**68**	81	(16)	154	**4**	4	0	8
11	11	0	26	**73**	73	0	146	**—**	—	—	—
—	—	—	—	**4**	5	(20)	8	**—**	—	—	—
—	—	—	—	**(9)**	3	>(100)	—	**4**	4	0	8

Segment report per geographical segment	South Africa				Rest of Africa			
	30 June			31 December	30 June			31 December
	2013 Rm	2012[1] Rm	Change %	2012[1] Rm	**2013 Rm**	2012 Rm	Change %	2012 Rm
Net insurance premium income	**2 434**	2 511	(3)	5 054	**214**	151	42	369
Net insurance claims and benefits paid	**(1 282)**	(1 304)	2	(2 622)	**(75)**	(48)	(56)	(94)
Gross operating income	**2 306**	2 211	4	4 451	**144**	104	38	233
Operating expenses	**(1 016)**	(943)	(8)	(1 948)	**(54)**	(39)	(36)	(89)
Net operating income	**830**	802	3	1 541	**37**	20	85	28
Profit for the reporting period	**644**	627	3	1 230	**26**	13	100	18

Financial Services

Other 30 June 2013 Rm	Other 30 June 2012[1] Rm	Other Change %	Other 31 December 2012[1] Rm	Financial Services 30 June 2013 Rm	Financial Services 30 June 2012[1] Rm	Financial Services Change %	Financial Services 31 December 2012[1] Rm
—	—	—	—	2 648	2 662	(1)	5 423
(1)	—	>(100)	—	(1 357)	(1 352)	(0)	(2 716)
182	19	>100	88	1 216	832	46	1 485
—	—	—	—	95	125	(24)	329
(179)	(7)	>(100)	(60)	(1 172)	(782)	(50)	(1 363)
—	—	—	—	(22)	(93)	76	(344)
252	213	18	424	1 042	923	13	1 870
254	225	12	452	2 450	2 315	6	4 684
—	—	—	—	(462)	(462)	(0)	(959)
(256)	(234)	(9)	(480)	(1 070)	(982)	(9)	(2 037)
(6)	(4)	(25)	(23)	(51)	(49)	(4)	(119)
(8)	(13)	38	(51)	867	822	5	1 569
22	9	>100	43	117	117	0	282
(60)	(51)	(18)	(101)	(60)	(51)	(18)	(101)
10	13	(23)	23	(254)	(248)	(2)	(502)
(36)	(42)	14	(86)	670	640	5	1 248
(36)	(42)	14	(76)	671	641	5	1 265
182	19	>100	88	1 216	832	46	1 485
(14)	—	>(100)	1	211	148	43	524
12	12	0	22	71	93	(24)	167
184	7	>100	65	934	591	58	794
—	—	—	—	95	125	(24)	329
—	—	—	—	60	57	5	112
—	—	—	—	6	—	>100	15
—	—	—	—	29	68	(57)	202
22	9	>100	43	117	117	0	282
1	3	(67)	6	73	78	(4)	161
—	—	—	—	8	11	(20)	18
21	6	>100	37	36	28	24	103
204	28	>100	131	1 428	1 074	33	2 096
(13)	3	>(100)	7	344	283	22	797
12	12	0	22	85	104	(18)	200
205	13	>100	102	999	687	46	1 099

Total 30 June 2013 Rm	Total 30 June 2012[1] Rm	Total Change %	Total 31 December 2012[1] Rm
2 648	2 662	(1)	5 423
(1 357)	(1 352)	(0)	(2 716)
2 450	2 315	6	4 684
(1 070)	(982)	(9)	(2 037)
867	822	5	1 569
670	640	5	1 248

Financial Services

	30 June			31 December
	2013 **Rm**	2012[1] Rm	Change %	2012[1] Rm
Statement of financial position				
Assets				
Cash balances and loans and advances to banks[2]	**1 332**	1 131	18	1 236
Non-current assets held for sale[3]	**2 593**	—	100	2 548
Investment securities[2]	**4**	492	(99)	57
Financial assets backing investment and insurance liabilities				
Policyholder				
Investment contracts	**19 353**	20 252	(6)	18 784
Cash balances and loans and advances to banks	**447**	501	(11)	422
Investment securities	**18 692**	19 225	(3)	17 910
Other[4]	**214**	526	(60)	452
Insurance contracts	**2 791**	3 199	(13)	2 773
Cash balances and loans and advances to banks	**1 231**	1 247	(1)	1 522
Investment securities	**707**	1 475	(52)	685
Other[4]	**853**	477	79	566
Shareholder	**2 592**	2 661	(3)	2 442
Cash balances and loans and advances to banks	**1 295**	1 668	(22)	1 250
Investment securities	**1 297**	993	31	1 192
Other assets[5]	**3 855**	3 390	14	2 963
Property and equipment	**115**	128	(10)	117
Total assets	**32 635**	31 253	4	30 920
Liabilities				
Non-current liabilities held for sale	**1 310**	—	>100	1 303
Liabilities under investment contracts	**19 261**	20 219	(5)	18 768
Policyholder liabilities under insurance contracts[6]	**3 492**	3 202	9	3 551
Other liabilities[5]	**3 704**	2 963	25	2 550
Deferred tax liabilities	**53**	44	20	50
Total liabilities	**27 820**	26 428	5	26 222
Equity				
Capital and reserves	**4 815**	4 825	(0)	4 698
Total equity	**4 815**	4 825	(0)	4 698
Total liabilities and equity	**32 635**	31 253	4	30 920

Notes

[1]Refer to pages 121 to 140 for reporting changes.

[2]Non-insurance related balances.

[3]Included in non-current assets held-for-sale are assets of **R1 015 million** (31 December 2012: R956 million) backing policyholder liabilities under insurance contracts.

[4]Relates to reinsurance assets.

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

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

Financial Services

Reconciliation with Group	Financial Services Rm	30 June 2013 Inter-segment eliminations Rm	Other[1] Rm	Group Rm
Statement of financial position[2]				
Investment securities				
Investments linked to investment contracts	**18 692**	**(3 553)**	**—**	**15 140**
Policyholder liabilities under insurance contracts	**(3 492)**	**33**	**(47)**	**(3 506)**
Statement of comprehensive income[2]				
Net insurance premium income	**2 648**	**—**	**112**	**2 760**
Net insurance claims and benefits paid	**(1 357)**	**(36)**	**37**	**(1 356)**
Gains and losses from investment activities – net gains on investments from insurance activities – policyholder investment contracts	**1 216**	**(87)**	**—**	**1 129**

Reconciliation with Group	Financial Services Rm	30 June 2012 Inter-segment eliminations Rm	Other[1] Rm	Group Rm
Statement of financial position[2]				
Investment securities				
Investments linked to investment contracts	19 225	(4 314)	—	14 911
Policyholder liabilities under insurance contracts	(3 202)	72	(109)	(3 239)
Statement of comprehensive income[2]				
Net insurance premium income	2 662	(9)	104	2 757
Net insurance claims and benefits paid	(1 352)	—	(8)	(1 360)
Gains and losses from investment activities – net gains on investments from insurance activities – policyholder investment contracts	832	(206)	—	626

Reconciliation with Group	Financial Services Rm	31 December 2012 Inter-segment eliminations Rm	Other[1] Rm	Group Rm
Statement of financial position[2]				
Investment securities				
Investments linked to investment contracts	17 910	(4 100)	—	13 811
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 investments from insurance activities – policyholder investment contracts	1 485	(399)	—	1 086

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.

Financial Services

Business profile

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 provide financial services to all market segments in sub-Saharan Africa.

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 units, 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.
- **Other** – includes Financial Services' head office and holding companies as well as allocated shareholder expenses.

Financial performance

Financial Services achieved headline earnings of R671 million (30 June 2012: R641 million), a 5% increase on the previous reporting period. The current reporting period was characterised by a continued improvement in new business volumes in Life, strong net fund inflows in Investments and significant weather-related crop claims in Insurance. A net operating income of R867 million was achieved, 5% higher than what was recorded in the previous reporting period. Earnings growth excluding Short-term Insurance of 20% was achieved.

Life experienced robust growth in the embedded value of new business of 21% to R183 million off the back of continued strong new business volumes into the current reporting period.

Investments' solid performance can be attributed to strong net fund inflows of R4,8 billion in 2012 and R6,2 billion during the reporting period. Gross insurance premiums increased by 10% while net insurance premiums remained relatively constant. Net premium income for the South African insurance operations declined by 9% to R1 376 million (30 June 2012: R1 507 million) due to the decision to exit non-core products that were failing to make an adequate contribution to profitability in 2012 (corporate, commercial fleet and guarantees) as well as low new business volumes in homeowners cover and personal lines in the first quarter of 2013.

Significant weather-related claims for crop cover resulted in an underwriting loss of R52 million for this product for the reporting period. The risk appetite of this product has been reviewed and a number of changes, including pricing, have been implemented to improve future performance.

Operations in the rest of Africa performed strongly, with an increase in net premium income of 42% to R214 million (30 June 2012: R151 million) and net operating income of 85% to R37 million (30 June 2012: R20 million).

Total operating expenses were well-managed and increased by 9%, mainly due to the expansion drive into the rest of Africa, the amortisation of new operating systems recently implemented and the consolidation of cell captives following changes in IFRS.

Operating environment

The global and domestic economies remained under pressure throughout the reporting period. However, new lending volumes improved somewhat on the previous reporting period. Investment markets were characterised by strong market growth. Cash shortfalls in estates administered by Absa Trust remained and the property market continued to show limited growth. Equity and bond market volatility continued during the reporting period.

Business performance

Life insurance experienced strong growth in new business volumes during the reporting period. The short-term insurance industry was characterised by high claim levels following significant weather-related crop claims and Investments increased assets under management and administration by 16% on the previous reporting period. Operations in the rest of Africa delivered solid growth with a 42% increase in net premium income.

Life

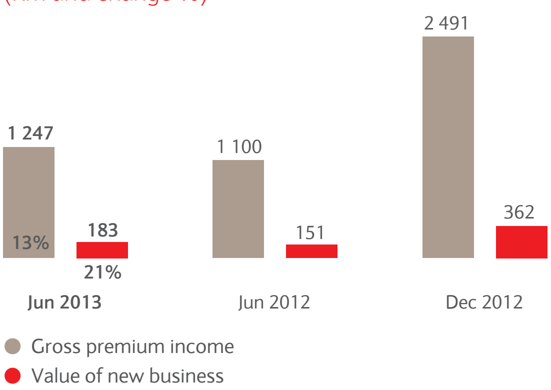
Net premium income increased by 8% to R1 157 million (30 June 2012: R1 071 million). Strong growth achieved in the rest of Africa was offset by low growth in South Africa due to muted new business volumes experienced during the previous reporting period. Increased new business volumes in the second half of 2012 continued into the reporting period and resulted in an increase of 13% in the value of business in force to R2 347 million (30 June 2012: R2 078 million). This, however, does not yet fully reflect in earnings due to the impact of new business strain.

Embedded value of new business of R183 million was achieved, an improvement of 21% on the previous reporting period. A return on embedded value of 22,3% (30 June 2012: 26,0%) was achieved for the reporting period. Uplift in business volumes can be attributed to the improved integration of Life's products and service offerings into Absa branches, increased support from distribution due to the new advisor operating model, the implementation of Life's multi-channel strategy and higher credit approvals.

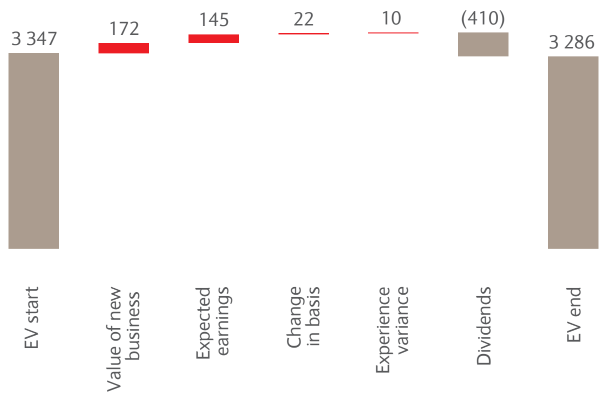
Policyholder liabilities were impacted by changes in the economic basis in line with changes in market rates.

Operating expenses for the South African operations increased by 44% due to increased spend on amortisation and IT resulting from a large system replacement.

Gross premium income and value of new business (Rm and change %)



Embedded value (Absa Life South Africa) (Rm)



Salient features[1]	30 June 2013	30 June 2012	Change %	31 December 2012
Shareholders' net assets (Rm)	**1 446**	1 461	(1)	1 488
Cost of solvency capital (Rm)	**(454)**	(410)	(11)	(467)
Value of business in force (Rm)	**2 347**	2 078	13	2 364
Embedded value (Rm)	**3 339**	3 129	7	3 385
Embedded value earnings (Rm)	**358**	377	(5)	965
Return on embedded value (%)	**22,3**	26,0		31,4
Embedded value of new business (Rm)	**183**	151	21	362
Value of new business as a % of the present value of future premiums (%)	**7,9**	8,1		9,3

Note

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

Business performance *(continued)*

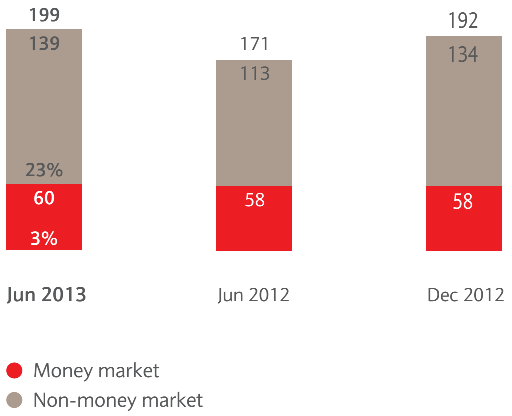
Investments

The strong growth achieved in assets under management and administration during the second half of 2012 continued into the reporting period. This resulted in an increase in headline earnings of 36% to R211 million (30 June 2012: R155 million). Investments was particularly successful in growing equity and asset allocations adding R6,3 billion net fund flows to the portfolio during the reporting period. Net fund inflows increased from R4,7 billion for the second half of 2012 to R6,2 billion for the reporting period. Retail money market funds remained under pressure in the low interest rate environment. Total money market assets under management and administration increased by a moderate 3% to R60 billion.

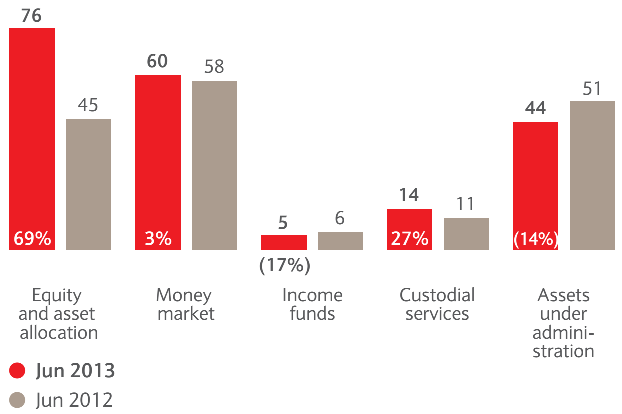
Investment revenue increased by 16% to R494 million (30 June 2012: R425 million), driven by strong growth in assets under management and administration.

Increased efficiencies and strong cost management resulted in operating expenses remaining flat. This trend is not expected to continue into the second half of the current financial year as the Group continues to invest in this business.

Total assets under management and administration
(Rbn and change %)



Assets under management and administration
(Rbn and change %)



Salient features	30 June 2013	2012	Change %	31 December 2012
Headline earnings (Rm)	**211**	155	36	334
Gross margin (bps)	**52,2**	49,0	7	49,7
Net flows (Rbn)	**6,2**	0,1	>100	4,8
Money market	**2,4**	(13,1)	>100	0
Non-money market	**3,8**	13,2	(71)	4,8
Net assets under management and administration (Rbn)	**199**	171	16	192

Business performance *(continued)*

Insurance

Insurance achieved headline earnings of R82 million, a decline of 43% from the R144 million recorded for the previous reporting period. Poor underwriting results from crop cover, commercial business and homeowners cover in the first quarter of 2013 negatively impacted performance. The second quarter delivered improved underwriting results in crop and homeowners cover.

