Absa Group Limited

Interim Risk management report

for the reporting period ended
30 June 2013

Member of
BARCLAYS

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Risk management

Our risk profile has been managed well within our risk appetite during the reporting period.

Our 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 our risk and comprises four principal risks, namely credit risk, market risk, funding risk, operational risk. Conduct risk and reputation risk are in the process of being elevated to principal risks during the remainder of the reporting period.

Each principal risk has an identified Principal Risk Owner (PRO) 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, we closely monitor 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, our 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 Barclays Africa operations, 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		31 December
		2013	2012	2012
Credit Risk	Impairment losses on loans and advances. % 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 (change in Rm)	↓	↑	↑

Credit risk

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

The following are some of the factors that may negatively affect our 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 we have 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 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 our credit portfolios and potentially lead to an increase in non-performing loans (NPLs) as well as a reduction in recoverability and value of our assets.

Credit risk *(continued)*

- 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. This will have the largest impact on unsecured products, such as credit cards and personal loans.

- 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 commercial property finance (CPF) book and the retail mortgage portfolio remain sensitive to property prices, with asset value reductions potentially leading to reduced recoverability and increased impairment charges.

- Non-financial risk: Continued labour unrest primarily affects 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 we 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, we are continuously reviewing our risk appetite and underwriting criteria to ensure that we book quality business.

Affordability and over indebtedness continued to place pressure on consumers. This was especially evident in the card and personal loan portfolios owing to increased pressure on delinquency and recovery rates. Collection strategies as well as 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 Vehicle and Asset Finance (VAF) during 2012 increased our exposure to new segments. The credit quality of new business continued to be within risk appetite. Mortgage balances decreased during the reporting period, mainly due to the maturity of 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. Our 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 Retail Business Banking (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 our 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, our net interest margin remained under pressure during the reporting period. However, Absa's structural interest rate hedge programme mitigated some of the risk with a positive contribution to the interest margin. Our 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 our results, financial condition and prospects.

Risk management

Market risk *(continued)*

- 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. We retain additional capital reserves that target a 99,6% level of confidence that policyholder obligations will be met in these extreme scenarios. Our 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: 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.

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.

We have maintained our 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 basis points (bps) (on a pro forma basis).

We utilise internal models to enhance understanding of the risks faced and to assess the appropriate amount of capital required to support our risk profile, in line with risk appetite.

Our 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. If not carefully managed, this could result in a reduction in profitability due to the increased price for funds and to the deterioration in our liquidity position.

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 reporting period regarding compliance with the LCR. The net stable funding ratio (NSFR) 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. We continue 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 risk 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 our tolerance and significantly lower than for the previous reporting period. Fraud- and process-related incidents remain the main contributors to these losses.

Risk management

Operational risk *(continued)*

Our 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. We continue 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 our regulatory processes, including know your client and anti-money laundering.
- Legal risk: We are subject to a comprehensive range of legal obligations in all jurisdictions in which we operate and as such we are 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 our business conduct.

  We manage legal risk in accordance with a comprehensive legal risk framework, implemented and administered by a fully-fledged in-house legal function. In addition, we have adequately provided for all contingent legal liabilities that are deemed probable.

- Business Continuity Management (BCM): Over recent years, we have strengthened our BCM capabilities. Our BCM framework is underpinned by key business processes and activities.

- Recovery planning: There is an ever-increasing regulatory focus on recovery planning. We are implementing a recovery plan that takes into account local and international regulatory guidance.

- Business processes and infrastructure resilience: We 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 risks 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 that we have appropriately skilled employees and providing additional oversight 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 or counterparties or the Group and its employees because of inappropriate judgement in the execution of our business activities

During the reporting period, we 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 our 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.

Risk management

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 our licence to operate and destroy significant shareholder value.

Reputation risk is broadly triggered by the 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 our 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 our approach is to establish our goal, purpose and values to ensure that all individuals across the organisation deliver in a way consistent with our culture.

We have 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.

Going forward, we will continue to strengthen foundations, enhance governance and improve proactive risk identification.

Risk management

Our approach to risk management

We employ the following five-step process in terms of our risk management approach:

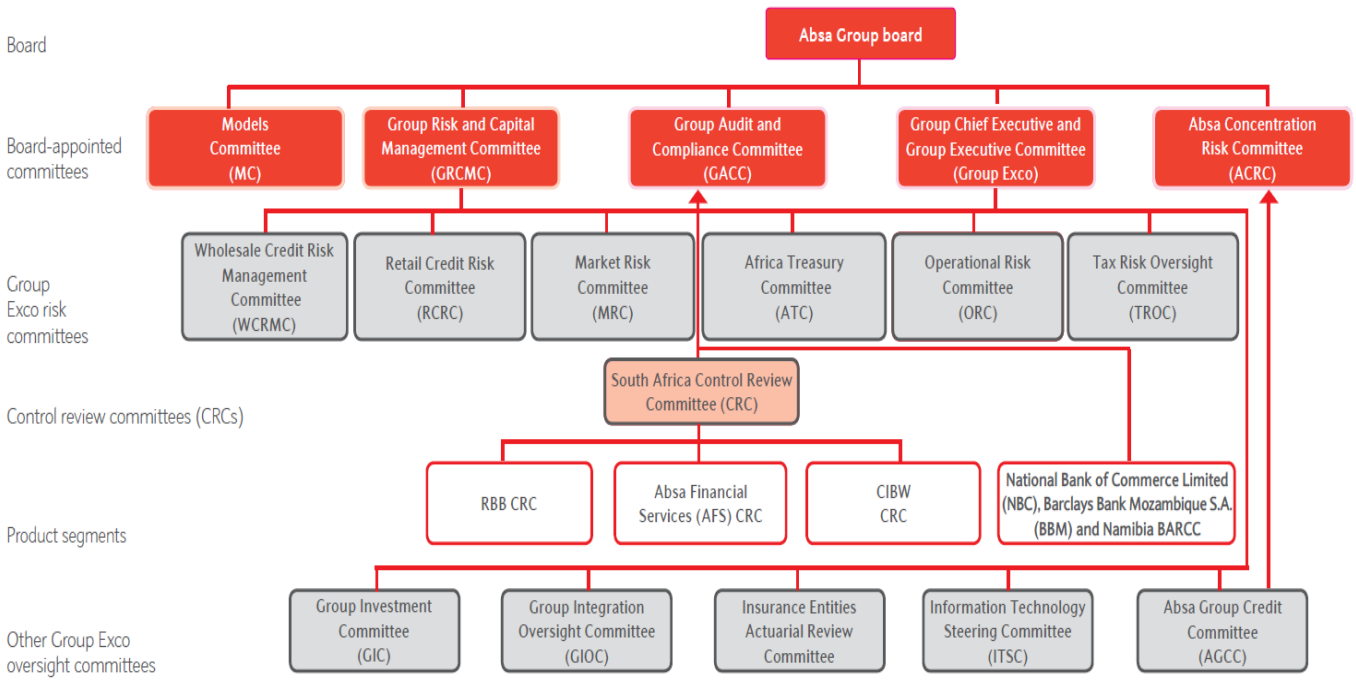
Risk management process	
Identity	– Understand the principal risks fundamental to achieving our strategy. – Establish the risk appetite. – Establish and communicate the risk management framework including responsibilities, authorities and key controls
Assess	– Establish the process for analysing business-level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

Risk oversight

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

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

Absa's risk governance structure



Risk management

The Group Risk and Capital Management Committee

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

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

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

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

Core activities of the Group Risk and Capital Management Committee

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

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

The Group Audit and Compliance Committee

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

Risk management related activities of the Group Audit and Compliance Committee

The GACC performs the following activities in terms of risk management:
- dealing with any matters referred to it by the GRCMC; and
- ensuring that internal and external assurance providers and management apply the combined assurance model.

The principal risks policy

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

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

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

Risk management

The principal risks policy *(continued)*

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

Our risk appetite

Risk appetite and stress testing are key components of our management of risk and are embedded as part of the strategic planning processes.

The risk appetite statement describes and measures the amount and types of risk that we are prepared to take in executing our strategy. It defines the integrated approach to business, risk and capital management and supports the achievement of our strategic objectives. Our risk appetite framework combines a top-down view of our capacity to take risk with a bottom-up view of the business risk profile associated with each business area's plans. The risk appetite statement is approved annually by the Board under recommendation from the GRCMC and is monitored on an ongoing basis.

Stress testing

Stress testing is a key focus during the Group's strategic planning processes. Stress testing occurs throughout the Bank and assists in ensuring that our medium-term plan has sufficient flexibility to remain appropriate over a multi-year time horizon during times of stress. Through the use of stress testing and scenario analysis, we are able to assess the performance of our portfolios in the anticipated economic environment and evaluate the impact of adverse economic conditions on our portfolios. Stress testing also assists the Group in understanding core assumptions in its capital plans and informs the setting of capital buffers. The outputs of stresses also feed into the setting of mandate and scale limits.

Stress testing and scenario analysis are central to the monitoring of top and emerging risks, helping us to understand the sensitivities of the core assumptions in our capital plans to the adverse effect of extreme but plausible events. Stress testing allows us to formulate our response and mitigate risk in advance of conditions exhibiting the stresses identified in the scenarios.

Actual market stresses, which occurred throughout the financial system in recent years, have been used to inform our capital planning process and enhance the stress scenarios we employ. In addition to our internal stress testing exercises, other stress testing exercises are undertaken at the request of regulators using their prescribed assumptions, and by the regulators themselves. We take into account the results of all such stress testing when assessing our internal and regulatory capital requirements.

The Stress Testing and Economic Capital Committee, which reports to the Risk Management Meeting, exercises governance, oversight and approval authority over our internal capital adequacy assessment process (ICAAP) and economic capital models.

Risk appetite key indicators and triggers

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

Risk management

Risk disclosure approach

All other disclosures in this report relate to Basel Pillar 3 requirements, which are unaudited. Any reference to a note in the sections that follow refers to the applicable note in the Group's financial statements for the reporting period.

Regulatory and statutory accounting treatment may differ for certain entities. Where a different treatment is applied, the following approach is followed.

Entity Statutory accounting treatment Basel III regulatory treatment	Statutory accounting treatment	Basel III regulatory treatment
Subsidiaries engaged in insurance activities.	Consolidated	Excluded from the calculation of the capital adequacy ratio.
Associates, joint ventures and participation in businesses that are financial in nature.	Equity-accounted	Deducted from qualifying capital or proportionately consolidated.
Associates, joint ventures and participation in businesses that are not financial in nature.	Equity-accounted	Included in equity investment risk capital.

Changes to comparative numbers

This report include regulator approved changes in approach in accordance with Basel III implementation from 1 January 2013. Directive 8/2013 was issued on 7 June 2013 and the related disclosures have been included in the capital management section of this report.

Financial ratio and disclosures linked to our statutory reporting was also restated, in line with the June 2013 statutory restatements. Clear indication through footnotes will indicate such restatements.

More detail on the June 2013 statutory restatements can be found in the restatement document published as a SENS announcement as well as published on the Barclays Africa external website http://www.barclaysafrica.com/barclaysafrica/Investor-Relations/Announcements-and-publications/Annual-and-interim-reports

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

Credit Risk

Credit risk

Credit risk

Overview

Key points

- Our strategy is focused on lower-risk lending, primarily to existing customers, which has resulted in below market growth but at a more favourable risk distribution
- The impairment loss ratio for Retail Banking decreased from 2,04% to 1,77%
  - The 2013 charge includes a R440 million charge related to Edcon which was not included in 2012 and so adjusting for this the loss ratio improved by 24%
  - The main driver of the improvement was within mortgages given the elevated 2012 charge related to increased impairment coverage requirements
  - The Card portfolio (excluding Edcon) has experienced some pressure during the period and although the loss ratio remains at a relatively low level it has increased to 3.31% (30 June 2012: 2.04%)
- Wholesale portfolio performed well, with Business Banking impairment losses ratio decreasing from 1.65% to 1.33% largely due to lower impairments in the African operations and commercial property finance.
- Ongoing improvement in collection environment as evident by overall recoveries of loans and advances previously written off improving to R418m from R234m in June 2012.
- Credit quality of new business continued to be within risk appetite.

Key performance indicators

	30 June		31 December
	2013	2012 [1]	2012 [1]
	%	%	%
Growth in loans and advances to customers	**7.00**	0.34	4.61
Impairment losses ratio	**1.35**	1.62	1.63
Securitisation risk-weighted assets (Rm)	**845**	1 316	1 037
Equity investments Risk –weighted assets (Rm)	**22 081**	23 864	22 735

Introduction

Credit risk is the risk of loss to Absa arising from the failure of a customer or counterparty to fulfil its payment obligations. Credit risk arises mainly from lending and related banking activities, including underwriting, dealing in traded products such as derivative contracts, securities borrowing and lending products. It may also arise when fair values of our exposure to financial instruments decline.

Credit risk is a core component of lending quality and impacts on the risk versus reward model. Credit risk received increased focus due to the current economic conditions and subdued growth as well as increased regulatory requirements under Basel III.

Strategy

Our credit risk objectives are:
- supporting the achievement of sustainable asset and revenue growth in line with our risk appetite;
- simplifying risk management processes;
- investing in skills and experience;
- operating sound credit granting processes;
- monitoring credit diligently;
- using appropriate models to assist decision-making;
- improving forecasting and reducing variability;
- continually improving collection and recovery; and
- optimising the control environment.

June 2013 in review

Retail portfolio

The overall quality of the retail credit portfolio improved during the reporting period, as we continued to book business that was assessed in line with the customer 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, we continuously review our risk appetite and underwriting criteria to ensure that we continue to book quality business.

Affordability and over indebtedness continued to place pressure on customers. This was especially evident in the card and personal loans portfolios, where pressure on delinquency rates as well as recovery rates were 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 customer, specifically the increasing trend of debt-to-income ratios.

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

Note
[1]Previous reporting period figures have been reclassified.

Overview

June 2013 in review *(continued)*

The instalment credit agreement and credit card portfolios experienced growth in the number of transactions during the reporting period, mainly due to the acquisition of the Edcon portfolio in November 2012. New scorecards implemented in Vehicle and Asset Finance (VAF) increased our exposure to new segments.VAF credit losses ratio also improved to 1,11% from 1,24% in June 2012 reflecting our focus on collections. The credit quality of new business continued to be within risk appetite.

Mortgage balances decreased during the reporting period due to maturity of existing loans, while new loans were booked at more favourable loan-to-value ratios. We, however, recorded an increase in mortgage registrations, achieved within the set risk appetite. The mortgage impairment losses on loans and advances also improved significantly to R1.115m from R2366m in June 2012. This 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. There is a marginal increase in the average age of the legal portfolio due to stricter rehabilitation criteria being applied. Both flow into legal and pre-legal delinquency rates are an indication of improvement as is evident by the significant decrease in pre-legal non-performing mortgages.

Wholesale portfolio

During the reporting period growth across the wholesale portfolio has been positive, however higher levels of currency volatility resulted in an increase in the trading book exposures.

The level of exposure on the early warning list (EWL) has decreased, with only Wealth showing an increase. Within Business Markets the majority of EWL exposure is in early stage categories and arrears also reduced by 25% in the reporting period. This is indicative of the cautious approach taken by management.

The level of impairment losses on loans and advances at the reporting period is favourable. The outperformance is driven largely from the commercial asset finance, enterprise and corporate and investment bank portfolios. Late stage EWL names will continue to receive close scrutiny and are not expected to show material deterioration in the near future.

Internationally, negative European growth continued to affect market confidence, particularly against a backdrop of a slowing and volatile global economy. Our direct exposure to European banks is modest and largely collateralised. The deterioration in local client confidence and continued international uncertainty has manifested in volatility in local equity markets during the reporting period, which in turn has led to a marginal degrading of credit quality across sectors in the wholesale portfolio. Notwithstanding this, the performance of our wholesale equity book during the reporting period was reasonably steady.

Looking ahead

Retail portfolio

We will continue to focus on value and balance sheet optimisation, supported by a strong risk management culture. Our aim is to increase portfolio growth by defining acceptable risk pockets/products and to improve decision-making processes by continuously assessing market conditions and understanding the impact of economic shifts on the various portfolios. We will remain focused on the quality and profitability of new business and continue to be selective in the type of business written in the mortgage portfolios.

Emphasis will be placed on reducing NPLs (especially in the secured portfolios) by optimising potential value when disposing of assets. Further refinement of our operating model and improved forecasting and control of impairment losses on loans and advances will receive attention. We continue to apply stringent affordability criteria within our forbearance programmes.

We will continue to support the business with pricing optimisation to effectively manage portfolio risk and maximise profitability. As the market conditions change, we will continue to monitor the composition of our legal portfolio and adjust our treatment strategies effectively.
The application of prudent lending practices in unsecured lending will continue to receive attention. Our risk appetite has been focused on higher income/lower risk segments. Stress testing indicates that our unsecured portfolios will remain profitable even under severe stress scenarios. To ensure appropriate coverage and provision for emerging risks, continued refinement and improvement of the granularity of impairment models are undertaken.

Wholesale portfolio

Local economic data suggests that there is an increased strain on client confidence levels and it is therefore unlikely that we will see robust growth in the wholesale portfolio for the remainder of the reporting period. Inflationary pressures, currency weakness, negotiated wage settlements and the pressure of recent fuel price hikes will certainly impact the affected sectors. No immediate signs of stress are visible in the portfolio and we will monitor these developments closely and act proactively. Resolution of matters in the legal book and recovery against assets held as security will continue to receive our focus.

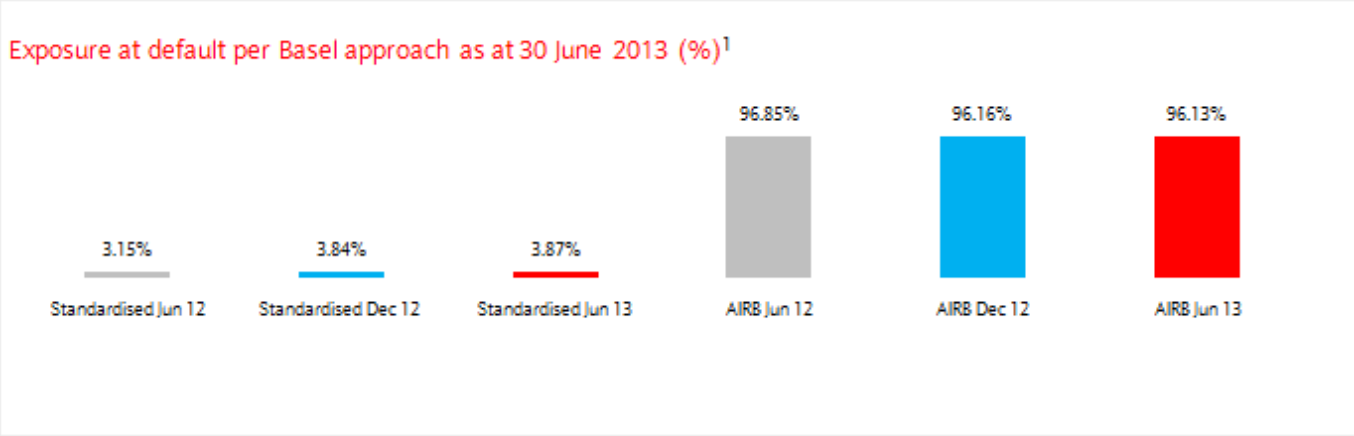
Notwithstanding what was mentioned above, the investment banking book is seeing a respectable pipeline of deals for the next reporting period and we enhanced our risk and control framework and off this base a growth strategy will be pursued. The growth strategy will be aligned to wholesale's agreed risk appetite.

Retail and wholesale credit risk

Approach to credit risk

We apply both the standardised and internal ratings-based (IRB) approaches to various portfolios to calculate regulatory capital (RC) requirements, as illustrated in the table below:

Approaches	Standardised	AIRB
Reporting of balances	– African operations – Edcon book	– Domestic retail portfolios – Domestic corporate portfolios (including specialised lending portfolios) – Public sector entities – Local government – Municipalities – Sovereign, banks and securities firms – Statutory reserve and liquid asset portfolio
Assessment applied	– Standard risk weight percentage as prescribed in the regulations relating to banks	– Automated application and behavioural scoring based on statistical models – Statistical, structural and expert based models either developed internally or based on service of external vendors



Note
Previous reporting period figures have been reclassified

Retail and wholesale credit risk

Approach to credit risk *(continued)*

Risk-weighted assets and minimum required capital

	30 June				31 December	
	2013		2012		2012	
	RWAs Rm	**Required capital Rm**	RWAs Rm	Required capital Rm	RWAs Rm	Required capital Rm
Banks	**12 811**	**1 217**	9 261	880	7 258	689
Corporate exposure	**135 476**	**13 240**	135 869	12 907	130 474	12 394
Corporate	**97 098**	**9 594**	100 591	9 556	92 762	8 812
SME [1] Corporate	**32 926**	**3 128**	29 094	2 764	31 719	3 013
Specialised lending – income producing real estate	**1 983**	**188**	1 942	184	2 266	215
Specialised lending – project finance	**3 469**	**330**	4 242	403	3 727	354
Local governments and municipalities	**1 335**	**127**	1 511	143	1 717	163
Public sector entities	**2 155**	**205**	1 294	123	2 161	205
Retail exposure	**154 138**	**14 643**	148 151	14 074	150 618	14 308
Mortgages (incl home equity line of credit)	**62 990**	**5 984**	61 746	5 866	65 938	6 264
Other	**50 008**	**4 750**	50 600	4 806	48 167	4 576
Unsecured lending <= 30 000	**4 858**	**461**	5 687	540	16 612	1 578
Unsecured lending > 30 000	**16 234**	**1 542**	18 783	1 784	5 315	505
Vehicle and asset finance	**28 916**	**2 747**	26 130	2 482	26 240	2 493
Revolving credit	**30 378**	**2 886**	24 588	2 336	26 721	2 538
Credit cards	**28 508**	**2 708**	22 434	2 131	24 782	2 354
Non-credit cards	**1 869**	**178**	2 154	205	1 939	184
SME[1]	**10 763**	**1 023**	11 217	1 066	9 792	930
Secured lending	**2 683**	**255**	2 985	284	1 892	180
Unsecured lending	**8 080**	**768**	8 232	782	7 900	750
Securities firms	**3 594**	**341**	553	53	1 035	98
Sovereign	**4 170**	**396**	3 570	339	3 686	350
Securitisation	**845**	**80**	1 316	125	1 037	99
	314 524	**30 249**	301 525	28 644	297 986	28 306
Standardised approach	**23 551**	**2 237**	10 212	970	23 513	2 233
	338 075	**32 486**	311 737	29 614	321 499	30 539

Standardised approach

Our African operations as well as the Edcon portfolio are subject to the standardised approach. For capital calculation purposes, these exposures are multiplied by the standard risk-weight percentages as set out in the Banks Act.

Advanced internal ratings-based approach

To assess credit risk under this approach, we analyse this risk into its common components of probability of default (PD), exposure at default (EAD) and Loss given Default (LGD), modelled on an exposure specific basis in the case of wholesale exposures and on a portfolio level in the case of retail exposures.

These risk components are then used in the calculation of a number of aggregate risk measures such as expected loss (EL), RC and EC. Under the AIRB approach, we can use our own measures of PD, EAD and LGD.
The assessment of credit risk relies heavily on quantitative models and tools developed internally. These are supplemented by vendor solutions in a number of areas.
We classify all credit models by materiality, based on a combination of measures aimed at assessing the value at stake (VAS) for the Group. The VAS measure used for a specific model is determined by its relevance to the respective portfolio and the risk it is intended to assess.

All models are subject to an initial validation and approved by the appropriate governance forums. High materiality models require Models Committee (MC) approval. Models are monitored on an ongoing basis and validated, at least annually, by an independent validation unit in Group Risk. The monitoring information and validation results are reported to and discussed at the appropriate governance forums.

Notes
[1]Small and medium-sized enterprises as defined by the regulations.
[2]Due to the new Basel II.5 requirements coming into effect on 1 January 2012, numbers at the more granular level for the previous reporting period are not available.

Retail and wholesale credit risk

Approach to credit risk *(continued)*

Approach to credit modelling/internal ratings

The principal objective of credit measurement is to produce the most accurate possible quantitative assessment of credit risk to which we are exposed from the level of individual facilities up to the total portfolio. Integral to this is the calculation of internal ratings that is used in numerous aspects of credit risk management and in the calculation of RC and EC. The key building blocks of this process are:

- PD;
- EAD;
- LGD; and
- maturity.

These parameters are used in a variety of applications that measure credit risk across the entire portfolio and can be calculated to represent different aspects of the credit cycle:

- PD estimates can be calculated on a through-the-cycle (TTC) basis, reflecting the predicted default frequency in an average 12-month period across the credit cycle, or on a point-in-time (PIT) basis, reflecting the predicted default frequency in the next 12 months.
- EAD and LGD estimates can be calculated as downturn measures, reflecting behaviour observed under stressed economic conditions, or as business-as-usual measures, reflecting behaviour under actual conditions.

These parameters can be used in different combinations for a wide range of credit risk measurement and management. Internal ratings are used for the following purposes:

- Credit approval: PD models are used in the approval process in both retail and wholesale portfolios. In high-volume retail portfolios, application and behaviour scorecards are frequently used as decision-making tools. In wholesale and certain retail Home Loans portfolios, PD models are used to direct applications to an appropriate credit sanctioning level.
- Credit grading: to provide a common measure of risk across the Group, wholesale credit grading employs a 26 point scale of default probabilities.
- Risk-reward and pricing: PD, EAD and LGD metrics are used to assess the profitability of deals and portfolios and to allow for risk-adjusted pricing and strategy decisions.
- Risk appetite: measures of EL and the potential volatility of loss are used in our risk appetite framework.
- Impairment calculation: under IAS 39 Financial Instruments: Recognition and Measurement (IAS 39), many of the collective impairment estimates incorporate the use of our PD and LGD models, adjusted as necessary.
- Collections and recoveries: model outputs are used to identify segments of the portfolio where collection and recovery efforts should be prioritised.
- EC calculations: most EC calculations use the same PD and EAD inputs as the RC process. The EC process also uses the same underlying LGD model outputs as used in RC calculations, but does not incorporate the same economic downturn adjustment used in RC calculations.
- Risk management information: Group Risk and the business units generate risk reports to inform senior management on issues such as business performance, risk appetite and consumption of EC. Model outputs are used as key indicators in these reports.

Retail portfolio

Ratings assigned across each retail portfolio are based on automated application and behavioural scoring systems. The underlying rating is calculated at point of application and updated monthly thereafter and used in decisions concerning underwriting, 'pay/no pay' and assignment of accounts to risk grades used to calculate RC. The methodology and data employed in the risk estimation and the rating processes can be summarised as follows:

- Internal risk estimates of PD, EAD and LGD are grounded in historical experience, incorporating all relevant material and available data, information and methods. Both the historical observation periods and default definitions used are consistent with regulatory requirements.
- For each product, PDs are assigned at account level by calibrating the raw behavioural model scores/ratings to the observed long-run average default rate for each pool.
- For each product, EADs are assigned to each account based on the EAD pool to which the account has been assigned. EAD estimates incorporate all relevant data and information including account balances as well as utilised and unutilised limits, if present.
- LGDs are estimated for each product and assigned at account level, based on the LGD pool to which the account has been assigned. Calibration data on historically defaulted accounts includes observed EADs, recovery streams, cure and write-off rates. The models also make use of suitable risk drivers such as loan-to-value (LTV), which are updated monthly.
- The mortgage loan PD model was recalibrated and implemented in January 2013. Subsequently new group requirements have come into effect and the mortgage Basel model suite is the process of being redeveloped and should be implemented in Q1 2014 once approved through the appropriate governance process. The remaining products will be redeveloped sequentially in terms of materiality.
- To ensure the effectiveness of the validation process, an independent review is performed annually. Models are approved by the RCTRC and the most material models require approval by the MC.
- Models are independently reviewed on an annual basis and when new models have been developed or changes occur to models. In addition, a process is in place to perform post model adjustments as needed or when management applies its discretion.

Wholesale portfolio

The rating process relies both on internally developed PD rating models and vendor provided solutions. While the rating and credit decision-making process in the retail portfolio is largely automated, this process in the wholesale portfolio relies on quantitative and qualitative assessments on a transactional level. Information used in the calculation of customer ratings includes:

- financial statements;
- projected cash flows;
- equity price information;
- external rating agency grades; and
- behavioural scorecards.

Approach to credit risk *(continued)*

Wholesale portfolio *(continued)*

Internal LGD estimates depend on the key drivers of recovery such as collateral value, seniority and costs involved as part of the recovery process, while the EAD models aim to replicate the expected utilisation of a customer's facility should a default occur.

PD measures based on behavioural scores and equity prices are updated monthly for credit risk management and capital calculation purposes. Other PD models that rely on more static information are updated at least quarterly in a conventional environment or as and when extraordinary circumstances warrant a review of the customer's credit standing.

To ensure the effectiveness of the validation process, an independent review is performed annually. Models are approved at the WCRMC, and the most material models require approval by the MC.

Models are independently reviewed on an annual basis and when new models have been developed or changes occur to models. In addition, a process is in place to perform past model adjustments as needed or when management applies its discretion.

Assessment of credit risk

The assessment of credit risk relies heavily on quantitative models and tools which, to a large degree, have been developed internally and are supplemented by vendor solutions. The following sections provide an overview of the aforesaid concepts and their use in the assessment of credit risk across our portfolios.

Probability of default

PD measures the likelihood of a customer defaulting on its obligations within the next 12 months and is a primary component of the internal risk rating calculated for all customers. We use two types of PDs, namely:

- TTC PD, which reflects our assessment of the borrower's long-run average propensity to default in the next year; and
- PIT PD, which reflects current economic, industry and borrower circumstances.

Both types of PDs are used extensively in our decision-making processes and several types of rating approaches are employed across the Group.

For communication and comparison purposes, we map our 21 default grades (DG), which is our internal master rating scale, to the SARB 26 grade PD scale used for regulatory reporting purposes.

Our DG grading represents a TTC view of the distribution of the book at a specific point in time.

Assessment of credit risk (continued)

Probability of default (continued)

An indicative mapping of the DG buckets to the equivalent international rating agency and regulatory PD bands are set out in the table below:

Indicative mapping of DG to PD band, alphanumeric agency grades and regulatory bands

		Absa DG to PD mapping			Alphanumeric scale mapping			Regulatory PD bank to PD mapping	
Default grade bucket	Note	Min PD (>) %	Max PD (<) %	PD Midpoint %	Standard & Poor's	Moody's	PD band	Lower bound %	Upper bound %
1	1	0.0000	0.0200	0.0100	AAA	Aaa	1	0.0001	0.0120
2		0.0200	0.0300	0.0250	AA-	Aa3/A1	2	0.0121	0.0170
3		0.0300	0.0500	0.0400	A+	A2	3	0.0171	0.0240
4		0.0500	0.1000	0.0750	A/A–	A3/Baa1	4	0.0241	0.0340
5		0.1000	0.1500	0.1250	BBB+	Baa2	5	0.0341	0.0480
6		0.1500	0.2000	0.1750	BBB	Baa2	6	0.0481	0.0670
7		0.2000	0.2500	0.2250	BBB	Baa3	7	0.0671	0.0950
8		0.2500	0.3000	0.2750	BBB–	Baa3	8	0.0951	0.1350
9		0.3000	0.4000	0.3500	BBB–	Ba1	9	0.1351	0.1900
10		0.4000	0.5000	0.4500	BB+	Ba1	10	0.1901	0.2690
11	2	0.5000	0.6000	0.5500	BB+	Ba2	11	0.2691	0.3810
12		0.6000	1.2000	0.9000	BB	Ba3	12	0.3811	0.5380
13		1.2000	1.5500	1.3750	BB-	Ba3	13	0.5381	0.7610
14		1.5500	2.1500	1.8500	BB–	B1	14	0.7611	1.0760
15		2.1500	3.0500	2.6000	B+	B1	15	1.0761	1.5220
16		3.0500	4.4500	3.7500	B	B2	16	1.5221	2.1530
17		4.4500	6.3500	5.4000	B	B3	17	2.1531	3.0440
18		6.3500	8.6500	7.5000	B-	B3	18	3.0441	4.3050
19		8.6500	11.3500	10.0000	B-	Caa1	19	4.3051	6.0890
20	3	11.3500	18.6500	15.0000	CCC+	Caa2	20	6.0891	8.6110
21		18.6500	100.0000	30.0000	CCC	Ca	21	8.6111	12.177
							22	12.177	17.222
							23	17.222	24.355
							24	24.355	34.443
							25	34.443	100.000
Default		100.0000	100.0000	100.0000	D	D	Default	100.000	100.000

Notes

[1]Default grades 1 – 10: assets falling within these DG buckets are regarded as 'investment grade' and, when converted to a rating agency equivalent, correspond to a BB rating and better.

[2] Default grades 10 – 19: financial assets in these grades typically require more detailed management attention where clear evidence of financial deterioration or weakness exists. Assets in this category, although currently protected, are potentially weaker credits. These assets contain some credit deficiencies.

[3] Default grades 20 – 21: the PD of financial assets in these grades have deteriorated to such an extent that they are included for regular review. Assets so classified must have well defined weaknesses that exacerbate the PD. These assets are characterised by the distinct possibility that the borrower will default, and should the collateral pledged be insufficient to cover the asset, the Group will sustain some loss when default occurs.

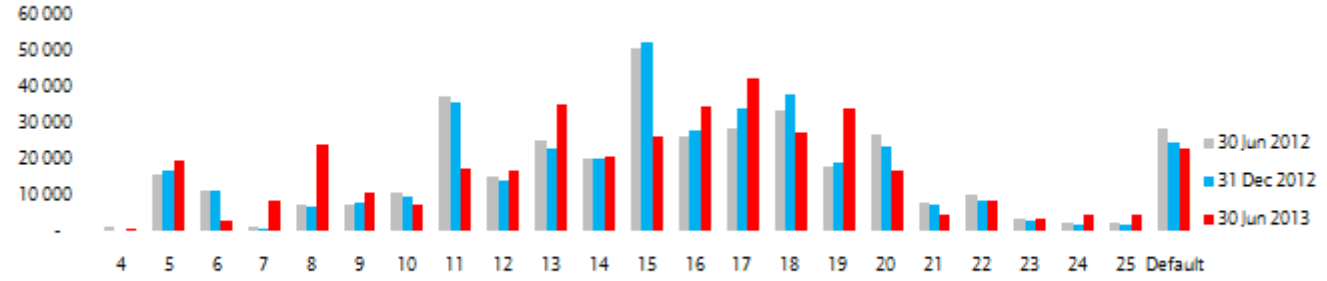
Retail and wholesale credit risk

Assessment of credit risk *(continued)*

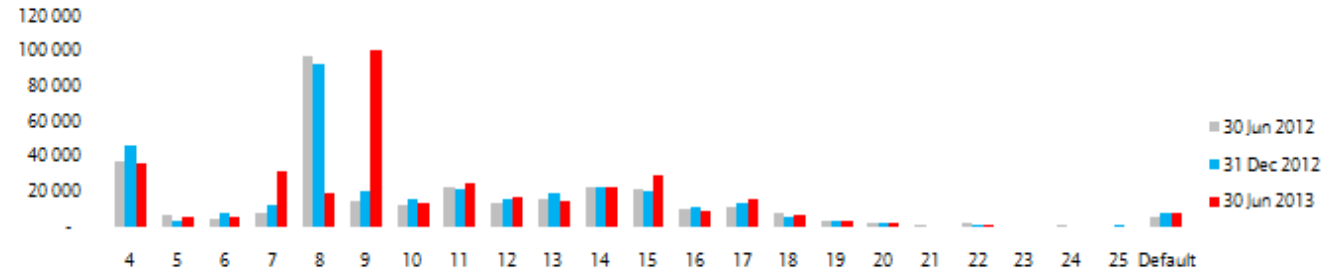
Probability of default *(continued)*

The following graphs provide a view of the PD migration for wholesale and retail exposures.