Net insurance premium income decreased by 6% to R1 488 million (30 June 2012: R1 585 million). Strong growth in premium income of 15% from operations in the rest of Africa offset the negative impact of the decision to exit non-core product lines in the South African business.

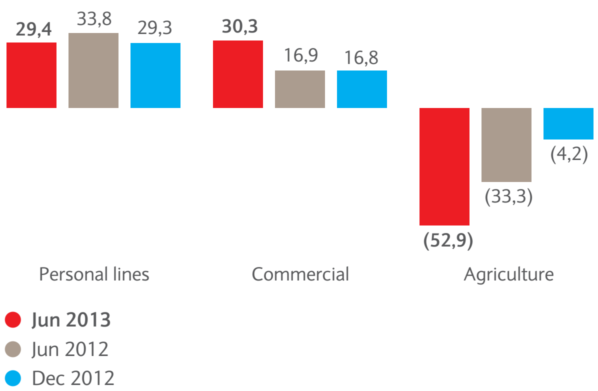
Agriculture cover yielded a net premium income of R91 million, but drought, hail and other perils resulted in an underwriting loss of R52 million, net of expenses (30 June 2012: R37 million loss). The long-term strategic view of this product has been reviewed and new risk profiles and pricing have been implemented.

Homeowners cover was negatively impacted by low new business volumes in January 2013. Volumes have been increasing since and this trend is promising. The commercial business did not perform at the desired levels and the pricing of product lines has been reviewed to improve the performance of the commercial business.

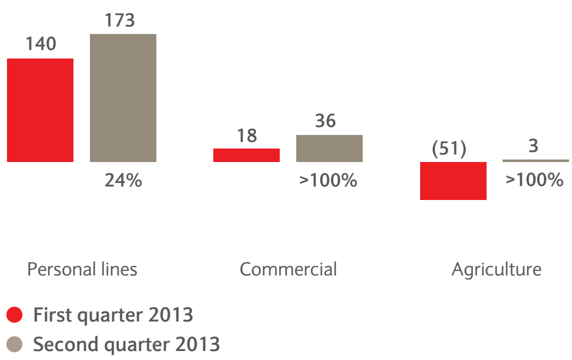
The underwriting margins of 99,4% (South Africa) and 79,9% (rest of Africa) are satisfactory in a period where significant events impacted the results of the whole industry and bears testimony to the diversification of product lines and quality of the underwriting process.

Operating expenses for the South African operations increased by 8%, mainly due to increased IT and amortisation expenses relating to new system replacements.

Underwriting surplus (pre-expenses %)



Underwriting surplus (pre-expenses Rm)



Salient features	30 June 2013	30 June 2012	Change %	31 December 2012
Gross premiums (Rm)	**2 127**	1 966	8	4 474
Underwriting surplus (Rm)	**95**	146	(35)	502
Headline earnings (Rm)	**82**	144	(43)	254
Underwriting margin (%)	**2,0**	6,4		5,1
Loss ratio (%)	**70,1**	68,0		68,8
Solvency margin (%)	**72,2**	63,3		60,8
Net asset value (Rm)	**1 875**	1 796	4	1 809

Business performance *(continued)*

Fiduciary Services

Headline earnings increased by 38% to R48 million (30 June 2012: R35 million). Absa Trust continued to generate solid cash flows and achieved a return on equity (RoE) of 88,0% (30 June 2012: 77%). Absa Trust reported revenue of R131 million, a 3% increase on the previous reporting period. Despite continued cash shortfalls experienced in estates, the business continued to show strong growth in new wills written in the high net worth segment.

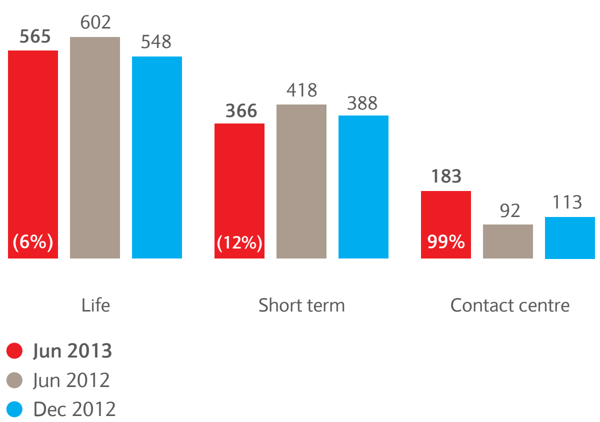
The revenue of the employee benefits business increased during the reporting period and restructuring changes in previous periods are starting to produce positive results. Employee Benefits' headline earnings increased by 100% to R12 million (30 June 2012: R6 million).

	30 June			31 December
Salient features	**2013**	2012	Change %	2012
Headline earnings (Rm)	**48**	35	38	75
Average value of estates distributed (R'000)	**979**	877	12	926
Net assets under management (Rbn)	**10,2**	9,3	11	9,6
Third party	**6,2**	5,9	7	5,7
Investments	**4,0**	3,4	17	3,9

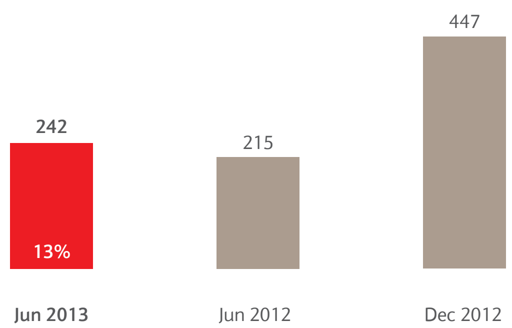
Distribution

Distribution recorded revenue of R242 million, an increase of 13% from the R215 million achieved in the previous reporting period. The new operating model for long-term insurance and investment advisors achieved strong results and contributed to improved flows and higher support for Absa products. Since March this year, this business has steadily improved its bottom line and is starting to produce positive returns on a monthly basis.

Distribution force (number and change %)



Revenue (Rm and change %)



Looking ahead

New business volumes in Insurance and new fund flows in Investments position the business optimally for future growth. Financial Services will continue to embed its operating model across the continent, through organic and inorganic growth, to service the customer base of Barclays Africa. Financial Services' growth strategy is to deliver customer-centric financial solutions to RBB customers based on a clear understanding of customer needs and advanced leads management. The emphasis is on delivering a consistently noteworthy customer experience, targeting growth in selected product and geographic areas, optimising profitability and nurturing a collaborative and integrated culture to support bancassurance leadership and excellence. The Group plans to integrate Wealth and Investment Management to scale efficiently across Africa and create a clear centre of wealth and investment excellence.

Risk management

Contents

Risk management overview

The Group's risk profile has been managed well within its risk appetite during the reporting period.

The Group's risk profile remained within set risk appetite levels, although business conditions were challenging during the course of the reporting period.

A well-established principal risks policy (PRP) provides an integrated risk management framework outlining the process for the management of risks facing the Group. This assists in mitigating the Group's risk and comprises six principal risks, namely credit, market, funding, operational, conduct and reputation risks. Conduct and reputation risk were elevated to principal risks during the reporting period.

Each principal risk has an identified Principal Risk Owner who strengthens oversight and ensures that an overall risk appetite has been clearly defined and that standards of risk management are being consistently delivered.

In addition to the principal risks, the Group closely monitors key strategic business risks including risk to profitability, execution risk and people risk.

A risk control framework is embedded in the Group. This reinforces a risk culture of shared responsibility between business and the respective risk teams. In addition to this, the Group's control framework focuses on the following:

- Clear segregation between risk takers, managers, the review and challenge function and independent assurance providers.
- Accountability in business for identification, management, monitoring and reporting of risk.
- Clarification of roles for all employees.
- Assigning responsibilities from the Group Chief Executive through to the execution of activities within a Board-approved risk appetite, which is articulated for all types of risk.

Going forward, all Absa and Barclays businesses in Africa will be managed on a One Africa basis from a risk and control perspective. Any incremental transactional and/or integration risk created by the acquisition of the African operations of Barclays, over and above business as usual will be governed by the Africa Executive Committee.

A summary of key risk indicators is presented below:

Key risk indicators		30 June 2013	30 June 2012	31 December 2012
Credit risk	Impairment losses on loans and advances as % of average loans and advances to customers	**1,35**	1,62	1,63
Market risk	Average traded market risk daily value at risk (Rm)	**17,67**	19,44	18,87
Funding risk – Liquidity	Long-term funding ratio (%)	**28,2**	25,6	26,2
Funding risk – Capital	Return on average risk-weighted assets (%)	**2,10**	2,07	2,06
Operational risk	Total loss of value (Rm)	↓	↑	↑

Credit risk

Credit risk is the risk of the Group suffering loss if any of its customers, clients or market counterparties fail to fulfil their contractual obligations to the Group.

The following are some of the factors that may negatively affect the credit risk portfolio:

- Global risks: The local economic environment and the performance of domestic businesses are influenced by the performance of the global economy. South Africa's reliance on trade with Europe, the United States of America and China means that demand side deterioration across these geographies will inhibit local performance. While the Group has a modest direct exposure to the eurozone (sovereigns and counterparties), a further decline in the credit rating of one or more sovereigns or financial institutions could cause severe stress in the financial system and could adversely affect markets, counterparties, clients and customers.
- Domestic economic conditions: The most significant factors that pose a risk to stable domestic growth stem from demand side risks. Consumer consumption contributes to approximately 65% of the South African gross domestic product. However, the rate of growth in consumer spending has diminished during the course of 2013 and sentiment levels have been trending lower since 2010, reaching their lowest levels in nine years during March 2013. These developments point to a moderating of consumption growth and subdued economic conditions. Recently, the household debt to disposable income ratio has trended higher towards pre-crisis levels indicating that a near-term change in consumer-led demand has limited scope. Low levels of job absorption are likely in the near term, given the weak sentiment of private sector businesses. Significantly weaker growth and economic conditions could have an adverse impact on the performance of Absa's credit portfolios and potentially lead to an increase in NPLs as well as a reduction in recoverability and value of the Group's assets.
- Higher interest rates: Global and local interest rates may increase over the medium term. A higher interest rate environment may threaten the sustainability of the domestic economic recovery. Consumer debt affordability is sensitive to interest rates and any increase may lead to increased impairment losses on loans and advances. Unsecured products, such as credit cards and personal loans, will be impacted the most.
- Decline in residential and commercial prices: Throughout the reporting period, the South African housing sector has been depressed. There are concerns about the level of unsecured personal debt, making it difficult for customers to raise new finance to roll existing debt obligations. The Business Banking CPF book and the retail mortgage portfolio remains sensitive to property prices, with asset value reductions potentially leading to reduced recoverability and increased impairment charges.
- Non-financial risk: Recent labour unrest has affected the mining and agriculture sectors, directly influencing foreign investment potential. This stretches the current account deficit and places the currency at risk to further erosion. Under these conditions, inflation is likely to breach the targeted band and a cycle of interest rate hikes may follow.

The overall quality of the retail credit portfolio improved during the reporting period, as the Group continued to book business that was assessed in line with the consumer behaviour being observed and the level of consumer stress being experienced. Focus remained on the unsecured portfolios and the potential contagion risk effects that are being faced by the industry. In addressing these issues, the Group is continuously reviewing its risk appetite and its underwriting criteria to ensure that it continues to book quality business.

Affordability and over indebtedness continued to place pressure on consumers. This was especially evident in the card and personal loans portfolios, where pressure on delinquency rates as well as recovery rates were being experienced. Collection strategies and operational execution processes and capabilities are continuously being reviewed to accommodate the potential impact expected from the stress being experienced by the consumer, specifically the increasing trend of debt-to-income ratios.

The current impairment coverage improved from 2012 levels, and the legal book inventory reduced due to changes in workout strategies, which continue to be successfully executed. The Group's properties in possession position, relating to both stock and flow, continued to decline during the reporting period.

The instalment credit agreement and credit card portfolios experienced positive growth during the reporting period, mainly due to the acquisition of the Edcon portfolio in November 2012. New scorecards implemented in VAF during 2012 increased the Group's exposure to new segments. The credit quality of new business continued to be within risk appetite. Mortgage balances decreased during the reporting period due to the maturity of the existing loans, while new loans were booked at more favourable loan-to-value ratios. The Group, however, recorded an increase in mortgage registrations, achieved within the set risk appetite. The Group's strategy for Retail Banking is focused on lower-risk lending, primarily to existing customers, which has resulted in below market growth but at a more favourable risk distribution.

Market risk

The Group is at risk from a reduction in its earnings or capital due to:

- Traded market risk: This risk relates to client activity primarily via the Investment Bank. It is the risk of the Group being impacted by changes in the level or volatility of positions in its trading books;
- Non-traded market risk: This risk relates to customer products primarily in RBB. It is the risk of the Group being unable to hedge its banking book balance sheet at prevailing market levels; and
- Insurance risk: The risk that future experience relating to claims, expenses, policyholder behaviour and investment returns differs from the assumptions made when setting premiums or valuing policyholder liabilities.

Specific areas and scenarios where market risk could result in significantly lower revenues and adversely affect the Group's results in future years include:

- Reduced client activity and decreased market liquidity: The Absa corporate and investment business model is focused on client intermediation. Therefore, a significant reduction in client volumes or market liquidity could result in lower fees and commission income as well as a longer period between executing a client trade, closing out a hedge or exiting a position arising from that trade. Longer holding periods in times of higher volatility could lead to revenue volatility caused by price changes.
- Capital outflow out of South Africa: There has been continued demand for South African government local currency bonds from foreign investors. Significant unexpected capital outflows could result due to a decline in demand for these bonds, because of a change in sentiment or global economic outlook. This could leave market makers with large positions that may take some time to exit, while bond prices and the exchange rate are adversely impacted. Such a scenario will result in difficult trading conditions and could erode returns.
- Uncertain interest rate environment: Interest rate volatility can affect the Group's net interest margin, which is the interest rate spread realised between lending and borrowing costs. The South African economy is currently operating under historically low rates. Consequently, the Group's net interest margin remained under pressure during the reporting period. However, the Group's structural interest rate hedge programme mitigated some of the risk with a positive contribution to the interest margin. The Group's interest margin is expected to compress further if central bank rates are cut. Rate changes, to the extent they are not neutralised by hedging programmes, may have a material adverse effect on the Group's results, financial condition and prospects.
- Adverse insurance claims experience: Accurate product pricing, prudent reserving and appropriate reinsurance strategies, assist in managing the risk of insurance claims. Successive years of adverse claims experience or a large catastrophic event (natural disaster) could lead to inadequate premiums and reserves as well as reinsurance cover becoming prohibitively expensive. The Group retains additional capital reserves that targets a 99,6% level of confidence that policyholder obligations will be met in these extreme scenarios. Absa's adequacy of reserves, premiums and retained capital are reviewed on a regular basis, also in preparation for the Solvency Assessment and Management (SAM) legislation.
- Insufficient size of insurance book of business: Increased policy cancellation (lapses) or insufficient inflow of new business could cause a drastic reduction in the size of the in-force insurance book, leading to increased volatility in claims experience and higher than expected per policy expenses. Management tracks new business sales volumes, persistency rates and per policy expenses on a monthly basis to ensure adverse trends are identified early.

Risk management overview

Funding risk

Funding risk is the risk that the Group is unable to achieve its business plans. It consists of:

- Capital risk: The risk that the Group is unable to maintain appropriate capital ratios and composition which could lead to:
  - an inability to support business activity;
  - a failure to meet regulatory requirements; and/or
  - changes to credit ratings, which could also result in increased costs or reduced capacity to raise funding;
- Liquidity risk: The risk that the Group is unable to meet its obligations as they fall due resulting in an inability to support normal business activity, a failure to meet liquidity regulatory requirements and/or changes to credit ratings; and
- Structural risk: The risk that changes in primarily interest rates on income or foreign exchange rates on capital ratios will have a material adverse effect on the Group's results, financial condition and prospects.