Exposure across probability of default bands - retail operations (Rm)



Exposure migration across probability of default bands - wholesale operations (Rm)



Expected/predicted versus actual loss analysis

The purpose of the following sections (PD, EAD and EL) is to provide a view of the performance of the Basel models.

Probability of default

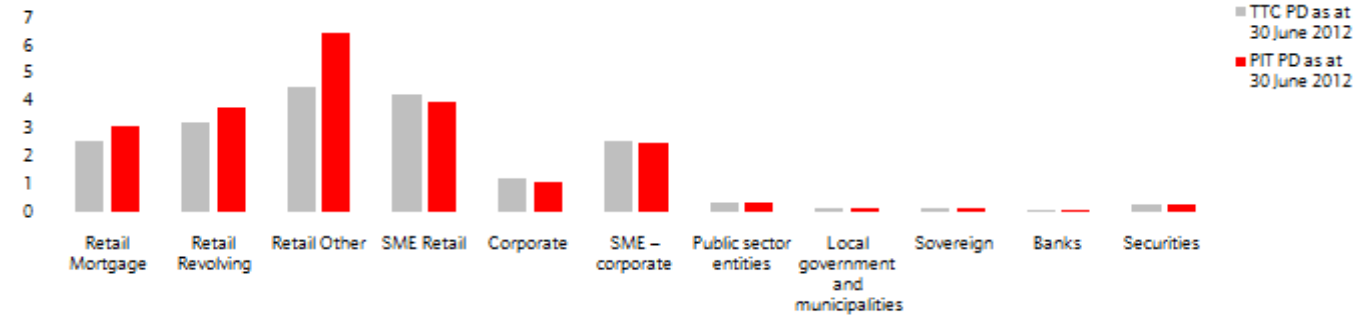
Comparison of probability of default estimates with actual default

The objective of PD backtesting is to compare the accuracy of the PD estimates for regulatory purposes with actual default data.

For each retail and wholesale Basel III asset class, the assigned PD for RC purposes at the previous reporting date is compared to the NPL ratio observed at the current reporting date.

Regulatory PD is TTC while the NPL ratio is observed at a particular point in the cycle (at the current reporting date). To complete the analysis, the observed NPL ratio is also compared to the PIT PD (at the previous reporting date). A comparison between the TTC PD and PIT PD at the previous reporting date for the performing book only (i.e. defaults excluded) is provided below.

Comparison of probability of default estimates (total book) for the performing book (%)[1]



Note

[1]Woolworths Financial Services, Africa and Edcon are excluded from this analysis.

Assessment of credit risk *(continued)*

Expected/predicted versus actual loss analysis *(continued)*

Probability of default *(continued)*

Comparison of probability of default estimates (total book) with non-performing loans[1] (%)

The main conclusions of the analysis are as follows:

- The regulatory or TTC PD (as at 30 June 2012) is above the non-performing loans ratio observed in June 2013 for all asset classes.
- The PIT PD (as at 30 June 2012), i.e. the point-in-time- estimates of the model, is above the observed non-performing loans ratio observed in June 2013 for all asset classes.
- Except for Retail SME, the overall PIT PD is still higher than the TTC PD as at 30 June 2012 for the Retail asset classes, while the PIT PD has moved below the TTC PD in the case of Wholesale asset classes.

Exposure at default

The EAD denotes the total amount we expect will be outstanding from a particular customer at the time of default. We calculate these estimates for each facility using models incorporating internal and external default data as well as the experience of credit experts in relation to particular products or customer groups.

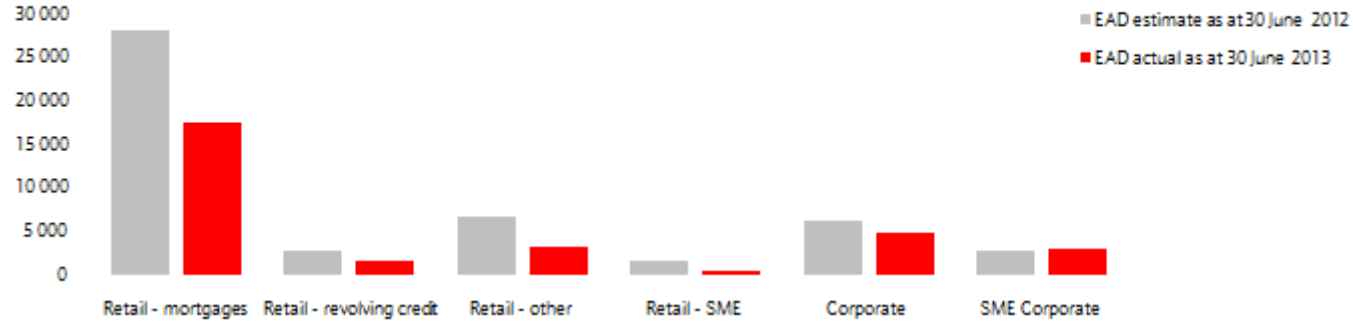
EAD estimates incorporate both on- and off-statement of financial position exposures resulting in a capital requirement that incorporates existing exposures, as well as exposures contingent on a counterparty's use of an available facility.

Comparison of exposure at default estimates with actual exposure at default

The objective of EAD backtesting is to compare the accuracy of EAD estimates for regulatory purposes with actual EAD.

For each retail and wholesale Basel III asset class, the estimated EAD at the previous reporting date is compared to the actual EAD at the current reporting date.

Comparison of exposure at default estimates with actual exposure of default (Rm)[1,2]



The main conclusion of the analysis is as follows:

- The actual exposure of defaults as at 30 June 2013 is lower than the estimated EAD as at 30 June 2012 in all cases except for the SME Corporate asset class where it is marginally higher.

Notes

[1]Woolworths Financial Services, Africa and Edcon are excluded from this analysis

[2]No specific impairments and write-offs were reported during the three-year period for the following assets classes; public sector entities, local government and municipalities, sovereigns, banks and securities. These assets classes have been excluded from the graphs.

Retail and wholesale credit risk

Assessment of credit risk *(continued)*

Loss given default

The third major risk component measures the loss expected on a particular credit facility in the event of default and therefore recognises credit risk mitigants, such as collateral or credit risk derivatives, we may employ. LGD estimates are calculated as a percentage of EAD using models based on internal and external loss data and the judgement of credit experts, and are primarily driven by the type and value of collateral held. We modify our LGD estimates to distinguish between expected losses over the course of an economic cycle and loss estimates during periods of economic stress (downturn LGD).

Expected loss and capital requirements

The PD, EAD and LGD are components used in a variety of applications that measure credit risk across the entire portfolio. EL is a measurement of loss that enables the application of consistent credit risk measurement across all retail and wholesale credit exposures.

These components are the basis for RC and EC calculations. EL figures are calculated as the product of TTC PD, EAD and downturn LGD and represent our best estimate of losses over the next 12 months based on long-run estimates that span an entire business cycle.

These estimates are also used in a range of applications including pricing, customer and portfolio strategy and performance measurement. EL estimates are compared to impairment losses on loans and advances figures, but it should be noted that while they may be similar, they are calculated on a different basis and for distinctly different purposes and should therefore not be expected to match one another.

EL is a statistical estimate of the average loss for the loan portfolio over the next 12 months, based on a long-term average loss tendency that incorporates at least one business cycle. This type of measure provides a measure of loss independent of the current credit conditions for a particular customer type, and is more stable over time. It is primarily used in capital measurement processes.

Expected losses compared to actual write-offs

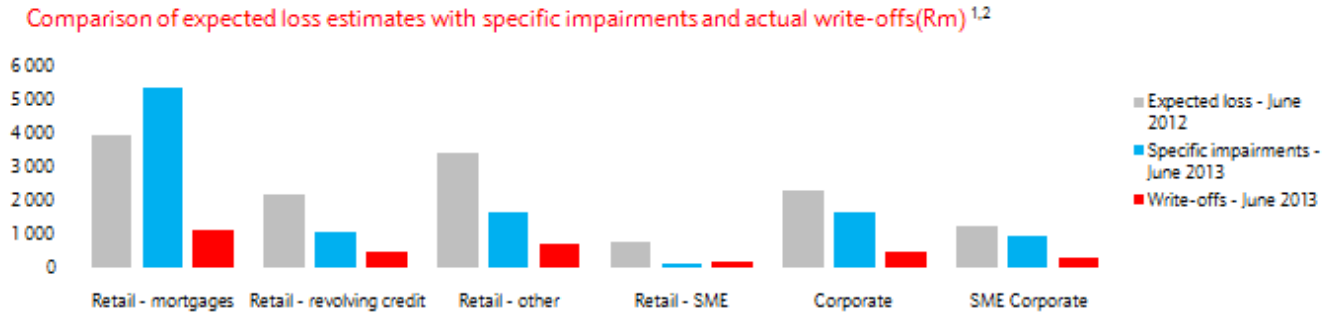
The objective of EL backtesting is to compare the accuracy of the EL estimates with actual write-off data.

For each retail and wholesale Basel III asset class, the estimated EL at the previous reporting date is compared to the actual amount written off during the current reporting period.

EL is a function of TTC PD, downturn LGD and EAD (EL = TTC PD x downturn LGD x EAD), i.e. it is a TTC measure adjusted for an economic downturn while the amount written off is observed over the current reporting period.

The main conclusions of the analysis:

- The actual write-offs observed for current reporting period are below the Specific Impairment levels (at the current reporting date) and EL estimates (as at the previous reporting date) for all asset classes, except in the case of Retail SME where write-offs are marginally higher than specific impairments.
- Specific Impairments (as at 30 June 2013) are lower than the EL estimates (as at 30 June 2012), except for Retail Mortgages.



Notes

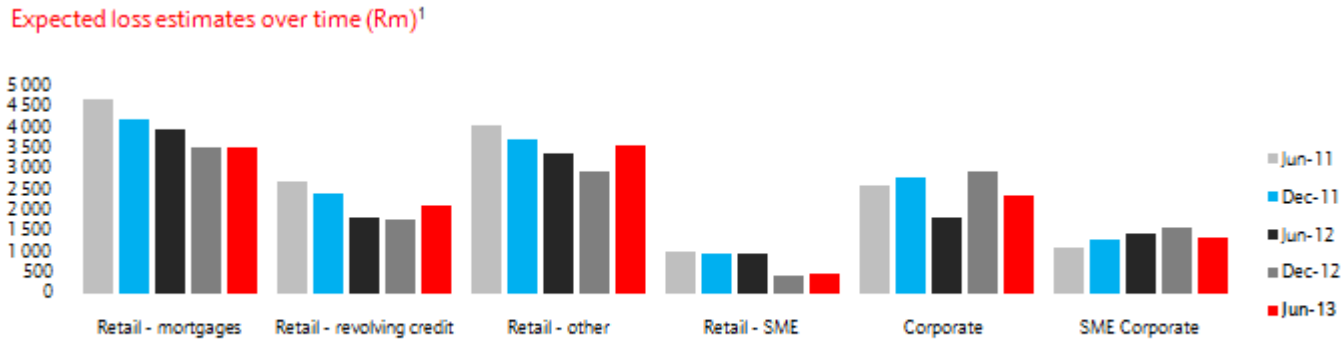
[1]The previous reporting period numbers for wholesale are based on FIRB models while current reporting period numbers are based on AIRB models.

[2] No specific impairments and write-offs were reported during the three-year period for the following assets classes; public sector entities, local government and municipalities, sovereigns, banks and securities. These assets classes have been excluded from the graphs.

Retail and wholesale credit risk

Assessment of credit risk *(continued)*

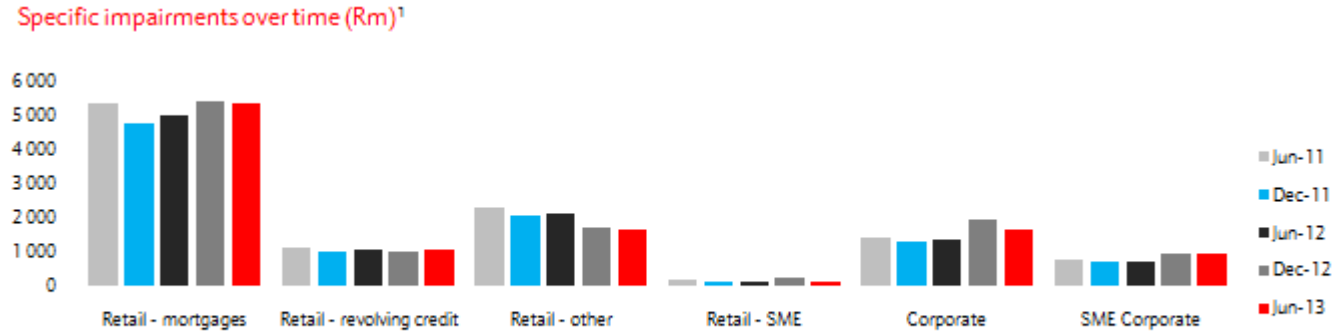
Trend analysis of expected loss, specific impairments and write-offs:



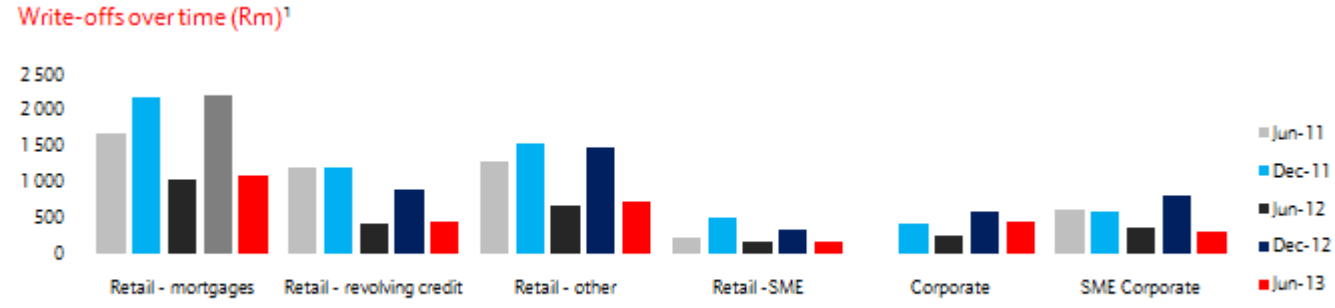
The main conclusions of this analysis are as follows:

– The increases in EL for Retail Revolving and Retail Other again reflect the strain currently being experienced by the consumer.

Trend analysis



– The overall increase in specific impairments in the retail and corporate portfolios was a result of our prudent approach.
– Mortgage loan impairments increased significantly in the current reporting period due to higher coverage required on the legal portfolio. We are comfortable with the current coverage levels.



Note

[1]No specific impairments and write-offs were reported during the three-year period for the following assets classes; public sector entities, local government and municipalities, sovereigns, banks and securities. These assets classes have been excluded from the graphs.

Retail and wholesale credit risk

Assessment of credit risk *(continued)*

Probability of default, exposure at default and loss given default analysis in terms of regulatory disclosure requirements

AIRB approach - Retail portfolio[1]

30 June 2012			30 June 2013											
			Mortgages: (including any home loan equity line of credit)				Other: unsecured lending ≤30 000				Other: unsecured lending ≥30 000			
Risk grade	Ave PD %	Ave PD %	LGD %	Exposure weighted average risk weight %	Ex-pected loss Rm	EAD Rm	LGD %	Exposure weighted average risk weight %	Ex-pected loss Rm	EAD Rm	LGD %	Exposure weighted average risk weight %	Ex-pected loss Rm	EAD Rm
Non-default	3.06	3.37	13.46	26.37	1 172	237 554	73.78	102.68	185	4 136	74.23	104.13	597	13 885
4	0.03	0.03	13.91	1.45	-	38	100.00	100.00	-	-	83.10	9.47	-	19
5	0.04	0.04	10.57	1.19	1	14 931	72.58	8.42	-	187	75.41	8.75	-	209
6	0.05	0.05	11.50	1.74	-	2 728	82.03	15.64	-	1	-	-	-	-
7	0.08	0.09	10.57	2.42	1	7 537	-	-	-	-	-	-	-	-
8	0.11	0.11	10.90	2.85	2	17 757	73.99	23.43	-	100	77.11	24.48	-	320
9	0.16	0.16	13.27	4.82	2	7 880	71.18	27.49	-	38	72.72	28.08	-	70
10	0.23	0.23	14.96	7.03	2	6 470	-	-	-	-	80.44	34.82	-	27
11	0.32	0.30	17.82	10.01	8	14 578	73.49	41.50	-	199	76.04	43.75	2	688
12	0.45	0.46	12.07	9.29	6	10 906	71.63	49.19	-	46	73.70	50.79	-	103
13	0.66	0.65	13.51	13.45	29	32 299	73.55	62.38	1	236	77.08	64.18	4	831
14	0.90	0.89	12.93	15.90	13	11 288	75.19	76.14	1	165	77.90	78.09	4	675
15	1.24	1.23	13.99	21.47	25	14 712	78.35	91.89	7	733	79.67	92.93	26	2 659
16	1.80	1.83	13.19	25.82	55	22 959	74.97	98.78	3	230	77.54	102.49	12	839
17	2.54	2.59	13.88	33.79	79	21 760	74.22	105.86	6	311	77.43	110.48	22	1 182
18	3.77	3.58	13.28	81.26	186	12 757	75.92	114.63	10	379	77.75	117.31	32	1 158
19	5.12	4.90	14.95	52.71	114	14 871	74.40	116.18	9	250	76.62	119.58	25	670
20	7.41	7.26	15.74	64.85	116	10 499	76.22	127.11	13	248	76.87	124.65	45	834
21	9.65	9.94	14.62	70.90	27	1 793	74.26	130.36	9	127	76.25	133.87	22	296
22	14.77	15.49	14.77	83.22	64	2 721	65.04	136.79	59	594	59.73	127.20	248	2 641
23	20.80	20.88	13.63	81.94	57	1 969	73.08	176.49	10	62	75.77	182.23	29	181
24	29.24	29.37	14.33	88.37	133	3 183	75.38	201.97	36	163	77.10	208.20	77	333
25	40.21	47.63	13.59	73.02	252	3 918	72.21	195.61	21	67	74.60	201.90	49	150
Default	100.00	100.00	14.55	2.03	5 352	17 574	75.85	160.32	641	381	76.04	159.46	300	1 114
Total	10.17	9.02	13.54	24.69	6 524	255 128	73.96	107.54	826	4 517	74.36	108.24	897	14 999

Notes

[1]Amounts indicated as zero in the above table, reflect values smaller than R1 million

Retail and wholesale credit risk

Assessment of credit risk *(continued)*

Probability of default, exposure at default and loss given default analysis in terms of regulatory disclosure requirements *(continued)*

AIRB approach - Retail portfolio[1] *(continued)*

30 June 2013															
Other: vehicle and asset finance				Revolving credit: credit cards				Revolving credit: non-credit cards				SME: secured lending			
LGD %	Exposure weighted average risk weight %	Ex-pected loss Rm	EAD Rm	LGD %	Exposure weighted average risk weight %	Ex-pected loss Rm	EAD Rm	LGD %	Exposure weighted average risk weight %	Ex-pected loss Rm	EAD Rm	LGD %	Exposure weighted average risk weight %	Ex-pected loss Rm	EAD Rm
38.15	54.66	796	48 574	74.35	69.30	1 018	34 756	81.92	22.77	50	7 032	20.01	30.92	51	7 996
-	-	-	-	-	-	-	-	82.65	2.07	-	228	36.76	3.85	-	12
40.21	4.66	-	235	71.49	1.84	-	4	82.03	2.11	1	2 849	39.67	5.43	-	1
-	-	-	-	-	-	-	-	82.33	3.73	-	8	12.50	2.29	-	145
37.72	9.20	-	465	77.13	4.41	-	2	82.03	3.94	-	164	41.46	9.63	-	1
38.41	10.20	-	1 085	70.59	4.88	4	4 509	78.27	5.80	-	3	21.74	6.17	-	7
-	-	-	-	69.33	6.36	3	2 483	78.22	7.14	-	13	14.94	5.84	-	16
42.15	21.98	-	-	78.83	8.92	-	1	82.23	9.24	1	481	22.84	10.76	-	40
37.85	21.78	-	279	77.63	13.39	-	168	82.07	15.02	2	610	26.99	17.50	-	54
38.25	28.48	7	3 882	76.31	17.33	-	20	80.85	17.12	-	38	13.86	9.55	1	1 014
38.01	32.90	1	535	72.04	19.72	-	1	81.60	22.66	2	367	27.28	24.13	-	61
36.83	47.54	13	3 805	74.78	27.33	21	3 146	81.68	30.87	3	444	15.98	16.54	1	843
38.02	45.37	17	3 359	74.87	36.00	8	840	81.80	40.62	9	874	16.25	18.52	3	1 367
38.55	51.52	50	6 968	75.74	44.97	15	1 214	81.38	53.91	4	228	28.51	38.23	1	275
37.92	54.48	136	14 013	76.39	58.82	37	2 033	81.75	66.76	5	245	33.72	48.78	7	741
38.60	86.04	226	4 939	75.37	35.46	16	2 569	81.63	87.36	8	261	17.90	40.74	17	2 636
38.34	60.58	53	2 763	74.62	95.42	444	13 795	81.67	105.55	3	84	34.39	54.31	4	222
38.54	64.19	86	2 864	77.44	125.78	82	1 461	81.28	133.32	4	69	28.30	46.39	5	247
37.91	66.38	42	1 181	77.97	155.31	61	769	81.98	165.76	7	55	35.03	61.86	4	129
38.52	79.87	74	1 303	78.38	187.12	89	790	79.77	190.23	-	1	20.38	40.80	4	156
39.46	94.23	40	484	78.76	219.50	74	464	80.79	226.10	1	9	34.18	81.03	-	6
39.14	104.57	32	284	79.41	245.01	45	206	82.02	252.87	-	1	40.83	106.67	1	7
40.53	113.45	19	130	79.05	238.00	119	281	78.07	252.70	-	-	39.35	110.70	3	16
61.93	142.47	734	1 660	74.69	297.65	954	1 486	94.15	324.76	76	83	17.09	131.50	167	160
38.94	57.56	1 530	50 234	74.36	78.66	1 972	36 242	82.06	26.27	126	7 115	19.95	32.89	218	8 156

Note

[1]Amounts indicated as zero in the above table, reflect values smaller than R1 million

Retail and wholesale credit risk

Assessment of credit risk *(continued)*

Probability of default, exposure at default and loss given default analysis in terms of regulatory disclosure requirements *(continued)*

AIRB approach - Retail portfolio[1] *(continued)*

30 June 2013								30 June 2012
SME: unsecured lending				Total				
LGD %	EAD Rm 30 June 2012	Expected loss Rm	EAD Rm	LGD %	Exposure weighted average risk weight %	Expected loss Rm	EAD Rm	EAD Rm
62.52	57.85	248	13 366	28.70	39.15	4 116	367 300	359 326
33.76	3.64	-	160	58.57	2.93	-	458	866
81.67	2.28	-	998	26.38	1.57	2	19 414	15 817
42.65	6.76	-	6	11.85	1.79	-	2 889	11 113
82.02	3.95	-	1	13.57	2.84	1	8 169	1 023
78.95	6.88	-	20	24.68	3.95	6	23 799	7 071
77.24	9.66	-	10	27.26	5.43	5	10 508	7 305
26.70	11.35	-	84	19.97	7.36	3	7 105	10 514
74.06	17.50	1	529	25.79	12.39	13	17 105	37 184
75.94	18.46	2	508	21.08	14.49	16	16 518	14 870
72.67	28.91	2	508	17.41	15.63	39	34 837	24 928
64.03	36.28	2	377	31.83	26.66	59	20 744	20 041
58.72	43.82	11	1 724	32.76	36.14	106	26 270	50 530
63.28	52.39	17	1 602	25.45	35.61	157	34 314	26 295
53.34	64.10	29	2 113	29.74	46.46	321	42 397	28 505
60.14	67.38	48	2 381	32.65	74.69	542	27 080	33 402
56.46	83.43	28	1 106	44.56	73.75	680	33 761	17 832
63.94	109.88	32	629	31.14	75.59	383	16 851	26 656
65.46	126.28	12	172	40.52	92.87	181	4 522	7 567
71.85	166.26	26	246	43.74	111.58	565	8 453	10 097
76.67	207.72	13	83	33.16	114.32	223	3 258	3 307
77.60	229.17	18	86	27.70	113.65	343	4 263	2 139
79.53	248.74	7	23	21.64	91.29	471	4 585	2 264
53.27	101.76	58	342	26.83	45.42	8 284	22 798	28 408
62.29	58.94	306	13 708	28.59	39.51	12 400	390 098	387 734

Note

[1]Amounts indicated as zero in the above table reflect values less than R1 million.

Assessment of credit risk *(continued)*

Probability of default, exposure at default and loss given default analysis in terms of regulatory disclosure requirements *(continued)*

AIRB approach -Wholesale portfolio[1]

30 June 2012			30 June 2013											
			Banks				Corporate exposure: Corporate				Corporate exposure: SME			
Risk grade	Ave PD %	Ave PD %	LGD %	Exposure-reweighted average risk weight %	Expected loss Rm	EAD Rm	LGD %	Exposure-reweighted average risk weight %	Expected loss Rm	EAD Rm	LGD %	Exposure-reweighted average risk weight %	Expected loss Rm	EAD Rm
Non-default	0.90	0.76	43.46	26.42	16	48 489	37.49	59.84	546	164 644	37.48	69.70	305	43 190
4	0.03	0.03	43.10	23.15	3	26 800	42.79	19.37	1	6 167	37.91	6.47	-	172
5	0.04	0.04	43.91	17.38	-	411	39.93	29.19	-	5 248	22.02	9.56	-	83
6	0.05	0.06	43.91	22.54	-	470	43.54	13.81	1	3 408	27.78	10.05	-	179
7	0.08	0.08	43.91	28.38	7	17 717	41.78	24.21	4	13 935	32.71	17.76	-	11
8	0.12	0.12	43.91	55.11	-	170	38.31	24.21	6	13 212	19.46	15.20	-	25
9	0.16	0.16	43.91	31.18	1	1 027	36.86	37.04	11	16 705	24.85	22.43	-	262
10	0.22	0.23	43.91	32.72	1	1 295	37.54	35.02	8	8 774	37.71	33.61	3	3 419
11	0.31	0.32	43.91	39.46	-	34	33.27	42.04	16	15 662	39.02	41.88	7	5 498
12	0.44	0.47	43.91	49.34	-	5	40.96	68.29	21	10 759	37.81	47.16	9	5 106
13	0.61	0.61	43.91	58.71	1	254	38.52	70.03	23	9 918	38.52	56.31	10	4 016
14	0.89	0.91	43.91	89.37	-	-	35.30	74.75	55	17 174	35.47	62.22	15	4 844
15	1.30	1.32	43.91	86.52	-	16	34.43	89.93	100	21 982	35.20	102.20	45	4 594
16	1.84	1.82	43.91	115.23	-	1	34.68	89.34	34	5 388	39.97	83.64	23	3 220
17	2.63	2.63	43.91	131.88	3	285	38.97	117.15	91	8 780	38.22	87.20	51	5 336
18	3.77	3.68	43.91	172.40	-	1	38.90	140.05	46	3 235	33.73	83.02	30	2 575
19	5.17	5.13	43.91	167.15	-	-	37.67	139.10	41	2 146	39.84	110.27	33	1 744
20	7.03	7.41	43.91	161.01	-	1	36.56	149.62	31	1 205	38.65	106.60	26	1 258
21	9.27	9.98	43.91	197.07	-	3	34.47	153.66	11	319	43.85	152.80	9	235
22	14.62	14.76	-	-	-	-	32.19	173.03	10	219	41.99	168.23	20	421
23	19.41	20.32	-	-	-	-	37.71	210.73	1	13	42.86	195.46	3	37
24	30.01	30.18	-	-	-	-	27.00	170.72	30	370	32.77	157.36	11	110
25	39.67	39.03	-	-	-	-	44.68	246.33	5	25	52.15	249.97	9	45
Default	100.00	100.00	-	-	-	-	27.79	50.00	1 675	4 937	29.66	93.89	821	3 007
Total	2.79	2.89	43.46	26.42	16	48 490	37.20	59.55	2 221	169 581	36.97	71.27	1 126	46 197

Note

[1]Amounts indicated as zero in the above table reflect values less than R1 million.

Retail and wholesale credit risk

Assessment of credit risk *(continued*

Probability of default, exposure at default and loss given default analysis in terms of regulatory disclosure requirements *(continued)*

AIRB approach -Wholesale portfolio (continued)

30 June 2013															
Corporate exposure: Specialised lending - income producing real estate				Corporate exposure: Specialised lending - project finance				Local governments and municipalities				Public sector entities			
LGD %	Exposure weighted average risk weight %	Ex-pected loss Rm	EAD Rm	LGD %	Exposure weighted average risk weight %	Ex-pected loss Rm	EAD Rm	LGD %	Exposure weighted average risk weight %	Ex-pected loss Rm	EAD Rm	LGD %	Exposure weighted average risk weight %	Ex-pected loss Rm	EAD Rm
23.73	101.25	36	1 958	23.40	54.49	24	6 366	13.30	14.39	3	9 276	23.91	25.59	7	8 422
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	45.00	10.96	-	1	-	-	-	-
10.00	8.86	-	-	-	-	-	-	45.00	12.57	-	1	-	-	-	-
27.30	26.50	-	38	5.00	15.68	-	19	45.00	24.00	-	1	43.90	15.68	-	213
10.15	10.39	-	12	15.43	10.95	-	1 089	14.86	14.13	1	4 476	15.00	10.95	-	26
10.00	14.40	-	15	15.00	20.28	-	1 639	9.84	9.54	1	3 626	20.90	20.28	2	4 598
11.13	18.60	-	88	43.91	11.24	-	103	26.81	28.19	-	354	6.69	11.24	-	1
10.00	17.71	-	31	43.91	24.17	-	125	6.17	6.15	-	656	24.01	24.17	2	2 393
13.44	28.68	-	159	25.60	17.07	1	712	47.21	98.67	-	21	14.69	17.07	-	98
33.39	83.74	-	96	15.00	58.82	-	266	45.00	108.39	-	47	43.40	58.82	2	633
21.24	59.51	-	129	43.91	52.05	-	11	44.99	128.38	-	-	15.43	52.05	-	9
21.90	64.90	1	472	43.91	46.73	5	910	45.00	97.96	-	-	24.91	46.73	1	214
10.00	-	-	-	-	33.43	-	-	45.00	94.28	-	2	15.00	33.43	-	137
10.00	33.54	-	-	19.64	18.23	6	1 148	45.02	154.62	1	83	5.00	18.23	-	17
19.26	73.64	1	102	33.99	65.97	4	287	45.00	151.75	-	8	14.46	65.97	-	47
15.71	66.01	-	8	-	94.96	-	-	45.00	192.93	-	-	25.00	94.96	1	36
17.38	63.68	-	15	-	-	-	-	45.00	222.32	-	-	-	-	-	-
10.00	51.37	-	1	-	-	-	-	-	-	-	-	-	-	-	-
29.16	170.25	34	792	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	43.91	-	7	57	45.00	283.92	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	5.00	-	-	14	-	-	-	-
23.73	101.25	36	1 958	23.40	25.59	23	6 366	13.29	14.36	3	9 290	23.91	25.59	8	8 422

Note

[1]Amounts indicated as zero in the above table reflect values less than R1 million.

Retail and wholesale credit risk

Assessment of credit risk *(continued)*

Probability of default, exposure at default and loss given default analysis in terms of regulatory disclosure requirements *(continued)*

AIRB approach -Wholesale portfolio (continued)

30 June 2013												30 June 2012
Securities firms				Sovereigns				Total				
LGD %	Exposure weighted average risk weight %	Ex-pected loss Rm	EAD Rm	LGD %	Exposure weighted average risk weight %	Ex-pected loss Rm	EAD Rm	LGD %	Exposure weighted average risk weight %	Ex-pected loss Rm	EAD Rm	EAD Rm
43.91	44.77	13	8 027	5.52	5.75	8	72 541	30.78	43.58	961	362 915	320 406
43.91	29.99	-	2 740	25.50	15.07	-	812	42.70	22.77	5	36 691	37 909
43.91	93.15	-	216	5.00	1.16	-	4	40.08	30.37	1	5 970	6 384
43.91	9.65	-	1 143	-	-	-	-	43.11	13.55	1	5 201	4 628
43.91	44.17	-	-	-	-	-	-	42.94	26.46	11	31 935	8 339
43.91	85.53	-	130	-	-	-	-	31.55	22.02	7	19 133	97 438
43.91	25.48	1	949	5.25	5.42	6	71 629	12.36	12.24	21	100 450	15 146
43.91	95.58	-	10	5.00	-	-	-	37.78	34.27	12	14 044	12 563
43.91	49.52	-	361	-	-	-	-	33.13	39.62	26	24 760	22 525
43.91	50.92	1	685	-	-	-	-	39.15	59.55	32	17 545	14 201
43.91	61.91	-	48	-	-	-	-	38.41	65.41	36	15 278	15 701
3.91	95.07	-	6	-	-	-	-	35.26	71.93	71	22 173	22 572
43.91	86.98	10	1 707	-	-	-	-	35.12	92.36	163	29 895	22 164
-	-	-	-	-	-	-	-	36.32	86.37	57	8 748	9 863
43.91	106.20	-	-	5.00	12.51	-	1	37.38	103.24	151	15 650	11 244
-	-	-	-	43.91	173.13	2	95	36.17	115.09	83	6 350	8 581
43.91	156.40	1	32	-	-	-	-	38.52	126.01	76	3 966	4 000
-	-	-	-	-	-	-	-	37.51	127.29	57	2 479	2 583
-	-	-	-	-	-	-	-	38.43	153.39	20	558	1 139
-	-	-	-	-	-	-	-	33.39	170.09	65	1 432	2 218
-	-	-	-	-	-	-	-	41.51	199.48	4	50	144
-	-	-	-	-	-	-	-	29.98	176.89	49	537	906
-	-	-	-	-	-	-	-	49.47	248.67	13	70	158
-	-	-	-	-	-	-	-	28.45	66.50	2 497	7 958	6 227
43.91	44.77	13	8 027	5.52	5.75	8	72 541	30.73	44.07	3 458	370 873	326 633

Note

[1]Amounts indicated as zero in the above table reflect values less than R1 million.