The Group has maintained its strong capital position above regulatory requirements and Board-approved target ranges for the reporting period, post the successful implementation of Basel III in January 2013 and the call of R1,9 billion subordinated debt (Tier 2 capital) at the first optional redemption date in March 2013.

In addition, a special dividend of 708 cents per share was declared, which is expected to reduce the Group's Common Equity Tier 1 (CET1) by 130 bps (on a pro forma basis).

The Group utilises internal models to enhance understanding of the risks faced and to assess the appropriate amount of capital required to support the Group's risk profile, in line with risk appetite.

The Group's liquidity risk position is strong and remains well-managed in line with the Board-approved liquidity risk appetite. Relatively slow growth in the South African economy continues to lead to an oversupply of funding resulting in a reduction in the overall price paid by banks for new funds raised. A strong economic recovery, resulting in a large acceleration in the demand for funds through loan growth, could lead to increased competition for funds in future. If not carefully managed, this could lead to a reduction in profitability due to the increased price for funds and to the deterioration in the liquidity position of the Group.

While the South African banking system survived the financial crisis relatively unscathed, internationally driven regulatory requirements outlined in the Basel III liquidity framework will come at a cost to the industry. Navigating towards full compliance while minimising the impact on stakeholders remains a challenge to the industry as a whole.

The Basel Committee on Banking Supervision announced in January 2013 that the implementation timeframes for the liquidity coverage ratio (LCR), which is aimed at promoting the short-term resilience of a bank's liquidity risk profile, will be relaxed with full compliance only required by 2019. These changes, combined with the South African Reserve Bank (SARB) announcement in May 2012 that a committed liquidity facility will be made available to South African banks, means that significant progress was made during the current reporting period regarding compliance with the LCR. The net stable funding ratio remains a challenge given the structural features of the South African economy and will remain a key focus area.

Recent volatility in exchange rate and interest rate markets has re-emphasised the importance of carefully managing structural risks. Absa continues to hedge against interest rate movements, thereby ensuring margin stability during these times of market volatility.

The interest rate and exchange rate environment will be of increased importance after the formation of Barclays Africa Group Limited. The resultant risks will continue to be carefully managed to ensure the stability of the overall capital position.

Operational risk

Operational risk is the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events. This includes risks associated with payments and transaction operations, external suppliers, products, premises and security, fraud risk, regulation, information, financial reporting, tax, legal, people and technology.

The operational risk framework incorporates mechanisms to ensure that operational risk, together with reputation and conduct risk are fully factored in business decisions and governance. There is also a specific focus on revising the key risks within the operational risk ambit.

Total operational risk losses for the reporting period were well within the Group's tolerance and significantly lower than for the previous reporting period. Fraud and process related incidents remain the main contributors to these losses.

The Group's key focus areas are:

- Fraud: Fraud performance for the reporting period is in line with the Group's appetite, with losses largely influenced by the card portfolio. Debit card losses account for 60% of these fraud transactions, with credit and store cards accounting for the remaining 40%. To assist in managing this position, a proactive fraud-monitoring tool has been deployed providing real time detection and the ability to employ decline strategies when trends emerge. Outside of the card portfolio, digital fraud is receiving significant management attention given its dynamic and anonymous nature. The Group continues to invest in both authentication and transaction monitoring technology and controls. Going forward, in addition to card and digital, focus will also be on credit application fraud. Skills and resources were leveraged from the wider Barclays Group to assist in upskilling employees as well as leveraging technology and fraud solutions where possible.
- Regulatory risk and regulatory change: Regulatory risk arises from a failure or inability to fully comply with the laws, regulations or codes applicable specifically to the financial services industry. The unprecedented levels of regulatory change in the banking industry continued during the reporting period, resulting in greater regulatory scrutiny, increased expectations and enhanced requirements. The introduction of new and amended national and international regulatory requirements such as the Foreign Account Tax Compliance Act, Basel III, Financial Markets Act, SAM and various other requirements require continuous changes to internal controls and reporting requirements with resultant cost and operational risk implications. There is significant management attention and investment in improving the Group's regulatory processes, including know your client and anti-money laundering.
- Legal risk: The Group is subject to a comprehensive range of legal obligations in all jurisdictions in which it operates and as such is exposed to many forms of legal risk, including that:
  - business may not be conducted in accordance with applicable laws in the relevant jurisdictions and financial and other penalties may result;
  - contractual obligations may either not be enforceable as intended or may be enforced in a way adverse to the Group;
  - intellectual property may not be adequately protected; and
  - liability for damages may be incurred to third parties harmed by the Group's business conduct.
- The Group manages legal risk in accordance with a comprehensive legal risk framework, implemented and administered by a fully-fledged in-house legal function.
- The Group has adequately provided for all contingent legal liabilities that are deemed probable.
- Business Continuity Management (BCM): Over the recent years, the Group has strengthened its BCM capabilities. The Group's BCM framework is underpinned by key business processes and activities.
- Recovery planning: There is an ever-increasing regulatory focus on recovery planning. The Group is implementing a recovery plan that takes into account the local and international regulatory guidance.

Operational risk *(continued)*

- Business processes and infrastructure resilience: The Group continued to streamline and standardise core processes, providing more clarity on ownership, promoting consistent approaches to the same risks and reducing the opportunities for control breakdowns. Significant initiatives were undertaken during the reporting period including retail and business customer on-boarding, collections and recoveries, back office mortgage and instalment credit finance processing and payments. This will remain an ongoing area of focus.
- Technology and information risk: The key risks in this regard include ageing technology and infrastructure, information technology security, logical access and system stability. These are being addressed by transformation programmes, overseen by an Information Technology Committee. Significant progress has been made in addressing these issues and the individual projects are on track.

The expansion of the Markets, Corporate and Financial Services businesses into the rest of Africa is gaining momentum. The additional risk associated with the introduction of specialised products and new business lines into these markets will be closely managed. Actions taken in this regard include adopting standardised processes (where relevant), ensuring the Group has appropriately skilled employees, and additionally overseen by the lines of business until the products have matured in the relevant jurisdictions.

The ongoing changes in Retail Banking as customers migrate to self-service channels are also being closely managed, particularly information technology security, fraud controls and system capacity management.

Conduct risk

Conduct risk is the risk that harm is caused to Absa's customers, clients, counterparties or the Group and its employees because of inappropriate judgement in the execution of its business activities.

During the reporting period, the Group made good progress in building the new management framework for conduct risk. The framework will include the design and embedment of appropriate risk metrics and guidelines that will ensure the formal incorporation of conduct risk into strategic business decision-making. Implementing an effective conduct risk framework will support the Group-wide transformation programme that aims to develop a strong culture where individuals and business units are responsible for operating in a way that is both compliant with regulatory requirements and consistent with the Group's values of respect, integrity, service, excellence and stewardship.

The Twin Peaks model for regulatory supervision is in the process of being implemented. Part of this development will see the creation of two primary regulatory bodies, one of which will be the Market Conduct Regulator, with the purpose of protecting consumers of financial services and promoting confidence in the financial system.

Reputation risk

Reputation risk is the risk of damage to Absa's brand arising from any association, action or inaction that is perceived by stakeholders to be inappropriate or unethical. Such damage reduces, directly or indirectly, the attractiveness of the Group to stakeholders and may lead to negative publicity, loss of revenue, litigation, regulatory or legislative action, loss of existing and potential client business, reduced workforce morale, and difficulties in recruiting talent. Sustained reputational damage could have a materially negative impact on the Group's licence to operate and destroy significant shareholder value.

- Reputation risk is broadly triggered by failure to comply with either stated or expected norms in two ways:
  - as an additional consequence of not applying other risk controls; and
  - as a consequence of otherwise inappropriate behaviour where there is not necessarily a breach of control, law or regulation, but the decision or behaviour is generally regarded as unethical or inconsistent with the Group's values.

Assessments of reputation risk cannot be static as they are driven by evolving norms. Managing reputation risk is the direct responsibility of the individuals involved in making commercial decisions in their respective businesses or functions. The foundation of the Group's approach is to clearly establish its goal, purpose and values to ensure that all individuals across the organisation deliver in a way consistent with that culture.

The Group has implemented a reputation risk control framework and reputation risk impact/control policy. This is overseen by the Absa Social and Ethics Committee. Senior executives across Absa have received training on reputation risk to ensure that knowledge and culture is embedded in the Group.

The Group will continue to strengthen foundations, enhance governance and improve proactive risk identification going forward.

Capital management

Favourable

- The Group maintained its strong capital adequacy position above the Board-approved target range after the successful implementation of Basel III on 1 January 2013.
- Strong focus on RWA management.
- Successful implementation of Basel III.
- Declaration of a special dividend of 708 cents per share, which is expected to reduce CET1 by 130 bps from 12,5% to 11,2% (on a pro forma basis).
- R1,9 billion call of long-term the ABCPI1 bond on 31 March 2013.
- Absa's National Long-term rating (AAA) and Local Currency Long-term rating (A-) remain the highest amongst peers.

Key performance indicators[1]

Group	30 June 2013 %	30 June 2012 %	31 December 2012 %
Common Equity Tier[2]	**12,5**	13,2	13,0
Return on average risk-weighted assets	**2,10**	2,07	2,06
Return on average economic capital	**20,9**	20,8	20,8
Cost of equity[3]	**13,0**	13,5	13,5

Bank	30 June 2013 %	30 June 2012 %	31 December 2012 %
Common Equity Tier 1[2]	**12,2**	12,5	12,5
Return on average risk-weighted assets	**1,93**	1,99	1,90

Strategy

The Group's capital management objectives are to:

- Maximise shareholder value by optimising the level and mix of capital resources and the utilisation of those 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 the regulatory capital and economic capital requirements.
- Deliver RWA efficiencies.
- Proactively assess, manage and efficiently implement regulatory changes to optimise capital usage.
- Maintain a strong credit rating.

Notes

[1] The December 2012 disclosure are based on Basel II.5 and the June 2013 are based on Basel III.

[2] Reported ratios include unappropriated profits.

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

Capital management

Internal capital adequacy assessment process (ICAAP)

The efficient use of capital is fundamental to ensure a clear focus on enhancing shareholder value through the careful deployment of capital resources. The allocation of capital is driven primarily by each business' return on regulatory capital and return on economic capital.

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. Expected capital supply on both a regulatory and economic basis is compared to current and future capital needs. The ICAAP and its underlying components form an integral part of decision-making and business processes. The Group has embedded risk and capital management tools, processes and activities across clusters to actively align management behaviour to strategy.

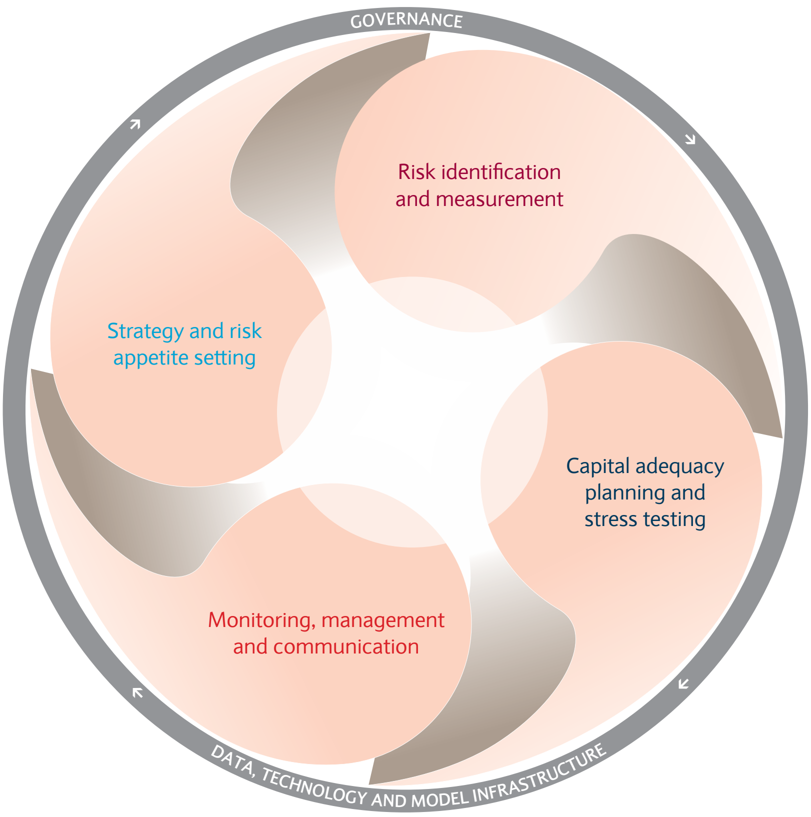
The ICAAP demonstrates how the Group's strategy is articulated by its financial forecasting and capital planning. It is used to ensure that the minimum capital ratios and board-approved target ranges can be maintained over the period of the medium-term plan, having been subjected to stress and scenario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

Furthermore, ICAAP 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 Group has adopted a building block approach to achieve a robust and integrated capital management framework.

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 applications. 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.

The building blocks of Absa'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.

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 fundamental in assessing appropriate levels of capital to ensure that the Group can absorb stress events in order to protect depositors and other stakeholders.

Capital management

Capital transferability

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.

Looking ahead

The Group's strategic focus for 2013 is to maintain capital supply in line with risk appetite, of high quality and optimal mix, while continuing to generate sufficient capital to support economically profitable asset growth and the active management of the business portfolio. As in the current reporting period, RWA management and capital allocation remain key focus areas of the Group.

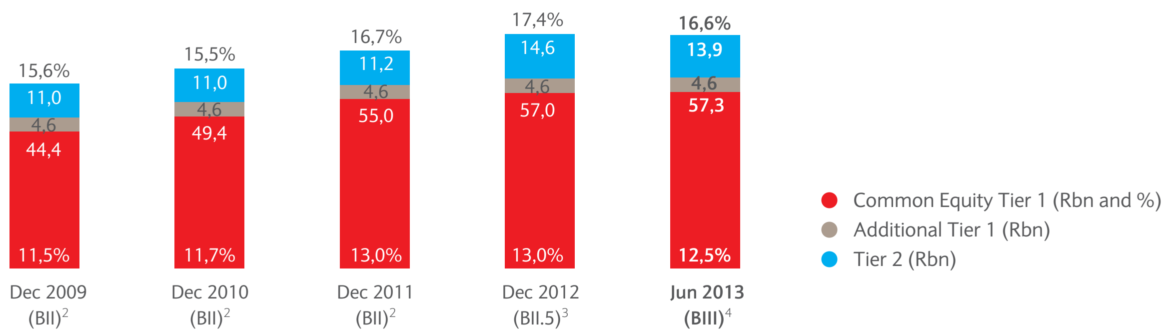
Statutory capital adequacy

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 and its regulated entities (including insurance entities) remain adequately capitalised above minimum capital requirements as at 30 June 2013.

Target capital ratios of the Group for the current reporting period were set by considering the following:
- risk appetite;
- the preference of rating agencies for permanent capital;
- stressed scenarios;
- Basel III amendments including capital conservation buffer; and
- peer analysis.

	Group				
	30 June		31 December		
	2013	2012	2012	**2013 Minimum regulatory capital requirements**	**Board target ranges 2013**
Capital adequacy ratios[1] (%)					
Common Equity Tier 1	**12,5**	13,2	13,0	**4,5**	**9,5 – 11,0**
Tier 1	**13,5**	14,3	14,0	**6,0**	
Total	**16,6**	16,9	17,4	**9,50**	**12,5 – 14,0**
Capital supply and demand for the reporting period (Rm)					
Free cash flow generated	**(531)**	1 526	1 082		
Qualifying capital	**75 822**	72 261	76 298		
Total RWA	**457 480**	426 452	438 216		

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



Notes

[1]Reported ratios include unappropriated profits.