Retail and wholesale credit risk

Assessment of credit risk *(continued)*

Gross exposures per Basel III (2012: Basel II,5) approach and asset class

	30 June 2013						30 June 2012	31 December 2012
Standardised approach	**Utilised on-statement of financial position exposure Rm**	**Off-statement of financial position exposure Rm**	**Repurchase and resale agreements Rm**	**Derivative instru-ments Rm**	**Total credit exposure Rm**	**EAD Rm**	EAD[1] Rm	EAD[1] Rm
Banks	**1 998**	**-**	**-**	**-**	**1 998**	**1 988**	2 995	1 981
Corporate exposure	**4 578**	**2 938**	**-**	**-**	**7 517**	**5 555**	-	-
SME Corporate	**4 578**	**2 938**	**-**	**-**	**7 517**	**5 555**	5 258	5 951
Retail exposure	**11 405**	**13 613**	**-**	**-**	**25 019**	**18 208**	12 426	17 782
Mortgages (including any home loan equity lines	**155**	**-**	**-**	**-**	**155**	**155**	114	123
Other	**960**	**-**	**-**	**-**	**960**	**957**	2 021	1 373
Unsecured lending[2] > 30 000	**-**	**-**	**-**	**-**	**-**	**-**	2 021	-
Vehicle and asset finance[2]	**960**	**-**	**-**	**-**	**960**	**957**	-	1 373
Revolving credit	**10 291**	**13 613**	**-**	**-**	**23 904**	**17 096**	10 291	16 286
Credit cards[2,3]	**9 588**	**13 613**	**-**	**-**	**23 201**	**16 393**	9 588	16 228
Non credit cards[2]	**703**	**-**	**-**	**-**	**703**	**703**	703	58
Sovereigns	**4 869**	**-**	**-**	**-**	**4 869**	**4 869**	2 559	3 686
Security firms								
	22 850	**16 552**	**-**	**-**	**39 402**	**30 620**	23 238	29 400

Notes

[1]Our statutory reserve and liquid asset portfolio moved from the Standardised to the AIRB approach with effect from January 2012 resulting in a decrease compared with the previous reporting period.

[2]Basel II.5 reporting requirements, prior period comparatives not available.

[3]The increase on the previous reporting period relates to the acquisition of the Edcon portfolio during November 2012.

Retail and wholesale credit risk

Assessment of credit risk *(continued)*

Gross exposures per Basel III (2012: Basel II,5) approach and asset class *(continued)*

	30 June 2013						30 June 2012	31 December 2012
AIRB approach	**Utilised on-statement of financial position exposure Rm**	**Off-statement of financial position exposure) Rm**	**Repurchase and resale agreements Rm**	**OTC derivative instru-ments Rm**	**Total credit exposure Rm**	**EAD Rm**	EAD[1] Rm	EAD[1] Rm
Banks[1]	**32 014**	**7 023**	**13 532**	**42 360**	**94 928**	**48 489**	41 427	47 980
Corporate exposure[1]	**172 914**	**104 385**	**8 018**	**9 789**	**295 108**	**224 104**	203 222	210 492
Corporate	**126 963**	**92 608**	**8 018**	**9 701**	**237 290**	**169 582**	160 819	158 146
SME Corporate	**38 404**	**8 781**	**-**	**-**	**47 185**	**46 196**	34 107	44 756
Specialised lending - income producing real estate	**1 898**	**328**	**-**	**-**	**2 227**	**1 959**	2 890	2 476
Specialised lending - project finance	**5 649**	**2 668**	**-**	**88**	**8 406**	**6 367**	5 406	5 114
Local government and municipalities[1]	**6 688**	**5 249**	**-**	**-**	**11 937**	**9 290**	10 103	9 423
Public sector entities[1]	**4 747**	**8 158**	**1**	**199**	**13 105**	**8 421**	6 445	8 503
Retail exposure	**354 073**	**96 901**	**-**	**-**	**450 973**	**390 098**	387 738	388 507
of credit)	**238 021**	**55 562**	**-**	**-**	**293 583**	**255 128**	260 535	259 083
Other	**71 949**	**850**	**-**	**-**	**72 799**	**69 750**	67 245	67 828
Unsecured lendings≤ 30 000	**4 147**	**107**	**-**	**-**	**4 254**	**4 517**	5 321	5 006
Unsecured lending > 30 000	**14 480**	**743**	**-**	**-**	**15 223**	**14 999**	17 107	15 424
Vehicle and asset finance	**53 322**	**-**	**-**	**-**	**53 322**	**50 234**	44 817	47 398
Revolving credit	**28 232**	**29 727**	**-**	**-**	**57 959**	**43 356**	39 978	41 679
Credit cards	**26 607**	**25 542**	**-**	**-**	**52 149**	**36 241**	32 985	34 546
Non-credit cards	**1 625**	**4 185**	**-**	**-**	**5 810**	**7 115**	6 993	7 133
SME	**15 871**	**10 762**	**-**	**-**	**26 632**	**21 864**	19 980	19 917
Secured lending	**7 875**	**3 547**	**-**	**-**	**11 422**	**8 156**	8 510	6 632
Unsecured lending	**7 996**	**7 215**	**-**	**-**	**15 210**	**13 708**	11 470	13 285
Securities firms[1]	**5 388**	**821**	**11 511**	**644**	**18 363**	**8 027**	1 405	3 400
Sovereigns[1]	**69 781**	**639**	**752**	**123**	**71 295**	**72 541**	64 031	68 265
	645 605	**223 176**	**33 814**	**53 115**	**955 709**	**760 970**	714 371	736 570

Note

[1]Basel II.5 reporting requirements, prior period comparatives not available.

Retail and wholesale credit risk

Assessment of credit risk *(continued)*

Residual contractual maturity of exposures[1]

	30 June 2013 EAD				
	Current to 6 months Rm	6 months to 1 year Rm	1 year to 5 years Rm	More than 5 years Rm	Total Rm
Banks	2 388	29 605	15 905	2 578	50 476
Corporate exposure	3 908	94 825	95 517	35 413	229 663
Corporate	3 502	74 658	72 114	19 310	169 584
SME Corporate	401	19 963	19 037	12 352	51 753
Specialised lending - income producing real estate	5	-	372	1 582	1 959
Specialised lending - project finance	-	204	3 994	2 169	6 367
Local governments and municipalities	15	3 010	2 285	3 980	9 290
Public sector entities	-	5 802	1 065	1 554	8 421
Retail exposures	112 692	8 698	73 748	213 166	408 303
Mortgages (including any home loan equity line of credit)	41 147	3 252	10 236	200 647	255 282
Other	5 228	1 050	57 338	7 090	70 706
Unsecured lending ≤ 30 000	796	80	2 103	1 538	4 517
Unsecured lending > 30 000	2 206	258	6 982	5 552	14 998
Vehicle and asset finance	2 226	712	48 253	-	51 191
Revolving credit	59 931	521	-	-	60 451
Credit cards	52 633	-	-	-	52 633
Non credit cards	7 298	521	-	-	7 818
SME	6 386	3 875	6 174	5 429	21 864
Secured lending	56	106	3 288	4 705	8 156
Unsecured lending	6 330	3 769	2 886	724	13 708
Securities firms	1 268	4 147	2 371	240	8 027
Sovereigns	27 822	2 067	17 577	29 944	77 410
	148 093	148 154	208 468	286 875	791 590

Note

[1]Basel II.5 reporting requirements, prior period comparatives not available.

Retail and wholesale credit risk

Assessment of credit risk *(continued)*

Residual contractual maturity of exposures[1] *(continued)*

	30 June 2012 EAD				
	Current to 6 months Rm	6 months to 1 year Rm	1 year to 5 years Rm	More than 5 years Rm	Total Rm
Banks	9 438	4 446	26 217	4 323	44 422
Corporate Exposure	21 697	70 029	83 427	33 325	208 478
Corporate	18 583	56 985	70 894	19 614	166 076
SME Corporate	2 863	12 610	10 324	8 310	34 107
Specialised lending - income producing real estate	237	85	366	2 201	2 889
Specialised lending - project finance	14	349	1 843	3 200	5 406
Local governments and municipalities	41	4 309	1 748	4 006	10 103
Public sector entities	734	2 009	2 436	1 265	6 444
Retail	90 749	8 462	64 411	226 249	389 870
Mortgages (incl home equity lines of credit)	37 692	2 124	6 895	213 937	260 648
Other	6 896	2 536	53 621	6 212	69 265
Unsecured lending <= 30000	1 257	118	2 500	1 446	5 321
Unsecured lending > 30000	3 843	210	10 308	4 766	19 127
Vehicle and asset finance	1 796	2 208	40 813	-	44 817
Revolving credit	39 978	-	-	-	39 978
Credit cards	32 985	-	-	-	32 985
Non credit cards	6 993	-	-	-	6 993
SME	6 183	3 802	3 895	6 100	19 980
Secured lending	89	187	2 937	5 297	8 510
Unsecured lending	6 094	3 615	958	803	11 470
Securities firms	946	98	95	267	1 406
Sovereign	43	67	65 778	702	66 590
	123 648	89 420	244 112	270 137	727 310

	31 December 2012 EAD				
	Current to 6 months Rm	6 months to 1 year Rm	1 year to 5 years Rm	More than 5 years Rm	Total Rm
Banks	5 057	27 478	14 621	2 804	49 960
Corporate Exposure	3 554	100 013	77 449	35 426	216 442
Corporate	3 119	79 140	57 092	18 794	158 145
SME Corporate	435	20 684	17 794	11 794	50 707
Specialised lending - income producing real estate	-	1	660	1 815	2 476
Specialised lending - project finance	-	188	1 903	3 023	5 114
Local governments and municipalities	31	3 785	1 713	3 894	9 423
Public sector entities	1	3 033	4 298	1 172	8 504
Retail	105 344	10 521	67 642	222 787	406 294
Mortgages (incl home equity lines of credit)	36 091	4 161	7 804	211 150	259 206
Other	5 558	2 343	53 881	7 423	69 205
Unsecured lending <= 30000	798	362	2 243	1 604	5 007
Unsecured lending > 30000	2 267	752	7 440	4 965	15 424
Vehicle and asset finance	2 493	1 229	44 198	854	48 774
Revolving credit	57 379	528	58	-	57 965
Credit cards	50 774	-	-	-	50 774
Non credit cards	6 605	528	58	-	7 191
SME	6 316	3 489	5 899	4 214	19 918
Secured lending	45	121	2 987	3 478	6 631
Unsecured lending	6 271	3 368	2 912	736	13 287
Securities firms	470	2 477	221	231	3 399
Sovereign	23 365	134	18 433	30 018	71 950
	137 822	147 441	184 377	296 332	765 972

Retail and wholesale credit risk

Assessment of credit risk *(continued)*

Credit risk mitigation, collateral and other credit enhancements

We employ a number of techniques to mitigate credit risk, such as:
- Strengthening our position as a lender in a range of transactions, from retail mortgage lending to large wholesale financing, and by structuring a security interest in a physical or financial asset (collateral);
- Netting of debtor and creditor balances under regulatory and internal policy, which requires a formal agreement with the customer to net the balances and a legal right to set-off (on- and off-statement of financial position); and
- Selective hedging through credit derivatives.

In certain circumstances, depending on our assessment of a customer's financial capacity, financing may be granted on an unsecured basis.

Generally one or more forms of security are sought in the credit approval process. The use and approach to credit risk mitigation (CRM) varies by product type, portfolio, customer and business strategy. Minimum standards, as prescribed in the applicable policies and business processes, are applied across portfolios and cover:
- General requirements including acceptable risk mitigation types, and any conditions or restrictions applicable to these mitigants;
- The maximum LTV ratios, minimum haircuts or other volatility adjustments applicable to each type of mitigant, including, where appropriate, adjustments for currency mismatch, obsolescence and any time sensitivities on asset values;
- The means by which legal certainty is to be established, including required documentation and necessary steps required to establish legal rights;
- Acceptable methodologies for initial and any subsequent valuations of collateral and the frequency with which they are to be revalued;
- Actions to be taken in the event of the current value of mitigation falling below required levels;
- Management of the risk of correlation between changes in the credit risk of the customer and the value of CRM, for example, any situation where customer default materially impacts the value of a mitigant and applying a haircut or recovery value adjustment which reflects the potential correlation risk;
- Management of concentration risks, for example, setting thresholds and controls on the acceptability of credit risk mitigants and/or lines of business that are characterised by a specific collateral type or structure; and
- Collateral management to ensure that CRM is legally effective and enforceable.

Our policies with respect to assessing, acquiring and managing collateral for capital calculation purposes are aligned with regulatory requirements.

The Banks Act and its regulations allow banks to adjust the risk weighting of exposures by taking account of collateral. Eligibility for recognition in the calculation of RC depends on whether the bank is using the foundation or advanced IRB approach.

Retail and wholesale credit risk

Assessment of credit risk *(continued)*

Credit risk mitigation, collateral and other credit enhancements *(continued)*

Collateral types grouped by type of asset

The following types of collateral may be held against assets subject to credit risk and are consistent with accepted market practice:

Assets subject to credit risk	Type of collateral[1]
– Cash, cash balances and balances with central banks – Statutory liquid asset portfolio – Loans and advances to banks – Trading portfolio assets – Hedging portfolio assets – Other assets – Loans and advances to customers – Reinsurance assets – Investment securities	**Guarantees, credit insurance and credit derivatives** – Government guarantees – Guarantees from shareholders and directors – Parental guarantees – Personal and other company guarantees – Surety ships – Bonds and guarantees **Physical collateral** – Listed equities – RSA government bonds – Bonds over properties (commercial and residential) – Charges on properties – Property, equipment and vehicles – Shares **Cash collateral** – Deposits from customers and cession of ring-fenced bank accounts with cash – Cash **Other** – Call options to holding companies – Cession of loan accounts – Debentures – Insurance policies – Life insurance policies – Listed equities – Netting agreements – Pledged securities – Put options from holding companies or other companies within the Group – Assignment of debtors

Note

[1]This list is not exhaustive. There may be other forms of collateral that may be recognised by the Group.

Retail and wholesale credit risk

Assessment of credit risk *(continued)*

Credit risk mitigation, collateral and other credit enhancements *(continued)*

Valuation of collateral

Performing book

Security taken as part of the credit decision process is valued according to the applicable credit policies at the time of credit approval and at relevant intervals thereafter. We use a number of approaches for the revaluation of collateral, including physical inspection, statistical indexing and price volatility modelling.

Non-performing book

For the wholesale portfolio, collateral valuations are updated when an account enters the legal/recovery process to ensure an appropriate impairment allowance can be calculated. In the wholesale portfolios these valuations are reviewed regularly to ensure any impairments raised remain at an appropriate level, including potential gains in the valuation of marketable securities and other market-related instruments that may lead to a partial release of the impairment allowance. In the retail portfolio, collateral valuations are updated using statistical indexing, which is available monthly.

The collateral management process is focused on the efficient handling and processing of a large number of cases in the retail portfolio and the lower end of the corporate sector, therefore relying heavily on our collateral and document management systems. For larger wholesale exposures and capital market transactions, collateral is managed jointly between the credit and legal functions as transactions and associated legal agreements are often bespoke in nature, in particular, where credit derivatives or customised netting agreements are used as a risk mitigant. All security structures and legal covenants are reviewed at least annually to ensure they remain fit for purpose and consistent with accepted market practice.

Types of guarantor and credit derivative counterparties

In the commercial, corporate and financial sector, we often place reliance on a third party guarantor, which may be a parent company to the borrower, a major shareholder or a bank. Similarly, credit derivative transactions are often used to hedge specific parts of any single name risk in the wholesale portfolio. For these transactions, the most common counterparties or issuers are banks, non-bank financial institutions, large corporates, parastatals and governments. The creditworthiness of the guarantor or derivative counterparty/issuer is assessed as part of the credit approval process and the value of such a guarantee or derivative contract is adjusted accordingly for the purpose of calculating internal LGD estimates. For RC purposes, risk mitigants are incorporated in either PD, EAD or LGD, depending on the type of mitigant.

Use of netting agreements, International Swaps and Derivatives Association master agreements and collateral support annexures

In line with international market practice, we endeavour to use netting agreements wherever possible. We primarily employ International Swaps and Derivatives Association (ISDA) master agreements as well as collateral support annexures (CSAs) that provide standardised and commonly accepted processes for managing collateral and margin calls over the lifetime of the transaction. CSAs may create an obligation on the Group unrelated to the underlying instruments in the event of a credit downgrade. Only a small number of our agreements make use of such a tiered structure and an instantaneous downgrade by one rating grade from the current AA-rating (Standard and Poor's and Fitch) would not trigger such clauses and create a requirement for us to post additional collateral.

IFRS disclosures in terms of credit mitigation

The financial effect and forms of collateral and credit enhancements for each class of financial instrument giving rise to credit risk are disclosed in the table to follow. The accounting policy on how the collateral impacts the impairment provisions to be carried against the financial asset balance is described further in note 1.7.7 of the Group's financial statements.

We offset asset and liability amounts in the statement of financial position when we have the ability and intention to net settle. Amounts disclosed in the maximum exposure category are stated net of these.

The percentage collateral reported is calculated by determining the values of available underlying collateral, limited to the carrying value of the related credit exposure where a loan is possibly over-collateralised, and dividing this value by the maximum exposure, as reported. The percentage reported is calculated independently of other forms of collateral and the assessment of impairment losses on loans and advances.

We may also obtain collateral in the form of floating charges over receivables and inventory of corporate and other business customers. The value of this collateral varies from period to period depending on the level of receivables and inventory. It is impractical to provide an estimate of the amount (fair value or nominal value) of this collateral and the value of this collateral is not reported.

Absa has been reducing the stock of the PIP portfolio over the last year with optimised sales strategies to manage the inflow and back-book. This has resulted in a portfolio reduction of 50% year on year. It must further be noted that 78% of the current inventory is sold pending registration, which means that the current inventory available for sale is less than R100m. New inflows have stabilised around R15m per month.

Assessment of credit risk *(continued)*

Credit risk mitigation, collateral and other credit enhancements *(continued)*

Credit risk mitigation in terms of Regulatory disclosure requirements

Credit risk mitigation

IRB approach	30 June 2013 Original credit and counter-party exposure Rm	Effects of netting agree-ments Rm	Net expo-sure after netting and credit risk Rm	Eligible financial collateral Rm	Other eligible IRB collateral Rm	Credit risk mitigation affecting LGD estimates Rm	30 June 2012 Credit risk mitigation affecting LGD estimates Rm	31 December 2012 Credit risk mitigation affecting LGD estimates Rm
Banks	94 928	35 703	59 226	5 211	6	5 217	2 317	2 735
Corporate exposure	295 108	4 385	290 723	4 610	69 158	73 768	94 662	74 110
Corporate	237 290	4 383	232 907	2 790	37 239	40 029	68 858	43 620
SME Corporate	47 185	-	47 185	1 820	30 414	32 234	21 999	28 402
Specialised lending – income producing real estate	2 227	-	2 227	-	1 505	1 505	3 805	2 088
Specialised lending – project finance	8 406	2	8 404	-	-	-	-	-
Local governments and municipalities	11 937	-	11 937	-	118	118	1 069	1 069
Public sector entities	13 105	141	12 964	80	17	97	807	27
Retail	450 973	-	450 973	2 371	640 164	642 537	591 139	607 065
Mortgages (including home equity lines of credit)	293 583	-	293 583	776	553 672	554 449	516 359	528 410
Other	72 799	-	72 799	123	73 187	73 310	60 990	65 896
Unsecured lending[1] ≤ 30 000	4 254	-	4 254	-	-	-	-	118
Unsecured lending[1] > 30 000	15 223	-	15 223	94	94	188	-	150
Vehicle and asset finance[1]	53 322	-	53 322	29	73 093	73 122	60 990	65 628
Revolving credit	57 959	-	57 959	1 142	260	1 402	-	1 344
Credit cards[1]	52 149	-	52 149	-	-	-	-	-
Non-credit cards[1]	5 810	-	5 810	1 142	260	1 402	-	1 344
SME	26 632	-	26 632	330	13 045	13 376	13 790	11 415
Secured lending[1]	11 422	-	11 422	-	8 559	8 559	11 975	9 061
Unsecured lending[1]	15 210	-	15 210	330	4 486	4 817	1 815	2 354
Securities firms	18 363	328	18 035	62	-	62	589	605
Sovereign	71 295	123	71 172	332	2	334	422	377
	955 709	40 680	915 030	12 666	709 465	722 133	691 005	685 988

No credit risk mitigation is taken into consideration for the standardised approach.

Retail and wholesale credit risk

Assessment of credit risk *(continued)*

Credit risk mitigation, collateral and other credit enhancements *(continued)*
Credit risk mitigation in terms of Regulatory disclosure requirements (continued)

Counterparty credit risk

Counterparty credit exposure arises from the risk that parties are unable to meet their payment obligations under certain financial contracts, such as derivatives and securities financing transactions (e.g. repurchase agreements). Unlike credit risk, counterparty credit risk implies the bilateral risk of loss.

For the allocation of EC to over-the-counter (OTC) derivative exposures, EAD estimates are treated as mark-to-market (MTM) loan equivalents, where the amount of capital allocated to a particular transaction is driven by the:
- borrower's netting arrangements;
- borrower's TTC PD;
- trade's residual maturity;
- nature of each trade; and
- net EAD and corresponding LGD.

For RC calculation purposes, the current exposure method (CEM) is applied to OTC derivative exposures. The Group mainly relies on cash, government bonds and negotiable certificates of deposits as collateral for derivative contracts.

We intend to apply for permission to use the Internal Model Method (IMM) in the calculation of our RC requirements for these portfolios once the AIRB method for wholesale credit exposures has been embedded. However, during the current reporting period, all calculations were based on the CEM. Our policies for establishing impairment allowances for counterparties of traded products are based on applicable accounting requirements.

Credit derivatives

The following table provides an overview of the outstanding amount of exposure held in respect of our credit derivative positions, used in managing our credit portfolio, broken down by product type, indicating whether protection was bought or sold:

Exposure by instrument bought or sold

	30 June 2013				30 June 2012				31 December 2012			
	Intermediation portfolio				Intermediation portfolio				Intermediation portfolio			
	As protection buyer		**As protection seller**		As protection buyer		As protection seller		As protection buyer		As protection seller	
	Banking Rm	**Trading Rm**	**Banking Rm**	**Trading Rm**	Banking Rm	Trading Rm	Banking Rm	Trading Rm	Banking Rm	Trading Rm	Banking Rm	Trading Rm
Credit derivative product type												
Credit-default swaps	**-**	**5 042**	**1 504**	**11 969**	-	7 153	-	11 289	-	4 169	1 504	10 190
Other	**10 547**	**1 795**	**192**	**-**	8 845	-	699	-	7 809	1 705	163	-
Total notional exposure to Credit derivative transactions	**10 547**	**6 837**	**1 696**	**11 969**	8 845	7 153	699	11 289	7 809	5 874	1 667	10 190

Retail and wholesale credit risk

Assessment of credit risk *(continued)*

Credit risk mitigation, collateral and other credit enhancements *(continued)*

Credit risk mitigation in terms of Regulatory disclosure requirements (continued)

Breakdown of OTC and credit derivative exposure

This book is volatile and derivative exposures are driven by MTM movements due to changes in the underlying instrument during the current reporting period. The implementation of Basel III, resulted in an increase in credit RWA specifically on the trading book.

	30 June 2013						
	Gross positive fair value Rm	**Current netting benefits Rm**	**Current exposure Rm**	**Expected positive exposure (CEM) Rm**	**Expected positive exposure netting (CEM) Rm**	**Exposure at default Rm**	**Notional value Rm**
Commodities	**701**	**489**	**212**	**864**	**242**	**730**	**7 368**
Credit derivatives	**113**	**101**	**13**	**1 282**	**684**	**417**	**16 516**
Equity derivates	**1 742**	**1 378**	**364**	**3 712**	**1 491**	**2 033**	**55 317**
Foreign exchange derivatives	**24 873**	**17 810**	**7 062**	**15 073**	**7 452**	**11 599**	**678 058**
Interest rate derivatives	**29 945**	**24 386**	**5 559**	**12 628**	**6 450**	**8 855**	**3 643 423**
	57 374	**44 164**	**13 210**	**33 559**	**16 319**	**23 634**	**4 400 682**

	30 June 2012						
	Gross positive fair value Rm	Current netting benefits Rm	Current exposure Rm	Expected positive exposure (CEM) Rm	Expected positive exposure netting (CEM) Rm	Exposure at default Rm	Notional value Rm
Commodities	460	378	82	843	127	668	8 070
Credit derivatives	111	102	9	1 377	658	730	17 700
Equity derivates	1 328	800	528	1 746	682	1 380	28 517
Foreign exchange derivatives	12 635	10 705	1 930	14 019	7 254	8 517	700 187
Interest rate derivatives	32 187	26 922	5 265	10 065	5 280	10 034	2 883 524
	46 721	38 907	7 814	28 050	14 001	21 329	3 637 998

	31 December 2012						
	Gross positive fair value Rm	Current netting benefits Rm	Current exposure Rm	Expected positive exposure (CEM) Rm	Expected positive exposure netting (CEM) Rm	Exposure at default Rm	Notional value Rm
Commodities	614	433	181	447	158	470	4 028
Credit derivatives	110	99	12	1 274	591	694	16 421
Equity derivates	1 478	739	739	1 658	658	1 739	26 964
Foreign exchange derivatives	10 951	9 254	1 697	15 260	8 077	8 880	778 897
Interest rate derivatives	38 496	32 164	6 332	10 831	5 753	11 410	3 398 199
	51 649	42 689	8 961	29 470	15 237	23 193	4 224 509

Retail and wholesale credit risk

Assessment of credit risk *(continued)*

Credit risk mitigation, collateral and other credit enhancements *(continued)*
Credit risk mitigation in terms of Regulatory disclosure requirements (continued)

Credit rating downgrade

We enter into derivative contracts with rated and unrated counterparties. To mitigate counterparty credit risk, we stipulate credit protection terms, such as limitations on the amount of unsecured credit exposure we will accept, collateralisation in the event of a MTM credit exposure exceeding the current amount and collateralisation and/or termination of a contract when certain credit events occur. Such events might include a downgrade of the counterparty's public credit rating.

Certain counterparties may require us to provide similar credit protection terms, to which we may agree from time to time, on a restrictive basis. Rating downgrades as a collateralisation or termination event are generally only conceded to highly rated counterparties, and whenever possible, on a reciprocal basis.

The impact on the Group in terms of the additional amount of collateral required in the event of a credit downgrade is determined by the negative MTM value on derivative contracts. Where the impact on our liquidity is deemed to be material, the potential exposure is taken into account in model stress testing. Generally, the extent of legal commitments resulting in additional collateral requirements caused by a rating downgrade is not material and would not adversely affect our financial position.

As at the reporting date, additional collateral R28.9 million for a one-notch downgrade, R131.6 million for a one- or two-notch downgrade and R125.5 million for a three-notch downgrade would be required.

Impairments: relevant accounting impairment policy versus expected loss regulatory policy

IFRS govern reporting practices of banks and, in part, overlap with the requirements of regulation 43 of the Banks Act (commonly known as Pillar 3). IFRS 7 Financial Instruments: Disclosures prescribes disclosure requirements pertaining to financial instruments for accounting purposes and, as such, is based on a similar set of data used for Pillar 3 reporting purposes. Regulation 43 requires banks to disclose certain accounting definitions and information, in particular, with respect to impairments, past due loans and advances and charge-offs. We regularly reconcile the data used for both financial (IFRS) and regulatory (Pillar 3) disclosures.

Impairment methods of assessment and use of allowance accounts

We establish, through charges against profit, an impairment allowance for the incurred loss inherent in the lending book. Under IFRS, impairment allowances are recognised where there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition of the asset, and where these events had an impact on the estimated future cash flows of the financial asset or portfolio of financial assets. To determine if a loss event has occurred, historical economic information similar to the current economic climate, overall customer risk profile, payment record and the realisable value of any collateral, are taken into consideration.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to our attention, which may include the following loss events:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest and/or principal payments;
- the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider, such as restructuring;
- it becomes probable that the borrower will enter insolvency or other financial reorganisation proceedings;
- the disappearance of an active market for a financial asset, as a result of financial difficulties;
- observable data indicating a measurable decrease in the estimated future cash flows from a group of financial assets following the initial recognition of those assets, although the decrease cannot yet be identified with individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

Impairments in respect of assets that are individually significant or have been flagged as being in default, are measured individually. Where a portfolio comprises homogeneous assets and appropriate statistical techniques are available, it is measured collectively. The amount of loss is measured as the difference between the asset carrying amount and the present value of estimated future cash flows (excluding future credit losses), discounted at the financial asset's original effective interest rate. Two key aspects in the cash flow calculation are the valuation of all security and the timing of all asset realisations, after allowing for all collection and recovery costs.

For the purpose of a collective evaluation of impairment, financial assets are allocated to groups, based on similar risk characteristics, asset type, industry, geographical location, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for such groups of assets, being indicative of the counterparty's ability to pay amounts due under the contractual terms of the assets.

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

Assessment of credit risk *(continued)*

Credit risk mitigation, collateral and other credit enhancements *(continued)*
Credit risk mitigation in terms of Regulatory disclosure requirements (continued)
Impairment methods of assessment and use of allowance accounts (continued)

An emergence period concept is applied to ensure that only impairments that exist at the reporting date are captured. The emergence period is defined as the time lapse between the occurrence of a trigger event (unidentified impairment) and the impairment being identified at an individual account level (identified impairment). The emergence periods, based on actual experience, vary across businesses and are reviewed annually. The PD for each exposure class is based on historical default experience, scaled for the emergence period relevant to the exposure class. This PD is then applied to all exposures in respect of which no identified impairments have been recognised. Where total EL of all credit risk assets exceeds total impairments, the difference is deducted from eligible capital. In the instance that total impairments exceed total EL, the difference is added to eligible capital, subject to a maximum of 0.6% of total RWA.

The impairment allowance also takes into account the expected severity of loss at default, or the LGD, which is the amount outstanding that is written off and is therefore not recoverable.

Recovery varies by product and depends, for example, on the level of security held in relation to each loan as well as our position relative to other claimants. LGD estimates are based on historical loss experience. Historical loss experience data is adjusted to add current economic conditions into the data set, which conditions did not exist at the time of loss experience and/or to remove the effects of conditions in the historical period that do not currently exist.

The replacement of IAS 39 with IFRS 9 Financial Instruments (IFRS 9) will have a significant impact on banks' financial statements, the biggest impact being the calculation of impairments. IFRS 9 will replace the current incurred loss model with the requirement to calculate expected losses. Final agreement has not been reached on the exact approach to be followed and another exposure draft is expected within the next few months. It is expected that the new rules will be mandatory from January 2015, with comparative numbers for 2014 to be published at the same time.

Identified impairments on financial assets

According to our credit policy, the following are key indicators of default:

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

A retail identified impairment is triggered when a contractual payment is missed. This is not the same as the non-performing definition which applies to loans in a legal process or more than 3 payments in arrears. The impairment calculation is based on a roll-rate approach where the percentage of assets moving from the initial delinquency state to default is derived from statistical probabilities, based on experience. The PD is calculated within a certain outcome period. The outcome period is defined as the timeframe within which assets default. Recovery amounts and contractual interest rates are calculated using a weighted average for the relevant portfolio.

Future cash flows for a group of financial assets, which are collectively evaluated for impairment purposes, are estimated based on the contractual cash flows of the assets in the group and the historical loss experienced for assets with similar credit risk characteristics to those in the group.

In the retail portfolio, the identified impairment is calculated on a collective basis. For accounting purposes, these accounts are considered to be identified collective impairments.

In the wholesale portfolio, the identified impairment is calculated on accounts reflected on management EWLs (category 3), and accounts currently going through the legal process. An identified impairment is raised on an individual basis and is the difference between the outstanding capital and the present value of future cash flows.

Write-offs

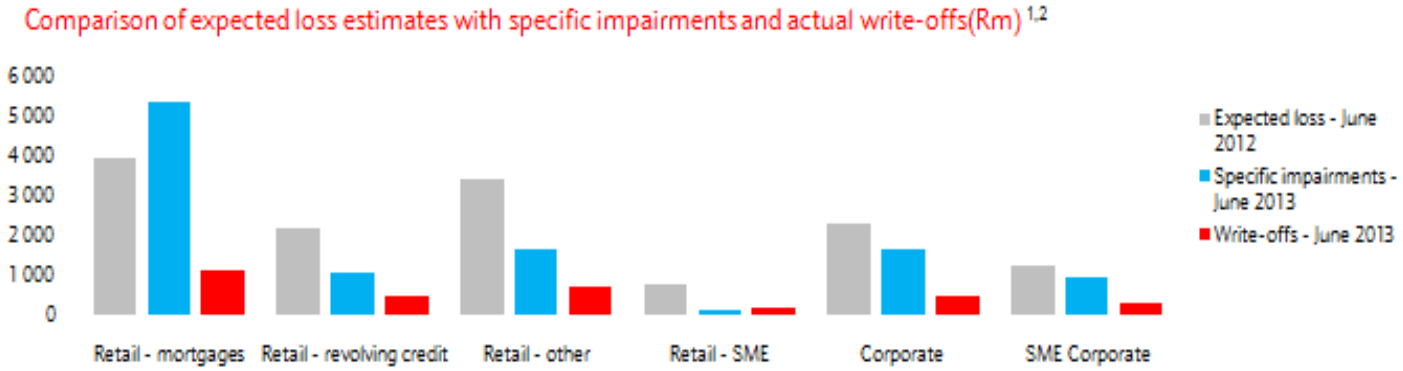
Once an advance has been identified as impaired and an impairment allowance has been raised, circumstances may change and indicate that the prospect of further recovery does not exist. Write-offs will occur when, and to the extent that, the debt is considered irrecoverable.

A write-off policy, based on an age-driven concept, drives the timing and extent of write-offs. A write-off can also be triggered by a specific event, such as the conclusion of insolvency proceedings or other formal recovery actions making it possible to quantify the extent of the advance that is beyond a realistic prospect of recovery. Nonetheless, impaired loans and advances are reviewed at least quarterly, ensuring irrecoverable loans and advances are written off in a timely and systematic way and in compliance with local regulations.

Assets are only written off once all necessary procedures have been completed and the amount of loss has been determined. Recoveries of amounts previously written off are reversed and accordingly decrease the amount of the reported impairment charge in the statement of comprehensive income.

Assessment of credit risk *(continued)*

Impairments: relevant accounting impairment policy versus expected loss regulatory policy (continued)
Write-offs (continued)



Net present value unwind on non-performing book

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

Reconciliation of total impairment losses on loans and advances to customers (identified and unidentified)

	30 June 2013						
Impairment of 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 Markets	**10 283**	**(376)**	**-**	**(2 414)**	**3 326**	**70**	**10 889**
Business Markets	**2 744**	**(73)**	**-**	**(665)**	**516**	**(16)**	**2 506**
CIBW	**840**	**(2)**	**1**	**(96)**	**38**	**31**	**812**
Other	**145**	**2**	**-**	**(12)**	**(1)**	**-**	**134**
	14 012	**(449)**	**1**	**(3 187)**	**3 879**	**85**	**14 341**

	30 June 2012[1]						
Impairment of loans and advances to customers	Opening balance	Net present value unwind on non-performing book	Exchange differences	Amounts written off	Impairment raised identified	Impairment raised unidentified	Closing balance
Retail Markets	9 337	(517)	-	(2 354)	3 654	(52)	10 068
Business Markets	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

Note
[1]Comparatives have been reclassified to align with our segment changes in the current reporting period. Refer to note 59.1 of the Group's financial statements.

Retail and wholesale credit risk

Assessment of credit risk *(continued)*

Reconciliation of total impairment losses on loans and advances to customers (identified and unidentified) (continued)

	31 December 2012						
Impairment of loans and advances to customers	Opening balance	Net present value unwind on non-performing book	Exchange differences	Amounts written off	Impairment raised identified	Impairment raised unidentified	Closing balance
Retail Markets	9 337	(956)	(2)	(5 358)	7 084	178	10 283
Business Markets	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

Concentrations of credit risk

A concentration of credit risk exists when a number of counterparties are located in a geographical region, and/or are engaged in similar activities and/or have similar economic characteristics such that their ability to meet contractual obligations is similarly affected by changes in economic or other conditions. The analyses of credit risk concentrations presented below are based on the location of the counterparty or customer or the industry in which they are engaged.