[2]BII: Basel II.

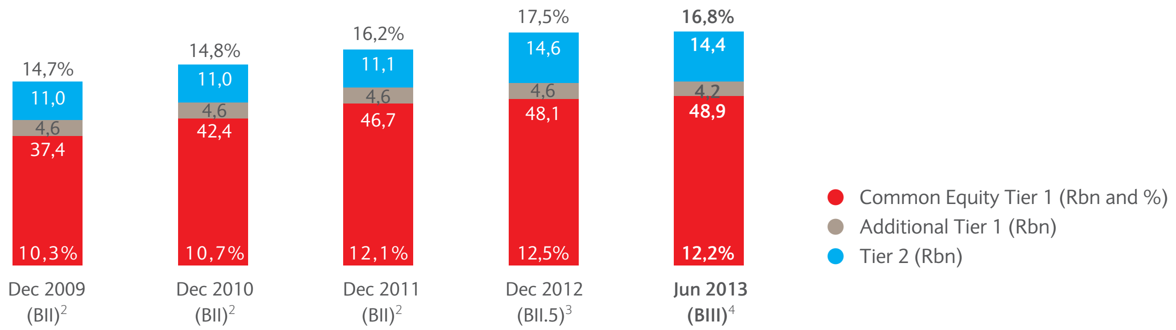
[3]BII.5: Basel II.5.

[4]BIII: Basel III.

Statutory capital adequacy *(continued)*

	Bank				
	30 June	31 December			
	2013	2012	2012	**2013 Minimum regulatory capital requirements**	**Board target ranges 2013**
Capital adequacy ratio (%)[1]					
Common Equity Tier 1	**12,2**	12,5	12,5	**4,5**	**9,0 – 10,5**
Tier 1	**13,2**	13,7	13,7	**6,0**	
Total	**16,8**	16,6	17,5	**9,5**	**12,0 – 13,5**
Capital supply and demand for the reporting period (Rm)					
Free cash flow generated	**247**	2 045	2 930		
Qualifying capital	**67 463**	64 076	67 349		
Total RWA	**402 141**	386 490	385 855		

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



Notes

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

Statutory capital adequacy *(continued)*

Target capital ranges were set for the following regulated entities: Absa Group Limited and Absa Bank Limited, regulated by SARB.

Local entities

	30 June						31 December		
	2013			2012					
	Total qualifying capital Rm	**Tier 1 ratio %**	**Total capital adequacy %**	Total qualifying capital Rm	Tier 1 ratio %	Total capital adequacy %	Total qualifying capital Rm	Tier 1 ratio %	Total capital adequacy %
Absa Group									
Including unappropriated profits	**75 822**	**13,5**	**16,6**	72 261	14,3	16,9	76 298	14,0	17,4
Excluding unappropriated profits	**66 193**	**11,4**	**14,5**	66 531	13,0	15,6	68 652	12,3	15,7
Absa Bank									
Including unappropriated profits	**67 463**	**13,2**	**16,8**	64 076	13,7	16,6	67 349	13,7	17,5
Excluding unappropriated profits	**62 874**	**12,0**	**15,6**	60 641	12,8	15,7	64 154	12,8	16,6

RWAs are determined by applying the following methods per risk type in accordance with the Basel III revisions, effective 1 January 2013:

- advanced internal ratings-based approach (AIRB) approach for South African credit portfolio;
- advanced measurement approach (AMA) for operational risk;
- in respect of traded market risk, Internal models approach (IMA) for general position risk and the standardised approach for issuer-specific risk;
- internal ratings-based (IRB) approach market-based simple risk-weighted method for equity investment risk in the banking book; and
- standardised approach (SA) for credit risk in the Group's African subsidiaries.

Statutory capital adequacy *(continued)*

RWAs and minimum required capital

Group	30 June 2013 RWAs Rm	30 June 2013 Minimum required capital[1] Rm	30 June 2012 RWAs Rm	30 June 2012 Minimum required capital[1] Rm	31 December 2012 RWAs Rm	31 December 2012 Minimum required capital[1] Rm
Basel measurement approach						
Credit risk	**338 075**	**32 117**	311 737	29 615	321 500	30 542
Portfolios subject to the AIRB approach	**313 678**	**29 800**	300 209	28 520	296 950	28 210
Portfolios subject to the standardised approach	**23 552**	**2 237**	10 212	970	23 513	2 233
Securitisation	**845**	**80**	1 316	125	1 037	99
Equity investment risk						
Market-based approach (simple risk-weighted approach)	**22 081**	**2 098**	23 864	2 267	22 735	2 160
Market risk	**13 907**	**1 321**	13 354	1 269	13 797	1 311
Standardised approach	**4 204**	**399**	3 257	310	3 735	355
IMA	**9 703**	**922**	10 097	959	10 062	956
Operational risk						
AMA[2]	**63 035**	**5 988**	60 786	5 775	62 385	5 926
Non-customer assets	**20 382**	**1 937**	16 711	1 587	17 799	1 691
	457 480	**43 461**	426 452	40 513	438 216	41 630
Pillar 1 requirement (8%)		**36 599**		34 116		35 057
Pillar 2a requirement (1,5%)		**6 862**		6 397		6 573

Bank	30 June 2013 RWAs Rm	30 June 2013 Minimum required capital[1] Rm	30 June 2012 RWAs Rm	30 June 2012 Minimum required capital[1] Rm	31 December 2012 RWAs Rm	31 December 2012 Minimum required capital[1] Rm
Basel measurement approach						
Credit risk	**304 899**	**28 965**	283 620	26 944	292 003	27 740
Portfolios subject to the AIRB approach	**294 781**	**28 004**	282 304	26 819	278 795	26 485
Portfolios subject to the standardised approach	**9 273**	**881**	—	—	12 171	1 156
Securitisation	**845**	**80**	1 316	125	1 037	99
Equity investment risk						
Market-based approach (simple risk-weighted approach)	**15 242**	**1 448**	25 669	2 439	14 564	1 384
Market risk	**13 852**	**1 316**	13 329	1 266	13 768	1 308
Standardised approach	**4 149**	**394**	3 232	307	3 706	352
IMA	**9 703**	**922**	10 097	959	10 062	956
Operational risk						
AMA[2]	**55 785**	**5 300**	52 867	5 022	54 045	5 134
Non-customer assets	**12 363**	**1 174**	11 005	1 045	11 475	1 090
	402 141	**38 203**	386 490	36 716	385 855	36 656
Pillar 1 requirement (8%)		**32 171**		30 919		30 868
Pillar 2a requirement (1,5%)		**6 032**		5 797		5 788

Notes

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

[2]AMA for operational risk, except for an immaterial portion of Absa that uses the BIA, or the standardised approach.

Statutory capital adequacy *(continued)*

Following the implementation of Basel III on 1 January 2013, the Group decreased its total qualifying supply for the six months ended 30 June 2013 by **R0,5 billion** (30 June 2012: R1,5 billion; 31 Dec 2012: R5,6 billion).

Movements in qualifying capital

	Group			Bank		
	30 June		31 December	30 June		31 December
	2013	2012	2012	**2013**	2012	2012
	Rm	Rm	Rm	**Rm**	Rm	Rm
Balance at the beginning of the reporting period (excluding unappropriated profits)	**68 652**	62 489	62 489	**64 154**	56 409	56 409
Share capital, premium and reserves	**1 849**	3 860	3 363	**1 704**	3 932	4 700
Non-controlling interest	**(884)**	(62)	(185)	**—**	—	—
Regulatory changes in Additional Tier 1	**(17)**	—	—	**(464)**	—	—
Tier 2 subordinated debt issued	**—**	—	5 000	**—**	—	5 000
Tier 2 subordinated debt matured	**(1 886)**	—	(1 500)	**(1 886)**	—	(1 500)
Regulatory changes in Tier 2	**(548)**	—	—	**—**	—	—
General allowance for impairment losses on loans and advances – standardised approach – SA	**118**	9	66	**131**	—	53
Regulatory deductions	**(1 091)**	235	(581)	**(765)**	300	(508)
Balance at the end of the reporting period (excluding unappropriated profits)	**66 193**	66 531	68 652	**62 874**	60 641	64 154
Add: Unappropriated profits	**9 629**	5 730	7 646	**4 589**	3 435	3 195
Qualifying capital including unappropriated profits	**75 822**	72 261	76 298	**67 463**	64 076	67 349

Breakdown of qualifying capital

	30 June				31 December	
	2013		2012		2012	
Group	**Rm**	**%[1]**	Rm	%[1]	Rm	%[1]
Common Equity Tier 1	**47 682**	**10,4**	50 619	11,9	49 371	11,3
Ordinary share capital	**1 435**	**0,3**	1 434	0,3	1 435	0,3
Ordinary share premium[2]	**4 467**	**1,0**	4 572	1,1	4 604	1,1
Reserves[2,3]	**47 735**	**10,4**	46 279	10,9	45 749	10,4
Non-controlling interest[2]	**383**	**0,1**	1 391	0,3	1 267	0,3
Deductions[2]	**(6 338)**	**(1,4)**	(3 057)	(0,7)	(3 684)	(0,8)
Goodwill	**(554)**	**(0,1)**	(553)	(0,1)	(554)	(0,1)
Financial and insurance entities not consolidated	**(558)**	**(0,1)**	(154)	(0,0)	(162)	(0,0)
Amount by which expected loss exceeds eligible provisions	**(2 558)**	**(0,6)**	(1 220)	(0,3)	(1 401)	(0,3)
Other deductions	**(2 668)**	**(0,6)**	(1 130)	(0,3)	(1 567)	(0,4)
Additional Tier 1 capital	**4 627**	**1,0**	4 644	1,1	4 644	1,0
Tier 1 capital	**52 309**	**11,4**	55 263	13,0	54 015	12,3
Tier 2 capital	**13 884**	**3,1**	11 268	2,6	14 637	3,4
Instruments recognised as Tier 2 capital	**13 677**	**3,0**	12 611	2,9	16 111	3,7
General allowance for impairment losses on loans and advances – standardised approach – SA	**207**	**0,1**	31	0,0	89	(0,0)
Deductions	**—**	**—**	(1 374)	(0,3)	(1 563)	(0,3)
Financial and insurance entities not consolidated	**—**	**—**	(154)	(0,0)	(162)	(0,0)
Amount by which expected loss exceeds eligible provisions	**—**	**—**	(1 220)	(0,3)	(1 401)	(0,3)
Total qualifying capital (excluding unappropriated profits)	**66 193**	**14,5**	66 531	15,6	68 652	15,7
Qualifying capital (including unappropriated profits)						
Tier 1 capital	**61 938**	**13,5**	60 993	14,3	61 661	14,0
Common Equity Tier 1 (excluding unappropriated profits)	**47 682**	**10,4**	50 619	11,9	49 371	11,3
Unappropriated profits	**9 629**	**2,1**	5 730	1,3	7 646	1,7
Additional Tier 1	**4 627**	**1,0**	4 644	1,1	4 644	1,0
Tier 2 capital	**13 884**	**3,1**	11 268	2,6	14 637	3,4
Total qualifying capital (including unappropriated profits)[4]	**75 822**	**16,6**	72 261	16,9	76 298	17,4

Notes

[1]Percentage of capital to RWAs.

[2]The Basel III changes include additional qualifying reserves; adjustments relating to surplus capital attributable to the shareholders of non-controlling interest, additional Tier 1 and Tier 2 capital; the phasing-out of Additional Tier 1 and Tier 2 capital instrument; and changes in regulatory deductions.

[3]Reserves exclude unappropriated profits.

[4]The composition of capital disclosure, as per Directive 8 of 2013, will be available on www.absa.co.za as part of the Absa Group Risk Management report for the reporting period ended 30 June 2013.

Statutory capital adequacy *(continued)*

Breakdown of qualifying capital *(continued)*

Bank	30 June 2013 Rm	%[1]	30 June 2012 Rm	%[1]	31 December 2012 Rm	%[1]
Common Equity Tier 1	**44 285**	**11,0**	44 734	11,6	44 863	11,6
Ordinary share capital	**303**	**0,1**	303	0,1	303	0,1
Ordinary share premium[2]	**12 465**	**3,1**	11 465	3,0	12 465	3,2
Reserves[2,3]	**36 363**	**9,0**	34 891	9,0	34 659	9,0
Deductions[2]	**(4 846)**	**(1,2)**	(1 925)	(0,5)	(2 564)	(0,7)
Amount by which expected loss exceeds eligible provisions	**(2 718)**	**(0,7)**	(1 348)	(0,4)	(1 517)	(0,4)
Other deductions	**(2 128)**	**(0,5)**	(577)	(0,1)	(1 047)	(0,3)
Additional Tier 1	**4 180**	**1,0**	4 644	1,2	4 644	1,2
Tier 1 capital	**48 465**	**12,0**	49 378	12,8	49 507	12,8
Tier 2 capital	**14 409**	**3,6**	11 263	2,9	14 647	3,8
Instruments recognised as Tier 2 capital	**14 225**	**3,5**	12 611	3,3	16 111	4,2
General allowance for credit impairments – SA	**184**	**0,1**	—	—	53	0,0
Deductions						
Amount by which expected loss exceeds eligible provisions	**—**	**—**	(1 348)	(0,4)	(1 517)	(0,4)
Total qualifying capital (excluding unappropriated profits)	**62 874**	**15,6**	60 641	15,7	64 154	16,6
Qualifying capital (including unappropriated profits)						
Tier 1 capital	**53 054**	**13,2**	52 813	13,7	52 702	13,7
Common Equity Tier 1 (excluding unappropriated profits)	**44 285**	**11,0**	44 734	11,6	44 863	11,6
Unappropriated profits	**4 589**	**1,2**	3 435	0,9	3 195	0,9
Additional Tier 1	**4 180**	**1,0**	4 644	1,2	4 644	1,2
Tier 2 capital	**14 409**	**3,6**	11 263	2,9	14 647	3,8
Total qualifying capital (including unappropriated profits)	**67 463**	**16,8**	64 076	16,6	67 349	17,5

Economic capital adequacy

The economic capital (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.

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. Following the introduction of Basel III greater emphasis is placed on regulatory demand and supply to address the implementation of the revised regulatory framework.

Notes

[1]Percentage of capital to RWAs.

[2]The Basel III changes include additional qualifying reserves; adjustments relating to surplus capital attributable to the shareholders of non-controlling interest, additional Tier 1 and Tier 2 capital; the phasing-out of Additional Tier 1 and Tier 2 capital instrument; and changes in regulatory deductions.

[3]Reserves exclude unappropriated profits.

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 submission for the Basel III 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:

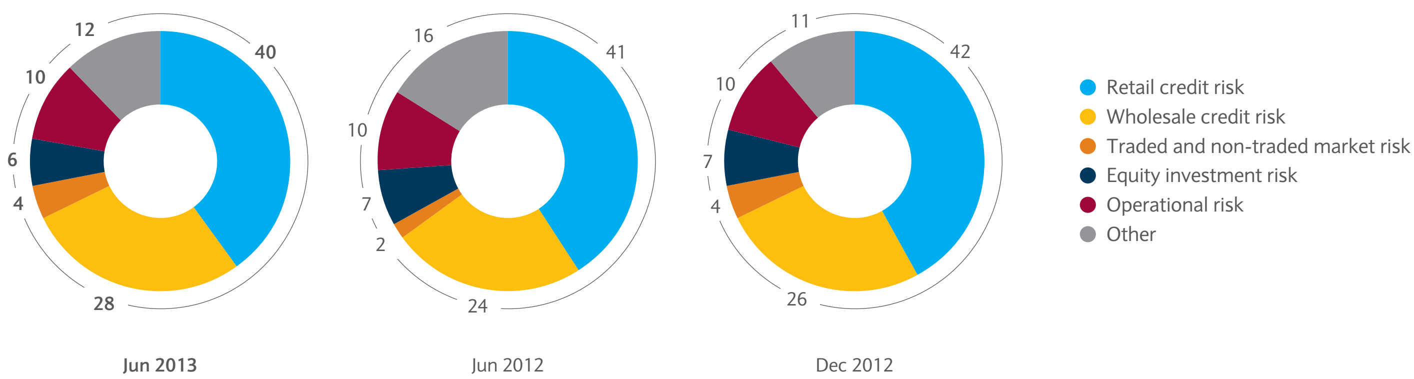
- Cash flow hedging reserve: to the extent the Group undertakes the hedging of future cash flows, shareholders' equity will include gains and losses that will be offset against the gain or loss on the hedged item when it is recognised in the statement of comprehensive income at the conclusion of the 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 this 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.
- Tertiary capital.