Measuring exposures and concentrations

Loans and advances to customers provide the principal source of credit risk to the Group although it can also be exposed to other forms of credit risk through, for example, loans to banks, loan commitments and debt securities. Group risk management policies and processes identify and analyse risk, set appropriate risk appetite limits and controls and monitor the risks and adherence to limits by means of reliable and timely data. One particular area of review is concentration risk.

Diversification is achieved through setting maximum exposure guidelines to individual counterparties. Excesses are reported to the Group Risk Oversight Committee and the Board Risk Committee. Mandate and scale limits are used to limit the stock of current exposures in a loan portfolio and the flow of new exposures into a loan portfolio. Limits are typically based on the nature of the lending and the amount of the portfolio meeting certain standards of underwriting criteria.

Due to the composition of the Group's business portfolios, a certain degree of risk concentration in the collateral portfolios is evident. The Group manages these risks through mandate and scale limits that differ across the individual portfolios, for example:

- vehicle and asset finance: limits are placed on the tenure of loans;
- mortgages: limits are placed on property values and LTV ratios; and
- commercial property finance: limits are placed on the type of asset (e.g. industrial or retail) and geographical area.

Due to the structure of the South African financial markets, a certain level of concentration with derivative counterparties is also to be expected. We manages this type of concentration risk through mandate and scale limits, sophisticated, simulation-based exposure models that support a rigorous credit analysis, ongoing monitoring of these counterparties and our MTM exposure.

Breakdown of gross exposures by geographical area

	30 June 2013							
	Asia Rm	Europe[1] Rm	North America Rm	Other African Countries Rm	Other Rm	South Africa Rm	South America Rm	Total Rm
AIRB approach	1 366	60 913	5 673	7 326	2 097	878 335	-	955 710
Standardised approach[2]	-	-	-	16 238	-	23 201	-	39 439
	1 366	60 913	5 673	23 564	2 097	901 536	-	995 149

Note

[1]Comparatives have been reclassified to align with our segment changes in the current reporting period. Refer to note 59.1 of the Group's financial statements.

Retail and wholesale credit risk

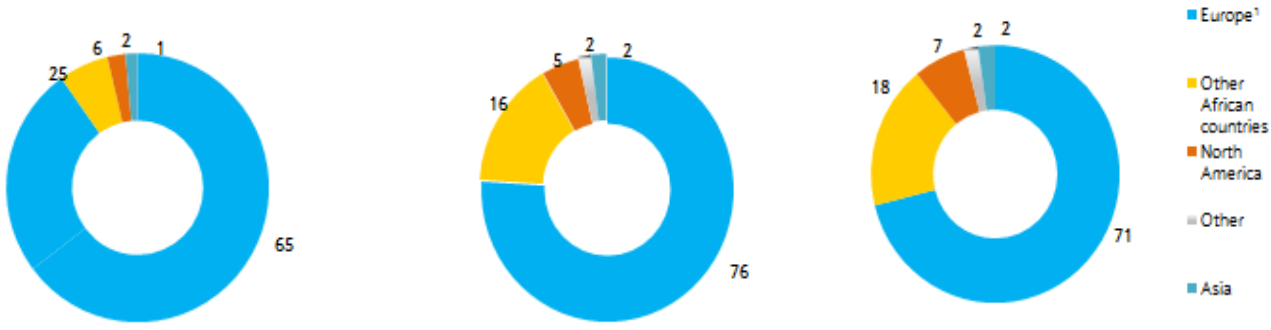
Assessment of credit risk *(continued)*

Concentrations of credit risk (continued)
Breakdown of gross exposures by geographical area (continued)

	June 2012							
	Asia Rm	Europe[1] Rm	North America Rm	Other African Countries Rm	Other Rm	South Africa Rm	South America Rm	Total Rm
AIRB approach	2 323	90 376	5 692	5 671	1 920	860 321	1	966 304
Standardised approach[2]	-	-	-	12 946	-	-	-	12 946
	2 323	90 376	5 692	18 617	1 920	860 321	1	979 250

	Dec 2012							
	Asia	Europe[1]	Other North America	Other African Countries	Other	South Africa	South America	Total
AIRB approach	2 411	78 414	7 441	5 662	2 059	888 831	-	984 818
Standardised approach[2]	-	-	-	14 306	-	22 816	-	37 122
	2 411	78 414	7 441	19 968	2 059	911 647	-	1021 940

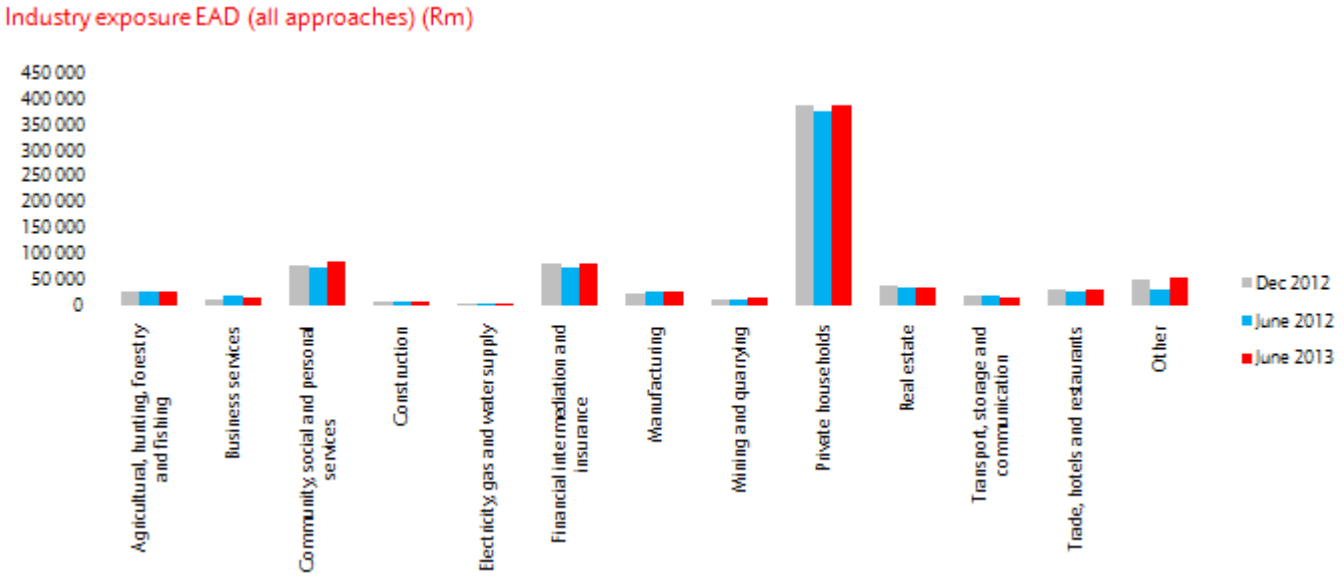
Breakdown of gross exposure by geography – outside of South Africa (%)



Jun 2013 Jun 2012 Dec 2012

Note
[1]The majority of the exposures reflecting under Europe relate to exposures to Bank Plc.

Breakdown of exposure per industry



Wrong-way risk

Wrong-way risk is another form of concentration risk and arises when there is a strong correlation between the counterparty's PD and the MTM value of the underlying transaction. The Group distinguishes between two types of wrong-way risk:

- Specific wrong-way risk, which may arise in transactions with certain structural features, such as the collateralisation of a loan with the borrower's, or a related party's shares; and
- General or conjectural wrong-way risk, which may arise where the credit quality of the counterparty is related to the value of the transaction for non-specific reasons such as, where both the credit quality of the counterparty and the value of the derivative are strongly related to a macroeconomic variable.

We aim to limit both these risk types. However, we recognise the need to engage in certain transactions that could expose it to specific wrong-way risk, such as funding broad-based black economic empowerment (BBBEE) transactions.

Monitoring weaknesses in portfolios

Corporate accounts deemed to contain heightened levels of risk are recorded on EWLs. These are updated monthly and circulated to relevant risk control points. Once an account is included on an EWL, exposure is carefully monitored and, where possible, a reduction of the exposure is effected. The lists are graded in line with the perceived severity of the risk attached to the loan. Corporate customers are escalated through three categories of increasing concern. When an account becomes impaired, it would normally but not necessarily, have passed through all three categories, which reflects the need for increased monitoring and control. Where a borrower's financial health presents grounds for concern, it is immediately placed into the appropriate category. All borrowers are subject to a full review of all facilities on at least an annual basis. Interim reviews may be performed if necessary.

Within the Retail Markets portfolios, which tend to comprise homogeneous assets, statistical techniques allow the impairment to be monitored on a portfolio basis. It is consistent with our policy to raise an impairment allowance as soon as objective evidence of impairment is identified as a result of one or more loss events that occurred, subsequent to initial recognition. Models in use are based upon customers' personal and financial performance information over recent periods, which serve as a predictor for future performance. The models' output are regularly reviewed against actual performance and, where necessary, amended to optimise their effectiveness.

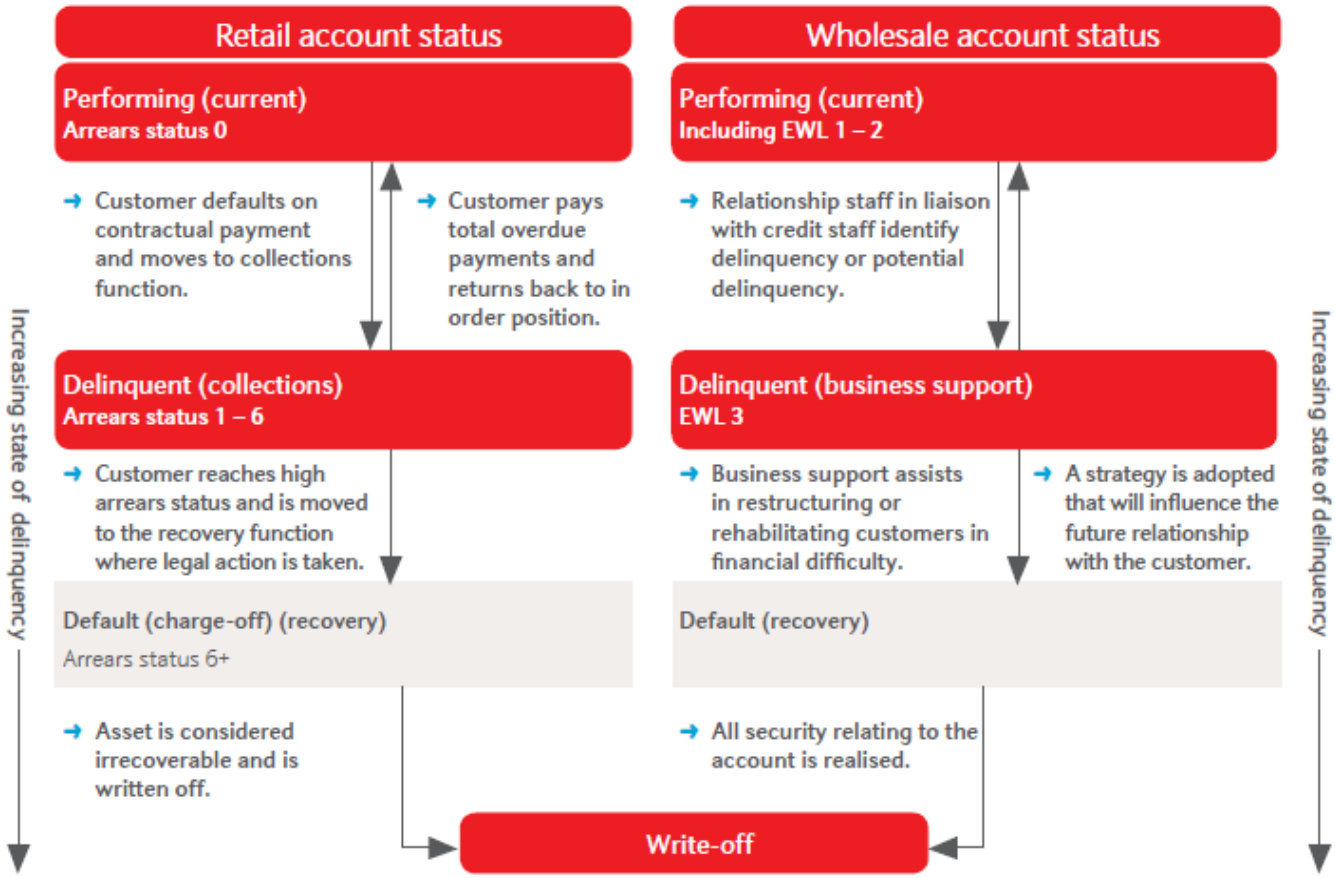
Note

[1]The majority of the exposures reflecting under Europe relate to exposures to Bank Plc.

Retail and wholesale credit risk

Assessment of credit risk *(continued)*

Monitoring weaknesses in portfolios *(continued)*



Securitisation

Approach to securitisation

Securitisation transactions, used as part of our credit portfolio, are primarily focused on the effective management of funding requirements. Planned securitisation transactions, market appetite and potential marketing and placement strategies are governed by a delegated mandate from the Board Finance Committee and assessed with the assistance of the MRC and ATC. There are two main types of securitisation:

- traditional securitisation transactions where an originating bank transfers a pool of assets it owns to a special purpose entity on an arm's length basis; and
- synthetic securitisation transactions where the originating bank transfers only the credit risk associated with an underlying pool of assets, through the use of credit-linked notes or credit derivatives, while retaining legal ownership of the pool of assets.

All securitisation transactions entered into as at the reporting date involved the sale of the underlying assets to the securitisation vehicle. We have not originated any synthetic securitisation transactions. Nonetheless, we calculate appropriate capital charges in respect of the risk assumed through the provision of liquidity facilities and retained exposures, as per the Basel III securitisation framework.

As at the current reporting date, we have securitised our own assets relating to the Home loan portfolio. For the Homes securitisation, we apply the look through approach hence transfer of credit risk does not take place. In addition to credit risk, liquidity and interest rate risk are also considered regularly. The origination of transactions based on other asset classes, such as CPF are considered on an ongoing basis.

We do not enter into any resecuritisation transactions.

Our Securitisation activities

Securitisation transactions have been used as a means of raising long-term funding. We apply the IRB approach in the assessment of its securitisation exposures for RC purposes and use Fitch, Moody's and Standard and Poor's as external credit assessment institutions (ECAIs).

Apart from originating and sponsoring securitisation transactions, we also acts as an investor, a service provider, a liquidity provider and credit enhancer to a number of securitisation transactions. Absa invests directly in the securitisation schemes.

The following table provides a breakdown of our role in each transaction during the current reporting period:

Roles played by the Group in securitisation schemes

	Originator	Sponsor	Investor (Absa)	Liquidity provider	Services provider	Credit enhancement /subordinated loan
Blue Granite 1 Proprietary Limited			√			
Grayston Conduit Proprietary Limited				√		
Home Obligors Mortgage Enhanced Securities Proprietary Limited	√	√	√		√	√
Nitro 4				√		
Nqaba Finance Proprietary Limited				√		

No facilities have been cancelled in this reporting period.

Securitisation

Approach to securitisation *(continued)*

Summary of applicable accounting policies

At the start of a securitisation transaction, assets are sold to the securitisation vehicle at par value and no gains or losses are recognised. The transactions are treated as sales (rather than financing) and for financial reporting purposes the respective vehicles are consolidated at a Group level.

Any retained interest in the securitisation vehicle is valued on the basis of the respective asset's performance. Where the Group acts as a service provider, normal impairment policies are applied and retained tranches are ultimately written off once sufficient capital losses accumulate.

Any retained interest in the securitisation vehicle is valued on the basis of the respective asset's performance. Key valuation assumptions for retained interests of this nature will include spreads to discount rates, default and recovery rates and prepayment rates that may be observable or unobservable. Where the Group acts as a service provider, normal impairment policies are applied and retained tranches are ultimately written off once sufficient capital losses accumulate.

Securitisation exposures

The following table provides a breakdown of the total funding raised through securitisation at the reporting date as well as the ECAIs used in the various asset classes.

Portfolio securitised

		30 June		31 December
		2013	2012	2012
	ECAI	**Amount securitised Rm**	Amount securitised Rm	Amount securitised Rm
Mortgage advances	**Moody's, Fitch and Standard and Poor's**	**4 172**	5 057	5 057

Investment Grades Notes Issued reduced due to notes that were repurchased.

No securitised assets existed at the reporting date which related to instalment finance.

We originated securitisation transactions performed according to expectations and no triggers were breached.

Outstanding securitisation balances

	30 June		31 December
	2013	2012	2012
IRB exposure	**Rm**	Rm	Rm
On-statement of financial position			
Retail - mortgages	**4 387**	4 913	4 632
Total IRB exposures	**4 387**	4 913	4 632
Of which notes issued			
Investment grade	**3 134**	4 019	4 019
Sub-investment grade[1]	**1 038**	1 038	1 038

Past due securitisation exposures

	30 June				31 December	
	2013		2012		2012	
	Amount securitised originator	**Past due originator**	Amount securitised originator	Past due originator	Amount securitised originator	Past due originator
Originator	**Rm**	**Rm**	Rm	Rm	Rm	Rm
Mortgage advances[2]	**4 172**	**1**	5 057	7	**5 057**	**1**

Notes
[1]BBB and below.
[2]No recognised losses were recorded in the current or previous reporting period.