The following are deducted from EC supply:

- goodwill; and
- intangible assets.

Economic capital demand[1,2,3] (%)

The following graph's show economic capital demand for different risks of the Group.



Notes

[1]Refer to pages 121 to 140 for reporting changes.

[2]Refer to page 50 in the Group performance section for detail on economic capital supply.

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

Capital management

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 RWAs 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 RWAs.

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 were excluded from qualifying capital resources under the SARB's Basel II.5 rules and now form part of Common Equity Tier 1 under Basel III.

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 Common Equity Tier 1, Tier 1 and total capital resources to foreign currency RWAs 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 current reporting period.

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

Credit ratings[1]

	July 2013	July 2013	
	Moody's[1] Absa Bank	Fitch ratings 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-	C	C
Baseline credit assessment	Baa1	—	—
Viability rating	—	bbb	bbb
Outlook	Stable	Stable	Stable
Support	—	1	1

Notes

[1]The ratings have remained consistent with the ratings as reported at 31 December 2012.

Reporting changes

Contents

Reporting changes overview

This section provides users of the Group's financial statements with information regarding financial reporting changes that will impact the results of the comparative reporting periods to be disclosed alongside the Group's results for the interim reporting period ended 30 June 2013.

These financial reporting changes are driven by:

1. The implementation of new IFRS, specifically IFRS 10 and IAS 19 Employee Benefits (amended 2011) (IAS 19R). All other amendments to IFRS effective for the current reporting period have had no significant impact on the Group's reported results.
2. A change in the Group's internal accounting policy for the classification of collection costs.
3. Inter-segmental operational changes including allocation of elements of the Head office segment to business segments and portfolio changes between operating segments.

Only the implementation of new IFRS impacts the net financial results of the Group. The change in the Group's internal accounting policy for the classification of collection costs impacts the individual lines on which these costs are accounted for but not the net results of the Group. The inter-segmental changes for Head office allocations and portfolio changes affect the reported results of the individual businesses in the segment report, but they have no impact on the Group's primary statements.

Note that this section provides information regarding the impact of these reporting changes on selected key elements of the financial statements only.

Accounting policy changes due to new IFRS

IFRS 10 and IAS 19R became effective for annual periods beginning on or after 1 January 2013 and result in restatement of the Group's results for the reporting period ended 31 December 2011 and 2012, as well as the interim reporting period ended 30 June 2012. The 2012 restatements reflect the application of both IFRS 10 and IAS 19R. No restatement has been effected for IFRS 10 in the 2011 reporting period, in line with the transitional provisions of the standard.

IFRS 10

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

IAS 19R

IAS 19R amends the requirements of IAS 19 Employee Benefits. The standard introduces a number of changes relating to defined benefit plans, including the elimination of the 'corridor approach' and the removal of the recognition of expected returns on plan assets within profit or loss in favour of interest income on plan assets being recognised in profit or loss at the rate used to discount the pension fund obligation. The difference placing between net interest income recognised in profit or loss and expected return on plan assets is recognised in other comprehensive income. Furthermore, the revised standard stipulates that the interest cost on reserves owing to members of the plan is to be included in profit or loss. The revised standard also introduces enhanced disclosures relating to defined benefit plans, clarifies the accounting for termination benefits and modifies the classification of items between short-term and long-term employee benefits.

For the Absa Group, the main impacts of implementing IAS 19R were the removal of the recognition of expected returns on plan assets within profit or loss in favour of interest income on plan assets being recognised in profit or loss at the rate used to discount the pension fund obligation and the recognition of interest cost on reserves owing to members in profit or loss. In addition some benefits previously classified as short-term benefits are reclassified as long-term benefits.

Internal accounting policy changes

Collection costs

From 1 January 2013 the Group elected to change its accounting policy for certain 'collection costs' to better align with Barclays PLC internal accounting policies.

Costs incurred in the follow up and collection of outstanding and overdue balances, previously recognised as part of operating expenses and fee expenses, within net fee and commission income, have been reclassified to recoveries within the impairment losses on loans and advances line in the statement of comprehensive income.

To ensure comparability, the comparative reporting periods have been restated.

Impact of accounting policy changes on the Group's results

The financial impact of the changes in the Group's accounting policies for IFRS 10, IAS 19R and the revised policy for the classification of collection costs on the financial performance of the Group in comparative financial reporting periods is indicated in the tables to follow.

Impact of accounting policy changes on the Group's results *(continued)*

Condensed consolidated statement of comprehensive income for the reporting period ended 30 June 2012

	As previously reported Rm	Change in accounting policy Rm	IFRS 10 Rm	IAS 19R Rm	Restated Rm
Net interest income	11 909	—	(56)	—	11 853
Interest and similar income	25 807	—	(82)	—	25 725
Interest expense and similar charges	(13 898)	—	26	—	(13 872)
Impairment losses on loans and advances	(4 020)	(87)	—	—	(4 107)
Net interest income after impairment losses on loans and advances	7 889	(87)	(56)	—	7 746
Non-interest income	11 174	47	47	—	11 268
Net fee and commission income	7 542	47	(8)	—	7 581
Fee and commission income	8 785	—	—	—	8 785
Fee and commission expense	(1 243)	47	(8)	—	(1 204)
Net insurance premium income	2 757	—	—	—	2 757
Net insurance claims and benefits paid	(1 360)	—	—	—	(1 360)
Changes in investment and insurance contract liabilities	(618)	—	(257)	—	(875)
Gains and losses from banking and trading activities	1 868	—	49	—	1 917
Gains and losses from investment activities	641	—	267	—	908
Other operating income	344	—	(4)	—	340
Operating income before operating expenditure	19 063	(40)	(9)	—	19 014
Operating expenditure	(13 011)	40	(2)	(15)	(12 988)
Operating expenses	(12 666)	40	(2)	(15)	(12 643)
Other impairments	(11)	—	—	—	(11)
Indirect taxation	(334)	—	—	—	(334)
Share of post-tax results of associates and joint ventures	35	—	—	—	35
Operating profit before income tax	6 087	—	(11)	(15)	6 061
Taxation expense	(1 767)	—	3	4	(1 760)
Profit for the reporting period	4 320	—	(8)	(11)	4 301
Profit attributable to:					
Ordinary equity holders	4 189	—	(8)	(11)	4 170
Non-controlling interest – ordinary shares	(9)	—	—	—	(9)
Non-controlling interest – preference shares	140	—	—	—	140
	4 320	—	(8)	(11)	4 301

Impact of accounting policy changes on the Group's results *(continued)*

Condensed consolidated statement of comprehensive income for the reporting period ended 30 June 2012
(continued)

	As previously reported Rm	Change in accounting policy Rm	IFRS 10 Rm	IAS 19R Rm	Restated Rm
Profit for the reporting period	4 320	—	(8)	(11)	4 301
Other comprehensive income					
Items that will not be reclassified to the profit and loss component of the statement of comprehensive income					
Movement in retirement benefit fund assets and liabilities	27	—	—	(39)	(12)
Increase/(decrease) in retirement benefit surplus	46	—	—	(63)	(17)
Increase in retirement benefit deficit	—	—	—	—	—
Deferred tax	(19)	—	—	24	5
Total items that will not be reclassified to the profit and loss component of the statement of comprehensive income	27	—	—	(39)	(12)
Items that are or may be reclassified subsequently to the profit and loss component of the statement of comprehensive income					
Foreign exchange differences on translation of foreign operations	32	—	—	—	32
Movement in cash flow hedging reserve	286	—	—	—	286
Fair value gains arising during the reporting period	1 409	—	—	—	1 409
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income	(1 012)	—	—	—	(1 012)
Deferred tax	(111)	—	—	—	(111)
Movement in available-for-sale reserve	370	—	—	—	370
Fair value gains arising during the reporting period	510	—	—	—	510
Amortisation of government bonds – release to the profit and loss component of the statement of comprehensive income	5	—	—	—	5
Deferred tax	(145)	—	—	—	(145)
Total items that are or may be reclassified subsequently to the profit and loss component of the statement of comprehensive income	688	—	—	—	688
Total comprehensive income for the reporting period	5 035	—	(8)	(50)	4 977
Total comprehensive income attributable to:					
Ordinary equity holders	4 909	—	(8)	(50)	4 851
Non-controlling interest – ordinary shares	(14)	—	—	—	(14)
Non-controlling interest – preference shares	140	—	—	—	140
	5 035	—	(8)	(50)	4 977

Salient features – operating performance

	As previously reported %	Restatements %	Restated %
Net interest margin on average interest-bearing assets	3,89[1]	(0,01)	3,88
Impairment losses on loans and advances as % of average loans and advances to customers	1,59	0,03	1,62
Non-interest income as % of total operating income	48,4	0,3	48,7

Note

[1]The Group reassessed its criteria applied to determine the balance of interest-bearing assets in line with best practice. This resulted in a restatement of the net interest margin on average interest-bearing assets for the comparative reporting periods.

Impact of accounting policy changes on the Group's results *(continued)*

Condensed consolidated statement of financial position as at 30 June 2012

	As previously reported Rm	Change in accounting policy Rm	IFRS 10 Rm	IAS 19R Rm	Restated Rm
Assets					
Cash, cash balances and balances with central banks	25 620	—	412	—	26 032
Statutory liquid asset portfolio	60 061	—	—	—	60 061
Loans and advances to banks	58 044	—	—	—	58 044
Trading portfolio assets	96 768	—	99	—	96 867
Hedging portfolio assets	4 868	—	—	—	4 868
Other assets	20 112	—	34	(216)	19 930
Current tax assets	703	—	(1)	—	702
Non-current assets held for sale	6	—	—	—	6
Loans and advances to customers	506 661	—	(931)	—	505 730
Reinsurance assets	1 010	—	—	—	1 010
Investment securities	21 530	—	4 444	—	25 974
Investments in associates and joint ventures	373	—	—	—	373
Investment properties	2 699	—	—	—	2 699
Property and equipment	7 781	—	—	—	7 781
Goodwill and intangible assets	2 115	—	—	—	2 115
Deferred tax assets	455	—	—	—	455
Total assets	808 806	—	4 057	(216)	812 647
Liabilities					
Deposits from banks	25 827	—	90	—	25 917
Trading portfolio liabilities	60 446	—	—	—	60 446
Hedging portfolio liabilities	3 251	—	—	—	3 251
Other liabilities	30 071	—	68	—	30 139
Provisions	1 136	—	—	—	1 136
Current tax liabilities	247	—	(1)	—	246
Deposits due to customers	457 880	—	464	—	458 344
Debt securities in issue	125 127	—	(1 341)	—	123 786
Liabilities under investment contracts	15 427	—	4 792	—	20 219
Policyholder liabilities under insurance contracts	3 239	—	—	—	3 239
Borrowed funds	14 268	—	—	—	14 268
Deferred tax liabilities	1 619	—	(3)	(67)	1 549
Total liabilities	738 538	—	4 069	(67)	742 540
Equity					
Capital and reserves					
Attributable to ordinary equity holders:					
Share capital	1 434	—	—	—	1 434
Share premium	4 572	—	—	—	4 572
Retained earnings	55 502	—	(12)	(149)	55 341
Other reserves	2 725	—	—	—	2 725
	64 233	—	(12)	(149)	64 072
Non-controlling interest – ordinary shares	1 391	—	—	—	1 391
Non-controlling interest – preference shares	4 644	—	—	—	4 644
Total equity	70 268	—	(12)	(149)	70 107
Total liabilities and equity	808 806	—	4 057	(216)	812 647

Salient features – financial performance

	As previously reported %	Restatements %	Restated %
RoE	13,8	(0,1)	13,7
RoA	1,11	(0,01)	1,10

Impact of accounting policy changes on the Group's results *(continued)*

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

	As previously reported Rm	Change in accounting policy Rm	IFRS 10 Rm	IAS 19R Rm	Restated Rm
Net interest income	24 111	—	(119)	—	23 992
Interest and similar income	50 766	—	(167)	—	50 599
Interest expense and similar charges	(26 655)	—	48	—	(26 607)
Impairment losses on loans and advances	(8 290)	(188)	—	—	(8 478)
Net interest income after impairment losses on loans and advances	15 821	(188)	(119)	—	15 514
Non-interest income	22 741	104	119	—	22 964
Net fee and commission income	15 435	104	(32)	—	15 507
Fee and commission income	17 936	—	—	—	17 936
Fee and commission expense	(2 501)	104	(32)	—	(2 429)
Net insurance premium income	5 618	—	—	—	5 618
Net insurance claims and benefits paid	(2 719)	—	—	—	(2 719)
Changes in investment and insurance contract liabilities	(980)	—	(727)	—	(1 707)
Gains and losses from banking and trading activities	3 670	—	108	—	3 778
Gains and losses from investment activities	963	—	773	—	1 736
Other operating income	754	—	(3)	—	751
Operating income before operating expenditure	38 562	(84)	—	—	38 478
Operating expenditure	(26 693)	84	(10)	(81)	(26 700)
Operating expenses	(25 874)	84	(10)	(81)	(25 881)
Other impairments	(113)	—	—	—	(113)
Indirect taxation	(706)	—	—	—	(706)
Share of post-tax results of associates and joint ventures	249	—	—	—	249
Operating profit before income tax	12 118	—	(10)	(81)	12 027
Taxation expense	(3 377)	—	—	22	(3 355)
Profit for the reporting period	8 741	—	(10)	(59)	8 672
Profit attributable to:					
Ordinary equity holders	8 393	—	(10)	(59)	8 324
Non-controlling interest – ordinary shares	53	—	—	—	53
Non-controlling interest – preference shares	295	—	—	—	295
	8 741	—	(10)	(59)	8 672

Impact of accounting policy changes on the Group's results *(continued)*

Condensed consolidated statement of comprehensive income for the reporting period ended 31 December 2012 *(continued)*

	As previously reported Rm	Change in accounting policy Rm	IFRS 10 Rm	IAS 19R Rm	Restated Rm
Other comprehensive income					
Items that will not be reclassified to the profit and loss component of the statement of comprehensive income					
Movement in retirement benefit fund assets and liabilities	(242)	—	—	158	(84)
Decrease in retirement benefit surplus	(279)	—	—	218	(61)
Increase in retirement benefit deficit	(59)	—	—	—	(59)
Deferred tax	96	—	—	(60)	36
Total items that will not be reclassified to the profit and loss component of the statement of comprehensive income	(242)	—	—	158	(84)
Items that are or may be reclassified subsequently to the profit and loss component of the statement of comprehensive income					
Foreign exchange differences on translation of foreign operations	140	—	—	—	140
Movement in cash flow hedging reserve	405	—	—	—	405
Fair value gains arising during the reporting period	2 650	—	—	—	2 650
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income	(2 088)	—	—	—	(2 088)
Deferred tax	(157)	—	—	—	(157)
Movement in available-for-sale reserve	1 109	—	—	—	1 109
Fair value gains arising during the reporting period	1 532	—	—	—	1 532
Amortisation of government bonds – release to the profit and loss component of the statement of comprehensive income	10	—	—	—	10
Deferred tax	(433)	—	—	—	(433)
Total items that are or may be reclassified subsequently to the profit and loss component of the statement of comprehensive income	1 654	—	—	—	1654
Total comprehensive income for the reporting period	10 153	—	(10)	99	10 242
Total comprehensive income attributable to:					
Ordinary equity holders	9 812	—	(10)	99	9 901
Non-controlling interest – ordinary shares	46	—	—	—	46
Non-controlling interest – preference shares	295	—	—	—	295
	10 153	—	(10)	99	10 242

Salient features – operating performance

	As previously reported %	Restatements %	Restated %
Net interest margin on average interest-bearing assets	3,80[1]	(0,01)	3,79
Impairment losses on loans and advances as % of average loans and advances to customers	1,59	0,04	1,63
Non-interest income as % of total operating income	48,5	0,4	48,9

Note

[1]The Group reassessed its criteria applied to determine the balance of interest-bearing assets in line with best practice. This resulted in a restatement of the net interest margin on average interest-bearing assets for the comparative reporting periods.

Impact of accounting policy changes on the Group's results *(continued)*

Condensed consolidated statement of financial position as at 31 December 2012

	As previously reported Rm	Change in accounting policy Rm	IFRS 10 Rm	IAS 19R Rm	Restated Rm
Assets					
Cash, cash balances and balances with central banks	26 221	—	326	—	26 547
Statutory liquid asset portfolio	63 020	—	—	—	63 020
Loans and advances to banks	44 649	—	2	—	44 651
Trading portfolio assets	87 203	—	114	—	87 317
Hedging portfolio assets	5 439	—	—	—	5 439
Other assets	14 189	—	—	—	14 189
Current tax assets	304	—	(1)	—	303
Non-current assets held for sale	4 052	—	—	—	4 052
Loans and advances to customers	528 191	—	(863)	—	527 328
Reinsurance assets	1 003	—	—	—	1 003
Investment securities	20 555	—	5 069	—	25 624
Investments in associates and joint ventures	569	—	—	—	569
Investment properties	1 220	—	—	—	1 220
Property and equipment	8 397	—	—	—	8 397
Goodwill and intangible assets	2 561	—	—	—	2 561
Deferred tax assets	366	—	—	—	366
Total assets	807 939	—	4 647	—	812 586
Liabilities					
Deposits from banks	36 035	—	149	—	36 184
Trading portfolio liabilities	51 684	—	—	—	51 684
Hedging portfolio liabilities	3 855	—	—	—	3 855
Other liabilities	18 215	—	197	—	18 412
Provisions	1 681	—	—	—	1 681
Current tax liabilities	59	—	(1)	—	58
Non-current liabilities held for sale	1 480	—	—	—	1 480
Deposits due to customers	477 427	—	426	—	477 853
Debt securities in issue	108 044	—	(1 265)	—	106 779
Liabilities under investment contracts	13 609	—	5 159	—	18 768
Policyholder liabilities under insurance contracts	3 550	—	—	—	3 550
Borrowed funds	17 907	—	—	—	17 907
Deferred tax liabilities	1 599	—	(4)	—	1 595
Total liabilities	735 145	—	4 661	—	739 806
Equity					
Capital and reserves					
Attributable to ordinary equity holders:					
Share capital	1 435	—	—	—	1 435
Share premium	4 604	—	—	—	4 604
Retained earnings	56 903	—	(14)	—	56 889
Other reserves	3 941	—	—	—	3 941
	66 883	—	(14)	—	66 869
Non-controlling interest – ordinary shares	1 267	—	—	—	1 267
Non-controlling interest – preference shares	4 644	—	—	—	4 644
Total equity	72 794	—	(14)	—	72 780
Total liabilities and equity	807 939	—	4 647	—	812 586

Salient features – financial performance

	As previously reported %	Restatements %	Restated %
RoE	13,6	(0,1)	13,5
RoA	1,09	(0,01)	1,08

Impact of accounting policy changes on the Group's results *(continued)*

Condensed consolidated statement of comprehensive income for the reporting period ended 31 December 2011

	As previously reported Rm	Change in accounting policy Rm	IFRS 10[1] Rm	IAS 19R Rm	Restated Rm
Net interest income	24 429	—	—	—	24 429
Interest and similar income	51 191	—	—	—	51 191
Interest expense and similar charges	(26 762)	—	—	—	(26 762)
Impairment losses on loans and advances	(5 081)	(168)	—	—	(5 249)
Net interest income after impairment losses on loans and advances	19 348	(168)	—	—	19 180
Non-interest income	21 403	87	—	—	21 490
Net fee and commission income	15 293	87	—	—	15 380
Fee and commission income	17 422	—	—	—	17 422
Fee and commission expense	(2 129)	87	—	—	(2 042)
Net insurance premium income	5 209	—	—	—	5 209
Net insurance claims and benefits paid	(2 517)	—	—	—	(2 517)
Changes in investment and insurance contract liabilities	(914)	—	—	—	(914)
Gains and losses from banking and trading activities	2 594	—	—	—	2 594
Gains and losses from investment activities	966	—	—	—	966
Other operating income	772	—	—	—	772
Operating income before operating expenditure	40 751	(81)	—	—	40 670
Operating expenditure	(26 581)	81	—	17	(26 483)
Operating expenses	(25 458)	81	—	17	(25 360)
Other impairments	(52)	—	—	—	(52)
Indirect taxation	(1 071)	—	—	—	(1 071)
Share of post-tax results of associates and joint ventures	40	—	—	—	40
Operating profit before income tax	14 210	—	—	17	14 227
Taxation expense	(4 026)	—	—	(5)	(4 031)
Profit for the reporting period	10 184	—	—	12	10 196
Profit attributable to:					
Ordinary equity holders	9 674	—	—	12	9 686
Non-controlling interest – ordinary shares	226	—	—	—	226
Non-controlling interest – preference shares	284	—	—	—	284
	10 184	—	—	12	10 196

Note

[1]No restatement has been effected for IFRS 10 in the 2011 reporting period, in line with the transitional provisions of the standard.

Impact of accounting policy changes on the Group's results *(continued)*

Condensed consolidated statement of comprehensive income for the reporting period ended 31 December 2011 *(continued)*

	As previously reported Rm	Change in accounting policy Rm	IFRS 10[1] Rm	IAS 19R Rm	Restated Rm
Profit for the reporting period	10 184	—	—	12	10 196
Other comprehensive income					
Items that will not be reclassified to the profit and loss component of the statement of comprehensive income					
Movement in retirement benefit plan assets and liabilities	(51)	—	—	(111)	(162)
Decrease in retirement benefit surplus	(66)	—	—	(155)	(221)
Increase in retirement benefit deficit	(5)	—	—	—	(5)
Deferred tax	20	—	—	44	64
Total items that will not be reclassified to the profit and loss component of the statement of comprehensive income	(51)	—	—	(111)	(162)
Items that are or may be reclassified subsequently to the profit and loss component of the statement of comprehensive income					
Foreign exchange differences on translation of foreign operations	522	—	—	—	522
Movement in cash flow hedging reserve	(237)	—	—	—	(237)
Fair value gains arising during the reporting period	1 972	—	—	—	1 972
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income	(2 300)	—	—	—	(2 300)
Deferred tax	91	—	—	—	91
Movement in available-for-sale reserve	(17)	—	—	—	(17)
Fair value losses arising during the reporting period	(58)	—	—	—	(58)
Amortisation of government bonds – release to the profit and loss component of the statement of comprehensive income	20	—	—	—	20
Deferred tax	21	—	—	—	21
Total items that are or may be reclassified subsequently to the profit and loss component of the statement of comprehensive income	268	—	—	—	268
Total comprehensive income for the reporting period	10 401	—	—	(99)	10 302
Total comprehensive income attributable to:					
Ordinary equity holders	9 791	—	—	(99)	9 692
Non-controlling interest – ordinary shares	326	—	—	—	326
Non-controlling interest – preference shares	284	—	—	—	284
	10 401	—	—	(99)	10 302

Salient features – operating performance

	As previously reported %	Restatements %	Restated %
Net interest margin on average interest-bearing assets	4,15[2]	—	4,15
Impairment losses on loans and advances as % of average loans and advances to customers	1,01	0,03	1,04
Non-interest income as % of total operating income	46,7	0,1	46,8

Notes

[1]No restatement has been effected for IFRS 10 in the 2011 reporting period, in line with the transitional provisions of the standard.

[2]The Group reassessed its criteria applied to determine the balance of interest-bearing assets in line with best practice. This resulted in a restatement of the net interest margin on average interest-bearing assets for the comparative reporting periods.

Impact of accounting policy changes on the Group's results *(continued)*

Condensed consolidated statement of financial position as at 31 December 2011

	As previously reported Rm	Change in accounting policy Rm	IFRS 10[1] Rm	IAS 19R Rm	Restated Rm
Assets					
Cash, cash balances and balances with central banks	26 997	—	—	—	26 997
Statutory liquid asset portfolio	57 473	—	—	—	57 473
Loans and advances to banks	57 499	—	—	—	57 499
Trading portfolio assets	84 623	—	—	—	84 623
Hedging portfolio assets	4 299	—	—	—	4 299
Other assets	14 730	—	—	(138)	14 592
Current tax assets	288	—	—	—	288
Non-current assets held for sale	35	—	—	—	35
Loans and advances to customers	504 925	—	—	—	504 925
Reinsurance assets	1 009	—	—	—	1 009
Investment securities	21 182	—	—	—	21 182
Investments in associates and joint ventures	420	—	—	—	420
Investment properties	2 839	—	—	—	2 839
Property and equipment	7 996	—	—	—	7 996
Goodwill and intangible assets	2 135	—	—	—	2 135
Deferred tax assets	269	—	—	—	269
Total assets	786 719	—	—	(138)	786 581
Liabilities					
Deposits from banks	38 339	—	—	—	38 339
Trading portfolio liabilities	55 960	—	—	—	55 960
Hedging portfolio liabilities	2 456	—	—	—	2 456
Other liabilities	14 695	—	—	—	14 695
Provisions	1 710	—	—	—	1 710
Current tax liabilities	267	—	—	—	267
Deposits due to customers	440 960	—	—	—	440 960
Debt securities in issue	130 262	—	—	—	130 262
Liabilities under investment contracts	15 233	—	—	—	15 233
Policyholder liabilities under insurance contracts	3 183	—	—	—	3 183
Borrowed funds	14 051	—	—	—	14 051
Deferred tax liabilities	1 198	—	—	(39)	1 159
Total liabilities	718 314	—	—	(39)	718 275
Equity					
Capital and reserves					
Attributable to ordinary equity holders					
Share capital	1 434	—	—	—	1 434
Share premium	4 676	—	—	—	4 676
Retained earnings	53 813	—	—	(99)	53 714
Other reserves	2 385	—	—	—	2 385
	62 308	—	—	(99)	62 209
Non-controlling interest – ordinary shares	1 453	—	—	—	1 453
Non-controlling interest – preference shares	4 644	—	—	—	4 644
Total equity	68 405	—	—	(99)	68 306
Total liabilities and equity	786 719	—	—	(138)	786 581

Salient features – financial performance

	As previously reported %	Restatements %	Restated %
RoE	16,4	—	16,4
RoA	1,32	—	1,32

Note

[1]No restatement has been effected for IFRS 10 in the 2011 reporting period, in line with the transitional provisions of the standard.

Reporting changes overview

Inter-segmental reclassifications

In accordance with IFRS 8 Operating Segments (IFRS 8), segmental reporting reflects how the Group's businesses are managed and reported to the Chief Operating Decision Maker (CODM). From 1 January 2013, a number of changes were made to the way in which the Group's businesses are managed and reported to the CODM.

Head office allocations

The Group elected to allocate additional Head office elements to the business segments so that the aggregate of the business segments' results is more closely aligned to the Group's total results.

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

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

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

The impact of the changes in the allocation methodology on the headline earnings of the individual business segments is as indicated in the table below:

	30 June 2012 Rm	31 December 2012 Rm
RBB	(1)	52
Retail Banking	(5)	34
Business Banking	4	18
CIBW	(36)	(55)
Financial Services	(37)	(73)
Head office, inter-segment eliminations and Other	74	76

Portfolio changes

Operational changes, management changes and associated changes to the way in which the CODM views the performance of each business segment have resulted in the reallocation of certain business lines between operating segments. The primary changes are detailed below.

- CPF debt – management responsibility for a number of large advances were transferred from RBB to CIBW.
- CAF – this business line was previously included in Business Banking. To take advantage of synergies with the existing VAF portfolio in Retail Banking, the portfolio was moved to Retail Banking.
- BBM and NBC Treasury – segmentation of treasury-related results between RBB, CIBW and Head office was reviewed and amended to better align with changing management responsibility and the segmentation principles applied by Barclays in the rest of Africa.
- Certain operations that were previously conducted from individual business segments were transferred to Head office to become shared services. In turn, their costs were allocated out to relevant business segments in line with the revised approach to head office allocations.

Inter-segmental reclassifications *(continued)*

Portfolio changes *(continued)*

The impact of these changes on the headline earnings of the individual business segments is reflected in the table below:

	30 June 2012 Rm	31 December 2012 Rm
RBB	22	(6)
Retail Banking	84	7
Business Banking	(62)	(13)
CIBW	(7)	(35)
Financial Services	—	—
Head office, inter-segment eliminations and Other	(15)	41

The impact of the change in accounting policies as well as the head office allocations and portfolio changes on the performance of the business segments is indicated in the tables that follow.

Segment report per market segment

RBB

	30 June 2012				
	As previously reported Rm	Change in accounting policy Rm	Head office allocations Rm	Portfolio changes Rm	Restated Rm
Statement of comprehensive income					
Net interest income	9 623	—	366	(141)	9 848
Impairment losses on loans and advances	(3 917)	(87)	—	42	(3 962)
Non-interest income	6 880	47	—	(61)	6 866
Operating expenses	(9 723)	40	(3)	173	(9 513)
Other	(201)	—	—	8	(193)
Operating profit before income tax	2 662	—	363	21	3 046
Taxation expense	(900)	—	(269)	8	(1 161)
Profit for the reporting period	1 762	—	94	29	1 885
Profit attributable to:					
Ordinary equity holders	1 770	—	(1)	22	1 791
Non-controlling interest – ordinary shares	(8)	—	—	7	(1)
Non-controlling interest – preference shares	—	—	95	—	95
	1 762	—	94	29	1 885
Headline earnings	1 933	—	(1)	22	1 954
Statement of financial position					
Loans and advances to customers	411 948	—	—	(6 985)	404 963
Investment securities	1 253	—	—	—	1 253
Other assets	176 038	—	258	4 570	180 866
Total assets	589 239	—	258	(2 415)	587 082
Deposits due to customers	205 982	—	—	(2 154)	203 828
Debt securities in issue	4 256	—	—	—	4 256
Other liabilities	374 623	—	258	21	374 902
Total liabilities	584 861	—	258	(2 133)	582 986

Salient features – operating and financial performance

	As previously reported %	Restatements %	Restated %
Net interest margin on average interest-bearing assets	3,68[1]	0,10	3,78
Impairment losses on loans and advances as % of average loans and advances to customers	1,92	0,06	1,98
Non-interest income as % of total operating income	41,7	(0,6)	41,1
RoA	0,67	0,01	0,68

Note

[1]The Group reassessed its criteria applied to determine the balance of interest-bearing assets in line with best practice. This resulted in a restatement of the net interest margin on average interest-bearing assets for the comparative reporting periods.

Segment report per market segment

RBB *(continued)*

	31 December 2012				
	As previously reported Rm	Change in accounting policy Rm	Head office allocations Rm	Portfolio changes Rm	Restated Rm
Statement of comprehensive income					
Net interest income	20 004	—	577	(311)	20 270
Impairment losses on loans and advances	(8 153)	(188)	—	106	(8 235)
Non-interest income	13 849	104	—	(74)	13 879
Operating expenses	(19 535)	84	(6)	263	(19 194)
Other	(397)	—	—	23	(374)
Operating profit before income tax	5 768	—	571	7	6 346
Taxation expense	(1 765)	—	(319)	3	(2 081)
Profit for the reporting period	4 003	—	252	10	4 265
Profit attributable to:					
Ordinary equity holders	3 961	—	52	(6)	4 007
Non-controlling interest – ordinary shares	42	—	—	16	58
Non-controlling interest – preference shares	—	—	200	—	200
	4 003	—	252	10	4 265
Headline earnings	4 346	—	52	(6)	4 392
Statement of financial position					
Loans and advances to customers	419 644	—	—	(8 117)	411 527
Investment securities	1 042	—	—	—	1 042
Other assets	194 313	—	350	4 467	199 130
Total assets	614 999	—	350	(3 650)	611 699
Deposits due to customers	216 309	—	—	(3 826)	212 483
Debt securities in issue	3 636	—	—	—	3 636
Other liabilities	387 612	—	307	499	388 418
Total liabilities	607 557	—	307	(3 327)	604 537

Salient features – operating and financial performance

	As previously reported %	Restatements %	Restated %
Net interest margin on average interest-bearing assets	3,75[1]	0,07	3,82
Impairment losses on loans and advances as % of average loans and advances to customers	1,98	0,06	2,04
Non-interest income as % of total operating income	40,9	(0,3)	40,6
RoA	0,74	0,01	0,75

Note

[1]The Group reassessed its criteria applied to determine the balance of interest-bearing assets in line with best practice. This resulted in a restatement of the net interest margin on average interest-bearing assets for the comparative reporting periods.

Segment report per market segment

CIBW

	30 June 2012				
	As previously reported Rm	Accounting restatements Rm	Head office allocations Rm	Portfolio changes Rm	Restated Rm
Statement of comprehensive income					
Net interest income	1 520	(56)	119	143	1 726
Impairment losses on loans and advances	(9)	—	—	(42)	(51)
Non-interest income	2 766	45	(402)	(26)	2 383
Operating expenses	(2 344)	—	3	(98)	(2 439)
Other	(52)	—	—	—	(52)
Operating profit before income tax	1 881	(11)	(280)	(23)	1 567
Taxation expense	(530)	3	289	3	(235)
Profit for the reporting period	1 351	(8)	9	(20)	1 332
Profit attributable to:					
Ordinary equity holders	1 352	(8)	(36)	(7)	1 301
Non-controlling interest – ordinary shares	(1)	—	—	(13)	(14)
Non-controlling interest – preference shares	—	—	45	—	45
	1 351	(8)	9	(20)	1 332
Headline earnings	1 352	(8)	(36)	(7)	1 301
Statement of financial position					
Loans and advances to customers	94 297	(931)	—	6 985	100 351
Investment securities	7 315	54	—	(485)	6 884
Other assets	378 197	(454)	86	(6 704)	371 125
Total assets	479 809	(1 331)	86	(204)	478 360
Deposits due to customers	252 142	464	—	2 149	254 755
Debt securities in issue	95 384	(1 341)	—	—	94 043
Other liabilities	128 020	(443)	123	(2 283)	125 417
Total liabilities	475 546	(1 320)	123	(134)	474 215

Salient features – operating and financial performance

	As previously reported %	Restatements %	Restated %
Impairment losses on loans and advances as % of average loans and advances to customers	0,02	0,08	0,10
Non-interest income as % of total operating income	64,5	(6,5)	58,0
RoA	0,50	(0,02)	0,48

Segment report per market segment

CIBW *(continued)*

	31 December 2012				
	As previously reported Rm	Accounting restatement Rm	Head office allocations Rm	Portfolio changes Rm	Restated Rm
Statement of comprehensive income					
Net interest income	2 964	(119)	162	314	3 321
Impairment losses on loans and advances	(117)	—	—	(106)	(223)
Non-interest income	5 664	105	(516)	(45)	5 208
Operating expenses	(4 666)	—	6	(246)	(4 906)
Other	21	—	—	—	21
Operating profit before income tax	3 866	(14)	(348)	(83)	3 421
Taxation expense	(1 027)	4	388	17	(618)
Profit for the reporting period	2 839	(10)	40	(66)	2 803
Profit attributable to:					
Ordinary equity holders	2 810	(10)	(55)	(35)	2 710
Non-controlling interest – ordinary shares	29	—	—	(31)	(2)
Non-controlling interest – preference shares	—	—	95	—	95
	2 839	(10)	40	(66)	2 803
Headline earnings	2 810	(10)	(55)	(35)	2 710
Statement of financial position					
Loans and advances to customers	107 907	(863)	—	8 116	115 160
Investment securities	8 314	226	—	(621)	7 919
Other assets	357 734	(460)	94	(6 994)	350 374
Total assets	473 955	(1 097)	94	501	473 453
Deposits due to customers	261 317	426	—	3 819	265 562
Debt securities in issue	84 252	(1 265)	—	—	82 987
Other liabilities	122 462	(246)	146	(3 076)	119 286
Total liabilities	468 031	(1 085)	146	743	467 835

Salient features – operating and financial performance

	As previously reported %	Restatements %	Restated %
Impairment losses on loans and advances as % of average loans and advances to customers	0,12	0,9	0,21
Non-interest income as % of total operating income	65,6	(4,5)	61,1
RoA	0,52	(0,02)	0,50

Segment report per market segment

Financial Services

	30 June 2012				
	As previously reported Rm	Accounting restatements Rm	Head office allocations Rm	Portfolio changes Rm	Restated Rm
Statement of comprehensive income					
Net interest income	2	—	—	—	2
Impairment losses on loans and advances	(4)	—	—	—	(4)
Non-interest income	1 970	2	—	—	1 972
Operating expenses	(980)	(2)	(51)	—	(1 033)
Other	(49)	—	—	—	(49)
Operating profit before income tax	939	—	(51)	—	888
Taxation expense	(262)	—	14	—	(248)
Profit for the reporting period	677	—	(37)	—	640
Profit attributable to:					
Ordinary equity holders	677	—	(37)	—	640
Non-controlling interest – ordinary shares	—	—	—	—	—
Non-controlling interest – preference shares	—	—	—	—	—
	677	—	(37)	—	640
Headline earnings	678	—	(37)	—	641
Statement of financial position					
Loans and advances to customers	185	—	—	—	185
Investment securities	17 777	4 390	—	—	22 167
Other assets	8 508	444	(51)	—	8 901
Total assets	26 470	4 834	(51)	—	31 253
Deposits due to customers	—	—	—	—	—
Debt securities in issue	—	—	—	—	—
Other liabilities	21 608	4 834	(14)	—	26 428
Total liabilities	21 608	4 834	(14)	—	26 428

Salient features – operating and financial performance

	As previously reported %	Restatements %	Restated %
Impairment losses on loans and advances as % of average loans and advances to customers	5,29	—	5,29
Non-interest income as % of total operating income	99,9	—	99,9
RoA	5,22	(1,04)	4,18

Segment report per market segment

Financial Services *(continued)*

	31 December 2012				
	As previously reported Rm	Accounting restatement Rm	Head office allocations Rm	Portfolio changes Rm	Restated Rm
Statement of comprehensive income					
Net interest income	6	—	—	—	6
Impairment losses on loans and advances	(24)	—	—	—	(24)
Non-interest income	4 010	14	—	—	4 024
Operating expenses	(2 027)	(10)	(101)	—	(2 138)
Other	(118)	—	—	—	(118)
Operating profit before income tax	1 847	4	(101)	—	1 750
Taxation expense	(526)	(4)	28	—	(502)
Profit for the reporting period	1 321	—	(73)	—	1 248
Profit attributable to:					
Ordinary equity holders	1 321	—	(73)	—	1 248
Non-controlling interest – ordinary shares	—	—	—	—	—
Non-controlling interest – preference shares	—	—	—	—	—
	1 321	—	(73)	—	1 248
Headline earnings	1 338	—	(73)	—	1 265
Statement of financial position					
Loans and advances to customers	296	—	—	—	296
Investment securities	15 003	4 843	—	—	19 846
Other assets	10 553	326	(101)	—	10 778
Total assets	25 852	5 169	(101)	—	30 920
Deposits due to customers	—	—	—	—	—
Debt securities in issue	—	—	—	—	—
Other liabilities	21 081	5 169	(28)	—	26 222
Total liabilities	21 081	5 169	(28)	—	26 222

Salient features – operating and financial performance

	As previously reported %	Restatements %	Restated %
Impairment losses on loans and advances as % of average loans and advances to customers	12,37	—	12,37
Non-interest income as % of total operating income	99,9	—	99,9
RoA	5,16	(1,03)	4,13

Head office, inter-segment eliminations and Other

	30 June 2012				
	As previously reported Rm	Accounting restatements Rm	Head office allocations Rm	Portfolio changes Rm	Restated Rm
Statement of comprehensive income					
Net interest income	764	—	(485)	(2)	277
Impairment losses on loans and advances	(90)	—	—	—	(90)
Non-interest income	(442)	—	402	87	47
Operating expenses	381	(15)	51	(75)	342
Other	(8)	—	—	(8)	(16)
Operating profit before income tax	605	(15)	(32)	2	560
Taxation expense	(75)	4	(34)	(11)	(116)
Profit for the reporting period	530	(11)	(66)	(9)	444
Profit attributable to:					
Ordinary equity holders	390	(11)	74	(15)	438
Non-controlling interest – ordinary shares	—	—	—	6	6
Non-controlling interest – preference shares	140	—	(140)	—	—
	530	(11)	(66)	(9)	444
Headline earnings	369	(11)	74	(15)	417
Statement of financial position					
Loans and advances to customers	231	—	—	—	231
Investment securities	(4 815)	—	—	485	(4 330)
Other assets	(282 128)	338	(293)	2 134	(279 949)
Total assets	(286 712)	338	(293)	2 619	(284 048)
Deposits due to customers	(244)	—	—	5	(239)
Debt securities in issue	25 487	—	—	—	25 487
Other liabilities	(368 720)	488	(367)	2 262	(366 337)
Total liabilities	(343 477)	488	(367)	2 267	(341 089)

Head office, inter-segment eliminations and Other *(continued)*

	31 December 2012				
	As previously reported Rm	Accounting restatements Rm	Head office allocations Rm	Portfolio changes Rm	Restated Rm
Statement of comprehensive income					
Net interest income	1 137	—	(739)	(3)	395
Impairment losses on loans and advances	4	—	—	—	4
Non-interest income	(782)	—	516	119	(147)
Operating expenses	354	(81)	101	(17)	357
Other	(76)	—	—	(23)	(99)
Operating profit before income tax	637	(81)	(122)	76	510
Taxation expense	(59)	22	(97)	(20)	(154)
Profit for the reporting period	578	(59)	(219)	56	356
Profit attributable to:					
Ordinary equity holders	301	(59)	76	41	359
Non-controlling interest – ordinary shares	(18)	—	—	15	(3)
Non-controlling interest – preference shares	295	—	(295)	—	—
	578	(59)	(219)	56	356
Headline earnings	313	(59)	76	41	371
Statement of financial position					
Loans and advances to customers	344	—	—	1	345
Investment securities	(3 804)	—	—	621	(3 183)
Other assets	(303 407)	575	(343)	2 527	(300 648)
Total assets	(306 867)	575	(343)	3 149	(303 486)
Deposits due to customers	(199)	—	—	7	(192)
Debt securities in issue	20 156	—	—	—	20 156
Other liabilities	(381 481)	577	(425)	2 577	(378 752)
Total liabilities	(361 524)	577	(425)	2 584	(358 788)

Appendices

Absa Bank's performance and administrative information

Contents

Share performance

Share performance (cents)

Share performance on the JSE Limited	30 June 2013	30 June 2012	Change %	31 December 2012
Number of shares in issue[4]	**718 210 043**	718 210 043		718 210 043
Market prices (cents per share):				
closing	**14 399**	14 120		16 400
high	**17 315**	16 450		16 620
low	**13 401**	13 464		13 220
average	**15 565**	15 302		14 732
Closing price/NAV per share (excluding preference shares) (%)	**1,53**	1,58		1,76
Price-to-earnings (P/E) ratio (closing price/headline earnings per share) (%)	**11,1**	11,6		13,4
Volume of shares traded (million)	**227,0**	224,9		438,0
Value of shares traded (Rm)	**35 093,8**	34 205,3		64 345,3
Market capitalisation (Rm)	**103 415,1**	101 411,3		117 786,4

Notes

[1] Absa's annual total return for the reporting period was **6,82%** (30 June 2012: 9,81%; 31 December 2012: 21,3%).

[2] The Banks' Index outperformed Absa's share price by **6,88%** during the reporting period (30 June 2012: 16,22%; 31 December 2012: 18,45%). 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 **465 296** (30 June 2012: 826 717; 31 December 2012: 547 750) treasury shares held by Group entities.

Shareholder information and diary

	30 June 2013 %	30 June 2012 %	31 December 2012 %
Major ordinary shareholders (top 10)			
Barclays Bank PLC (UK)	**55,52**	55,52	55,52
Public Investment Corporation (SA)	**7,16**	6,77	7,32
Sanlam Investment Management (SA)	**2,89**	2,52	2,92
Old Mutual Asset Managers (ZA)	**2,24**	1,53	1,46
Dimensional Fund Advisors (US, UK, AU)	**2,01**	1,66	2,35
Investec Asset Management (SA, UK)	**1,52**	1,59	2,60
Allan Gray Investment Council (SA)	**1,47**	0,19	1,50
STANLIB Asset Management (SA)	**1,43**	1,39	1,32
The Vanguard Group Incorporated (US, AU)	**1,42**	1,14	1,19
Oppenheimer Funds Incorporated (US)	**1,28**	0,00	0,32
Other	**23,06**	27,69	23,50
	100,00	100,00	100,00
Geographical split			
United Kingdom	**57,6**	56,7	56,6
South Africa	**26,2**	28,2	28,1
United States and Canada	**8,8**	7,2	7,5
Other countries	**7,4**	7,9	7,8
	100	100,0	100,0

Shareholder diary

Financial year-end	31 December 2013
Annual general meeting[1]	6 May 2014
Announcement of the interim results	30 July 2013
Announcement of the final results[1]	11 February 2014

Dividend	Declaration date	Last day to trade	Ex dividend date	Record date	Payment date
Interim – June 2013	30 July 2013	6 September 2013	9 September 2013	13 September 2013	16 September 2013
Special dividend – June 2013	30 July 2013	15 November 2013	18 November 2013	22 November 2013	25 November 2013
Final – December 2013[1]	11 February 2014	28 March 2014	31 March 2014	4 April 2014	7 April 2014

Note

[1]Subject to change.

Absa Bank Limited and its subsidiaries

Financial reporting structure

Absa Bank Limited

RBB[1]

Retail Banking[2]

- Home Loans (including Repossessed Properties)
- Vehicle and Asset Finance (VAF)
  - Commercial Asset Finance (CAF)[3]
  - Absa Vehicle Management Solutions[3]
- Card[4,5]
- Personal Loans
- Retail Bank (including Absa Private Bank and debit card)[4]

Business Banking[2]

- Business Banking[3]
  - Commercial Property Finance (CPF)
  - Debt Products
    - Absa Technology Financial Solutions
- Investment Products
- Commercial Business
- Enterprise Business
- Enterprise Development
- Equities

International operations

- Absa Bank London[6]

CIBW[1]

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

International operations

- Absa Bank London[6]

Head Office, inter-segment eliminations and Other[1]

- Enterprise Functions[7,8]
  - Corporate Real Estate Services (CRES)
- Group Treasury[7]
- Consolidation Centre[8]

International operations

- Absa Bank London[6]

Notes

[1] The Bank's reporting segments have been impacted by reporting changes that include the implementation of new IFRS, a change in the Bank's internal accounting policy for the classification of collection costs and inter-segmental operational changes. Refer to pages 121 to 140 for further details.

[2] Retail Banking (previously Retail Markets) and Business Banking (previously Business Markets) were renamed to align with industry naming conventions.

[3] The CAF and Absa Vehicle Management Solutions businesses, previously reported within the Business Banking segment, have been transferred to the Retail Banking segment to take advantage of synergies within the existing VAF portfolio in Retail Banking.

[4] The debit card operations, previously reported as part of the Card sub-segment were transferred to the Retail Bank sub-segment in Retail Banking. This ensures better alignment of this business with the products that utilise the operational base.

[5] Includes Edcon portfolio.

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

[7] Enterprise Core Services was renamed to Enterprise Functions. Capital and funding centres were renamed to Group Treasury.

[8] The business unit previously reported as Corporate Centre was disaggregated into two separate sub-segments; Enterprise Functions and Consolidation Centre.

Absa Bank Limited and its subsidiaries

Consolidated salient features

	30 June			31 December
	2013	2012[1]	Change %	2012[1]
Statement of comprehensive income (Rm)				
Headline earnings[2]	**3 970**	3 680	8	7 356
Profit attributable to ordinary equity holder	**4 025**	3 691	9	7 203
Statement of financial position				
Total assets (Rm)	**788 169**	764 267	3	763 969
Loans and advances to customers (Rm)	**519 592**	488 991	6	510 316
Deposits due to customers (Rm)	**478 521**	449 441	6	467 744
Loans-to-deposits ratio (%)	**89,2**	85,7		89,1
Off-statement of financial position (Rm)				
Assets under management and administration	**28 904**	23 074	25	27 158
Financial performance (%)				
Return on average equity	**14,2**	13,8		13,5
Return on average assets	**1,04**	0,99		0,96
Return on average risk-weighted assets	**1,93**	1,92		1,70
Operating performance (%)				
Net interest margin on average interest-bearing assets	**3,64**	3,63		3,54
Impairment losses on loans and advances as a % of average loans and advances to customers	**1,31**	1,58		1,60
Non-performing loans advances as a % of loans and advances to customers	**5,3**	6,3		5,7
Non-interest income as % of total operating income	**43,1**	44,9		45,2
Cost-to-income ratio	**54,0**	52,9		53,0
Effective tax rate, excluding indirect taxation	**26,5**	26,6		26,1
Share statistics (million) *(including 'A' ordinary shares)*				
Number of ordinary shares in issue	**378,8**	374,1		378,8
Weighted average number of ordinary shares in issue	**378,8**	374,1		375,3
Diluted weighted average number of ordinary shares in issue	**378,8**	374,1		375,3
Share statistics (cents)				
Headline earnings per share	**1 048,0**	983,7	7	1 960,0
Diluted headline earnings per share	**1 048,0**	983,7	7	1 960,0
Basic earnings per share	**1 062,6**	986,6	8	1 919,3
Diluted earnings per share	**1 062,6**	986,6	8	1 919,3
Dividends per ordinary share relating to income for the reporting period	**2 233,4**	695,5	>100	1 568,3
Dividend cover (times)	**0,5**	1,4		1,2
Net asset value per share	**14 905**	14 530	3	14 842
Tangible net asset value per share	**14 588**	14 346	2	14 535
Capital adequacy (%)				
Absa Bank	**16,8**	16,6		17,5

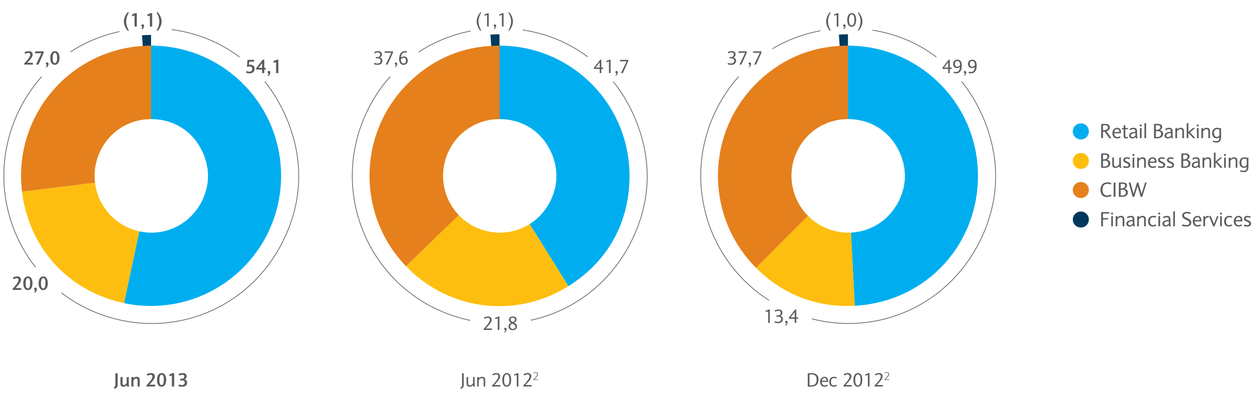
Notes

[1]Refer to pages 121 to 140 for reporting changes.

[2]After allowing for **R146 million** (30 June 2012: R140 million; December 2012: R295 million) profit attributable to preference equity holders.

Headline earnings by segment

Headline earnings (%)[1]



	30 June 2013 Rm	30 June 2012[2] Rm	Change %	31 December 2012[2] Rm
Banking operations				
RBB	**3 073**	2 082	48	4 313
Retail Banking	**2 242**	1 367	64	3 398
Home Loans	**289**	(673)	>100	(1 078)
Vehicle and Asset Finance	**501**	367	37	820
Card	**804**	738	9	1 733
Personal Loans	**148**	253	(42)	587
Retail Bank	**500**	682	(27)	1 336
Business Banking	**831**	715	16	915
CIBW	**1 118**	1 232	(9)	2 571
Head Office, inter-segment eliminations and Other	**(178)**	402	>(100)	545
Enterprise Functions	**29**	152	(81)	443
Group Treasury	**(76)**	61	>(100)	91
Consolidation Centre	**(131)**	189	>(100)	11
Total banking	**4 013**	3 716	8	7 429
Financial Services	**(43)**	(36)	(19)	(73)
Headline earnings	**3 970**	3 680	8	7 356

Notes

[1]Calculation based on the exclusion of Head office, inter-segment eliminations and Other.

[2]Refer to pages 121 to 140 for reporting changes.

Glossary

Amounts written off

Once an advance has been identified as impaired and an impairment allowance has been raised, circumstances may change and indicate that the prospect of further recovery does not exist. Write-offs will occur when, and to the extent that, the debt is considered irrecoverable. A write-off policy based on an age-driven concept, drives the timing and extent of write-offs. A write-off can also be triggered by a specific event, such as the conclusion of insolvency proceedings or other formal recovery actions making it possible to quantify the extent of the advance that is beyond a realistic prospect of recovery. Assets are only written off once all necessary procedures have been completed and the amount of loss has been determined. Recoveries of amounts previously written off are reversed and accordingly decrease the amount of the reported impairment charge in the statement of comprehensive income.

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

Basel Capital Accord (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

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 Financial Instruments: Presentation.

Capital adequacy ratio

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

Capital – Common Equity Tier 1

A measurement of a bank's core equity capital compared with its total risk-weighted assets. This is the measure of a bank's financial strength. The Common Equity Tier 1 excludes any preferred shares or non-controlling interests when determining the calculation.

Capital – Tier 2

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.

Combined ratio

Insurance losses incurred and expenses as a percentage of insurance premiums earned.

Glossary

Conduct risk

Conduct risk is the risk that harm is caused to Absa's customers, clients or counterparties or the Group and its employees because of inappropriate judgement in the execution of the Group's business activities.

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[1]

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.

Cost-to-income ratio

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

Credit risk

Credit risk is the risk of the Group suffering loss if any of its customers, clients or market counterparties fail to fulfil their contractual obligations to the Group.

Debt securities in issue

Short- to medium-term instruments issued by the Group including 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.

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.

Note

[1] This ratio is annualised for a 12-month period.

Glossary

Exchange differences

Differences on loans and advances resulting from the translation of a given number of units of one currency into another currency at different exchanges rates.

Financial leverage ratio

The financial leverage ratio is a measure of the Group's assets in relation to its equity, and is calculated by dividing average assets by average equity.

Financial Markets Act

This means the Financial Markets Act No. 19 of 2012 and its regulations. The Act is the primary legislation governing the regulation of financial markets, market infrastructure and securities services in South Africa. It focuses primarily on the licensing and regulation of exchanges, central securities depositories, clearing houses, trade repositories and market infrastructure. The Act also strengthens measures already in place aimed at prohibiting insider trading and other market abuses.

Funding risk

Funding risk is the risk that the Group is unable to achieve its business plans. It consists of:

- Capital risk: The risk that the Group is unable to maintain appropriate capital ratios and composition which could lead to: an inability to support business activity; a failure to meet regulatory requirements; and/or changes to credit ratings, which could also result in increased costs or reduced capacity to raise funding;
- Liquidity risk: The risk that the Group is unable to meet its obligations as they fall due resulting in an inability to support normal business activity,a failure to meet liquidity regulatory requirements and/or changes to credit ratings; and
- Structural risk: The risk that changes in primarily interest rates on income or foreign exchange rates on capital ratios, will have a material adverse effect on the Group's results, financial condition and prospects.

Gains and losses from banking and trading activities

Banking and trading portfolios including:

- 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

Insurance and strategic investment portfolios including:

- 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.

Basic

Profit attributable to ordinary equity holders of the Group after adjusting for separately identifiable remeasurements, net of tax and non-controlling interest, divided by the weighted average number of ordinary shares in issue. A remeasurement is an amount recognised in profit or loss relating to any change in the carrying amount of an asset or liability that arose after the initial recognition of such asset or liability.

Diluted

Diluted headline earnings per share is calculated by adjusting both the headline earnings and the weighted average number of ordinary shares outstanding for the effects of all potential dilutive ordinary shares, assuming they had been in issue for the reporting period.

Glossary

Impairment losses on loans and advances as percentage of average loans and advances to customers (credit loss ratio/impairment losses ratio)[1]

Impairment losses on loans and advances for the reporting period divided by total average advances (calculated on a daily weighted average basis).

Impairments raised – Identified

Impaired loans with key indicators of default being:

- the borrower is unlikely to pay its credit obligation in full, without recourse by the Group to actions such as realising security held; and/or
- the borrower is overdue.

A retail identified impairment is triggered when a contractual payment is missed and is raised on a collective basis. Future cash flows for a group of financial assets, which are collectively evaluated for impaired purposes, are estimated based on the contractual cash flows of the assets in the group and the historical loss experienced for assets with similar credit risk characteristics to those in the group.

In the wholesale portfolio, an identified impairment is raised on an individual basis and is the difference between the outstanding capital and the present value of future cash flows.

Impairments raised – Unidentified

Allowances are raised when observable data indicates a measurable decrease in the estimated future cash flows from a group of financial assets since their original recognition, even though the decrease cannot yet be linked to individual assets in the group. The unidentified impairment calculation is based on the asset's probability of moving from the performing portfolio to the defaulted portfolio as a result of a risk condition that has already occurred, but will only be identifiable at a borrower level at a future date.

Indirect taxation

Indirect taxes are the taxes that are levied on transitions rather than on persons (whether individuals or corporate). These taxes include unclaimed value added taxes, stamp duties on deposits and Regional Service Council levies.

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.

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 conduct regulator

The market conduct regulator's objective will be to protect consumers of financial services and promote confidence in the South African financial system. This responsibility will be carried out by the Financial Services Board.

Market risk

The Group is at risk from a reduction in its earnings or capital due to:

- Traded market risk: This risk relates to client activity primarily via the Investment Bank. It is the risk of the Group being impacted by changes in the level or volatility of positions in its trading books;
- Non-traded market risk: This risk relates to customer products primarily in RBB. It is the risk of the Group being unable to hedge its banking book balance sheet at prevailing market levels; and
- Insurance risk: The risk that future experience relating to claims, expenses, policyholder behaviour and investment returns differs from the assumptions made when setting premiums or valuing policyholder liabilities.

Note

[1] This ratio is annualised for a 12-month period.

Glossary

Merchant income

Income generated from the provision of point-of-sale facilities to the Group's merchant network customers. This income includes 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 present value unwind on non-performing book

A net present value adjustment representing time value of money of expected cash flows within the impairment allowance. Such time value of money reduces as the point of cash flow is approached. The time-based reduction in time value of money is recognised in the statement of comprehensive income as interest received on impaired assets.

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 loan 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 loan 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

Operational risk is the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events. This includes risks associated with payments and transaction operations, external suppliers, products, premises and security, fraud risk, regulation, information, financial reporting, tax, legal, people and technology.

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.

Reputation risk

Reputation risk is the risk of damage to Absa's brand arising from any association, action or inaction which is perceived by stakeholders to be inappropriate or unethical. Such damage reduces, directly or indirectly, the attractiveness of the Group to stakeholders and may lead to negative publicity; loss of revenue; litigation; regulatory or legislative action; loss of existing and potential client business; reduced workforce morale; and difficulties in recruiting talent. Sustained reputational damage could have a materially negative impact on the Group's licence to operate and destroy significant shareholder value.

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. RWAs are determined by applying the following:

- Advanced internal ratings-based (AIRB) approach for wholesale and retail credit;
- Advanced measurement approach (AMA) for operational risk;
- Internal ratings-based (IRB) market-based simple risk-weight approach for equity investment risk in the banking book; and
- Standardised approach for all African entities.

Special purpose entity

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.

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.

Acronyms

List of abbreviations

A	
AIRB	advanced internal ratings-based
AllPay	AllPay Consolidated Investment Holdings
AMA	advanced management approach
AUM	assets under management

B	
Basel	Basel Capital Accord
BBM	Barclays Bank Mozambique S.A.
BCM	Business Continuity Management
bps	basis points

C	
CAF	Commercial Asset Finance
CIBW	Corporate, Investment Bank and Wealth
CLF	committed liquidity facility
CODM	Chief Operating Decision Maker
CoE	cost of equity
CPF	Commercial Property Finance
CRES	Corporate Real Estate Services

D	
DPS	dividends per share

E	
EC	economic capital
Edcon	Edcon Proprietary Limited
Edcon portfolio	Edcon Store Card Portfolio
ETF	exchange traded fund
EV	embedded value

F	
FIRB	foundation internal ratings-based approach

H	
HEPS	headline earnings per share

I	
IAS	International Accounting Standard(s)
IAS 16	Property, Plant and Equipment
IAS 19R	Employee Benefits (amended 2011)
IAS 28	Investments in Associates
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(s)
IFRS 3	Business Combinations
IFRS 8	Operating Segments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IMA	internal models approach
Insurance	Short-term Insurance
IRB	internal ratings-based approach
IT	information technology

J	
JIBAR	Johannesburg Interbank Agreed Rate
JSE	Johannesburg Stock Exchange

Acronyms

L

LCR	liquidity coverage ratio
Life	Life Insurance

M

MCR	market conduct regulator

N

NAV	net asset value
NBC	National Bank of Commerce Limited
NPL(s)	non-performing loan(s)
NSFR	net stable funding ratio

P

P/E	price-to-earnings
PRP	principal risks policy

R

RBB	Retail and Business Banking
RoA	return on average assets
RoE	return on average equity
RoEC	return on average economic capital
RoEV	return on embedded value
RoRC	return on regulatory capital
RoRWA	return on average risk-weighted assets
RWA(s)	risk-weighted asset(s)

S

SAM	Solvency Assessment Management
SARB	South African Reserve Bank
STC	secondary tax on companies

V

VAF	Vehicle and Asset Finance

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

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Board of directors

Group independent non-executive directors

C Beggs, Y Z Cuba, W E Lucas-Bull (Group Chairman), M J Husain, P B Matlare, T S Munday, S G Pretorius

Group non-executive directors

P A Clackson[1], R Le Blanc[1], A V Vaswani[2]

Group executive directors

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

Transfer secretary

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PricewaterhouseCoopers Inc.
Ernst & Young Inc.

Sponsors

Lead independent sponsor

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Other contacts

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Notes
[1]British
[2]Singaporean