Securitisation

Securitisation (continued)

Securitisation exposures (continued)

Retained or purchased securitisation exposures per asset class

	30 June						31 December		
	2013			2012			2012		
Exposure type - Retail	Retained Rm	Purchased Rm	Total Rm	Retained Rm	Purchased Rm	Total Rm	Retained Rm	Purchased Rm	Total Rm
Mortgages	**923**	**19**	**942**	946	468	1 414	923	21	944
Other	**-**	**-**	**-**	-	368	368	-	-	-
	923	**19**	**942**	946	836	1 782	923	21	944

Retained or purchased securitisation exposure by risk weight band

	30 June				31 December	
	2013		2012		2012	
Risk-weighted band (%)[1]	Retained Rm	Purchased Rm	Retained Rm	Purchased Rm	Retained Rm	Purchased Rm
11 - 19	**-**	**-**	-	368	-	-
20 - 49	**-**	**-**	-	468	-	21
50 - 75	**-**	**19**	-	-	-	-
250	**-**	**-**	23	-	-	-
1 250 or deducted	**923**	**-**	923	-	923	-
	923	**19**	946	836	923	21

Rated securitised exposures in terms of IRB approach

(Excluding deductions and investors interest in respect of schemes with early amortisation features)

	30 June						31 December		
	2013			2012			2012		
IRB exposures	Total senior exposure rated BBB or better Rm	Total base risk weight exposure rated BBB or better Rm	Total exposure rated BBB or below Rm	Total senior exposure rated BBB or better Rm	Total base risk weight exposure rated BBB or better Rm	Total exposure rated BBB or below Rm	Total senior exposure rated BBB or better Rm	Total base risk weight exposure rated BBB or better Rm	Total exposure rated BBB or below Rm
Instalments sales and leasing	**1**	**-**	**1**	2	-	2	1	-	1
Mortgages	**39**	**36**	**75**	37	74	111	32	60	92
Other	**9**	**-**	**9**	9	7	16	8	-	8
	49	**36**	**85**	48	81	129	41	60	101

Risk-weighted assets and capital deductions (IRB)

	30 June				31 December	
	2013		2012		2012	
IRB exposures - Retail	RWAs Rm	Required capital Rm	RWAs Rm	Required capital Rm	RWAs Rm	Required capital Rm
Instalment sales and leasing	**8**	**1**	21	2	11	1
Mortgages	**751**	**71**	1 138	108	941	89
Other	**86**	**8**	157	15	85	8
	845	**80**	1 316	125	1 037	99

Note

[1]The following risk weight bands had no retained or purchased securitisation exposures in the current or previous reporting period 7 – 10; 50 –99 and 350 – 1 250.

Equity investment risk

Approach to equity investment risk

Equity investment risk refers to the risk of adverse changes in the value of listed and unlisted equity investments. These investments are longer term investments held in the banking book for non-trading purposes.

The Group's equity investment risk objective is to balance the portfolio composition in line with the Group's risk appetite, with selective exits as appropriate.

The Group's governance of equity investments is based on the following key fundamental principles:
- a formal approval governance process;
- key functional specialists reviewing investment proposals;
- adequate monitoring and control after the investment decision has been implemented; and
- ongoing implementation of best practice standards based on current market trends, hurdle rates and benchmarks.

Criteria considered for new investments and investment reviews cover a comprehensive set of financial, commercial, legal (and technical, where required) matters. The performance of these investments is monitored relative to the objectives of the portfolio.

The majority of the Group's equity investments are held in CIBW and Business Markets. Equity and other investments held by insurance entities of the Group are addressed in the insurance risk management section of this report.

The CPF equities portfolio decreased during the current reporting period due to fair value revaluations and planned sell-downs in line with our equity investment strategy.

Relevant accounting policies

IAS 39 requires all equity investments to be fair valued. Accounting policies relating to subsidiaries and investments in associates and joint ventures are discussed separately in note 1.3 of the Group's annual financial statements.

The fair value of equity investments is determined using appropriate valuation methodologies which, depending on the nature of the investment, include discounted cash flow analysis, enterprise value comparisons with similar companies and price-earnings comparisons.

Listed and unlisted investments are either designated at fair value through profit or loss or as available-for-sale. Investments in entities that form part of the venture capital and similar activities of the Group have been designated at fair value through profit or loss. The designation has been made in accordance with *IAS 39 Financial instruments Recognition and Measurements*, based on the scope exclusion that is provided in *IAS 28 Investment in Associates* and *IAS 31 Interest in Joint Ventures*. The relevant accounting policies for equity investments are discussed in note 1.7 of the Group's annual financial statements.

Risk measurement

Equity investment risk is monitored monthly in terms of regulatory and EC requirements and is complemented by a range of additional risk metrics and stress testing. The equity investment risk profile is further tracked across a range of dimensions such as geography, industry and currency. Risk monitoring is done in accordance with a risk appetite, mandate and scale limits framework.

The Group has adopted the market-based simple risk weight approach to calculate RWAs and RC for equity risk in the banking book. According to this approach, we apply a 300% risk weight to listed exposures and 400% to unlisted exposures, for investments in non-financial entities, and investments in financial entities with a shareholding percentage of less than 10%. Amended Basel regulations effective January 2012 prescribe a scaling factor of 1.06. Consequently, RWAs are calculated using weightings of 318% and 424% for listed and unlisted equity investments respectively. For those investments for which the bank owns between 10% and 20% of the issued common share capital of a financial entity a 250% risk weight is applied. For those investments not in the common share capital of financial entities, as well as any investments in financial entities (in common and non-common share capital) with a shareholding percentage of more than 20% we apply a capital deduction.

EC for equity investment risk in the banking book is based on investment type and portfolio risk modelling and varies from 35,2% to 100%

Analysis of equity investment risk in the banking book (regulatory definition)

The equity portfolio falling within the ambit of the Regulation 31 of the Regulations to the Banks, excludes third-party equity investments under management for which the Group does not bear the risk, selected associates treated under the pro rata consolidation methodology, and equity investments held by insurance entities (as these entities are regulated separately, and addressed in the insurance risk management section of this report).

The size, composition, RWA component and EC requirement of the Group's equity investments in the banking book are reflected in the following table after recognition of guarantees. As at the reporting date, the statement of financial position value of such investments amounted to R5 697million (June 2012: R 5 478million; December 2012: R5 747 million). Of the R5 697 million investment exposure at the reporting date, R5 403 million is held for capital gains purposes and the remainder for strategic and other purposes.

The increase in the equity exposure from the prior year is mainly due to positive revaluations and draw-downs on current investments.

Equity investment risk

Approach to equity investment risk (continued)

Equity investments in the banking book	30 June 2013 Rm	30 June 2012 Rm	31 December 2012 Rm
Statement of financial position	**5 697**	5 478	5 747
Exchange-traded investments, associates and joint ventures[1]	**447**	272	694
Privately held traded investments, associates and joint ventures[2]	**5 250**	5 206	5 053
Fair value of exchange-traded investments, associates and joint ventures[3]	**447**	272	694
Risk-weighted assets	**22 081**	22 776	22 168
Exchange-traded investments, associates and joint ventures	**349**	864	2 083
Privately held traded investments, associates and joint ventures	**21 732**	21 912	20 085
Economic capital	**2 942**	2 820	3 007
Exchange-traded investments, associates and joint ventures[1]	**142**	211	544
Privately held traded investments, associates and joint ventures[2]	**2 800**	2 609	2 463

Realised and unrealised gains for equity investments in the banking book as per specific SARB Pillar 3 disclosure requirements are reflected in the following table:

Realised and unrealised gains on equity investments	30 June 2013 Rm	30 June 2012 Rm	31 December 2012 Rm
Cumulative realised gains arising from sales and liquidations	**11**	54	64
Total unrealised gains recognised directly in the statement of financial position	**(6)**	(4)	34

Approach to equity investment risk

To address the specific Pillar 3 disclosure requirements of the SARB relating to unrealised gains or losses for equity risk in the banking book, it should be noted that:

- we do not have any latent revaluation gains or losses, i.e. unrealised gains or losses which are not recognised in the statement of comprehensive income; and
- we do not have unrealised gains or losses that are recognised in primary or secondary capital and reserve funds without being recognised in the statement of comprehensive income. This is due to an IFRS principle that we have adopted, i.e. all unrealised gains or losses that are not recognised in the statement of comprehensive income cannot be recognised in primary or secondary capital and reserve funds.

Equity sensitivity analysis of investments, including investment of insurance activities

Note 12 of the Group financial statements provides a breakdown of investment securities. In respect of listed and unlisted equity investments reported in this note, an analysis is provided of the estimated sensitivity impact on pre-tax profit and loss and equity for a reasonably possible 5% variance in equity market values based on the accounting treatment of these investments. Consistent with the previous reporting period, this analysis additionally includes equity investments held by insurance entities and excludes all associates and joint ventures.

With respect to insurance activities' investments:

- for the policyholder portfolio it is policy, where possible, to follow a matched investment strategy in terms of assets backing non-linked policyholder liabilities;
- the shareholders' investments are susceptible to market fluctuations. To manage the equity risk, equity hedge structures have been implemented in terms of which protection is obtained to ensure that the possibility of negative returns is reduced for the financial year; and
- this analysis should be read in conjunction with the Insurance Risk Management section, which addresses life insurance mismatch risk and life and short term insurance investment risk, including also investment exposures other than equity investments.

Notes

[1] Includes significant minority financial investments deducted from net qualifying regulatory capital, amounting to R307 million as at 30 June 2013 (30 June 2012: Rnil million; 31 December 2012: Rnil).

[2] Includes significant minority financial investments deducted from net qualifying regulatory capital, amounting to R92 million as at 30 June 2013 (30 June 2012: R27 million; 31 December 2012: R32 million).

[3] To address specific SARB Pillar 3 requirements for equity risk in the banking book relating to the value of investments, it should be noted that the difference between the statement of financial position value and fair value of associates and joint ventures amounts to Rnil million as at 30 June 2012 (30 June 2011: Rnil million; 31 December 2011: Rnil million). The difference in previous periods relates to conservative impairments applied on the listed associates, which followed a prudent and considered assessment by the board, therefore resulting in the fair value of the said investments being higher than the statement of financial position values. Additionally there are no differences between the fair value and market value of exchange traded investments, associates and joint ventures.

Market Risk

Traded market risk

Market risk

Traded market risk

Key points

- Careful management of trading exposures to ensure efficient use of trading capital.
- Continued focus on improvements to the risk management framework owing to changing market conditions.
- Focus on understanding changing market conditions and the impact on risk management models.
- Interest rate risk in the banking book continued to be managed to low levels.
- The structural hedge programme contributed positively to the net interest margin for the reporting period. The programme was effectively managed throughout the reporting period, during which key South African interest rates remained at historical lows.
- Cash flow hedging reserves decreased as a result of unfavourable MTM movements during the latter part of the reporting period.
- We remained exposed to the prime-Johannesburg Interbank Agreed Rate (JIBAR) basis risk arising from the difference between predominantly prime-linked assets being funded with liabilities that are primarily JIBAR-linked after hedging.

Key performance indicators

	30 June		31 December
	2013	2012	2012
Average traded market risk daily value at risk (Rm)	**17.67**	19.44	18.87
Traded market risk regulatory capital (at 9,5% of RWAs) (Rm)[1]	**1 316**	1 266	1 308
Banking book annual earnings at risk (AEaR) for a 2% interest rate shock (% of Group net interest income (NII))	**<7%**	**<5%**	<7%

Introduction

Market risk is the risk that the our earnings or capital, or our ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads. The main sources of risk are traded market risk and non-traded interest rate risk. Traded market risk arises in CIBW to support client-trading activity, whereas non-traded interest rate risk arises in the banking book to support customer products.

The Africa Market Risk Committee (AMRC) meets monthly to review, challenge and make recommendations concerning the market risk profile, including risk appetite, policies, limits, risk utilisation and the effectiveness of the control environment.

The Trading Risk Committee (TRC), Africa Treasury Committee (ATC) and ATC subcommittees provide oversight of specific market risk.

Strategy

Our market risk management objectives are:

– ensuring traded market risk resides solely in CIBW;
– facilitating business growth;
– minimising non-traded market risk; and
– ensuring a higher degree of net interest margin stability over an interest rate cycle in the banking book.

June 2013 in review

Trading exposures were carefully managed during the reporting period to ensure efficient use of trading capital with returns above return on risk weighted asset (RoRWA) hurdles. All exposures were managed within the risk appetite. Trading revenues were underpinned by a strong client franchise despite challenging market conditions characterised by extreme volatility in interest rate markets and emerging markets exchange rates, limited market liquidity and uncertainty around Quantitative Easing.

The trading business continued to focus on sustainable client flow and facilitation and careful management of risk within a difficult trading environment. Overnight indexed swap discounting and the management of the inherent basis risks have been further embedded. The first centrally cleared over-the-counter derivatives were executed through the London Clearing House during the reporting period, as per the requirement set out in the Dodd-Frank regulation.

Focus was placed on the expansion of trading systems and the risk and control framework across Africa to support an extended product range that includes sovereign bonds and derivatives.

The structural interest rate hedge programme remained in place during the reporting period and contributed positively to the net interest margin to mitigate the negative endowment impact on equity and structural deposits in the low interest rate environment. We efficiently maintained the structural hedge programme over the reporting period, during which key South African interest rates remained at historically low levels.

The recent market volatility and the increase in swap rates over the latter part of the reporting period negatively impacted cash flow hedging reserves. The accrual to the statement of comprehensive income, however, continued to contribute positively to the net interest margin.

We remained exposed to prime-JIBAR basis risk arising from the funding of the difference between predominantly prime-linked assets with liabilities that are primarily JIBAR-linked after hedging. Prepayment and recruitment risk that may arise from fixed rate product offerings to customers continued to be managed on customer behaviour risk principles. We continue to grow our franchise trading capacity across Africa.

Note:

[1]Comparatives for the previous reporting period have been restated at 9.5% of risk weighted assets (RWAs), to align with the RC disclosures included in the capital management section of this report.

Traded market risk

Looking ahead

Our key objective is to respond to regulatory and capital change, specifically Basel IV and the Dodd-Frank regulation, while continuing to make efficient use of RWAs, despite challenging market conditions. We will continue to challenge and improve our risk management model based on market, business and regulatory trends.

South African interest rates are expected to remain low for the rest of 2013, thereby increasing the risk of margin compression. Therefore, the efficient maintenance of our structural hedge programme will remain a key focus area.

Absa acquired eight Barclays Africa subsidiaries on 31 July 2013. The risk management of these entities, as well as the implementation of trading capacity, remains a key focus in 2013.

Approach

Traded market risk results primarily from the facilitation of client trades in the wholesale market including market making, the provision of hedge solutions, pre-hedging and providing assistance to clients with the execution of large trades. Not all client trades are hedged immediately or completely, giving rise to traded market risk. Our policy is to concentrate our traded market risk exposure within CIBW.

Market risk is prevalent in both the trading book and the banking book, as defined for regulatory purposes. Interest rate risk in the banking book is subjected to the same rigorous measurement and control standards as its trading book, but the associated sensitivities are reported as part of the interest rate risk in the banking book section.

Risk appetite

The risk appetite for market risk is based on:
- proposed business strategy and growth;
- targeted growth in risk;
- budgeted revenue growth;
- historical risk usage;
- statistical modeling measures; and
- risk equated to capital projection under stress.

Risk measurement

A number of techniques are used to measure and control traded market risk daily, which include:
- Value at risk (VaR) based measures (incorporating tail risk metrics) including both VaR and stressed value at risk (sVaR);
- tail metrics;
- position and sensitivity reporting (Non-VaR);
- stress testing;
- backtesting; and
- standardised specific risk.

Daily value at risk

Daily value at risk (DVaR) is an estimate of the potential loss that may arise from unfavourable market movements if current positions were to be held unchanged for one business day.

We use an internal DVaR model based on the historical simulation method to derive the quantitative market risk measures under normal conditions. The DVaR model utilises a two-year data history of unweighted historical price and rate data and a holding period of one day with a confidence interval of 95%.

The historical simulation methodology can be split into three parts:
- calculate hypothetical daily profit or loss for each position over the most recent two years, using observed daily market moves;
- sum of all hypothetical profits or losses for day one across all positions, giving one total profit or loss. Repeat for all other days in the two-year history; and
- DVaR is the 95th percentile loss selected from the resultant two-year historically simulated strip of daily hypothetical net profit or loss. Daily losses in excess of the DVaR figure are likely to occur, on average, up to 26 times over the two-year period.

This internal model is also used for measuring VaR over both a one-day and a 10-day holding period at a 99% confidence level for regulatory backtesting and RC calculation purposes, respectively. The VaR internal model has been approved by the SARB to calculate RC for all trading book portfolios. The approval covers general position risk across all interest rate, foreign exchange, commodity, equity and traded credit products. Issuer-specific risk is currently reported in accordance with the regulatory standardised approach. Additionally, any new products, which are awaiting regulatory approval, are capitalised by using the regulatory standardised approach.

DVaR is an important market risk measurement and control tool. Consequently, the performance of the model is regularly assessed for continued suitability. The main technique employed is backtesting, which counts the number of days when daily trading losses exceed the corresponding VaR estimate. Backtesting measures daily losses against VaR assuming a one-day holding period and a 99% level of confidence. Backtesting reports are monitored daily.

Traded market risk

Traded market risk *(continued)*

Approach *(continued)*

Risk measurement (continued)

VaR estimates have a number of limitations:
- historical simulation assumes that the past is a good representation of the future, which may not always be the case.
- the assumed time horizon does not fully capture the market risk of positions that cannot be closed out or hedged within this time horizon.
- VaR does not indicate the potential loss beyond the selected percentile.
- VaR is based on positions as at the close of business and consequently intra-day risk, the risk from a position bought and sold on the same day, is not captured.
- prudent valuation practices are used in the VaR calculation when there is difficulty obtaining rate/price information.

Tail risk metrics, stress testing and other sensitivity measures are used to complement VaR.

Backtesting

We conduct backtesting of the VaR risk measurement model against:
- the theoretical profit and loss representing the change in the value of the portfolio as computed by the risk system under the assumption that the portfolio holdings remained constant for the holding period; and
- the actual profit and loss representing the actual daily trading outcome.

Tail metrics

Tail risk metrics highlight the risk beyond the percentile selected for DVaR. The two tail risk metrics chosen for daily monitoring, using the current portfolio and two years of price and rate history, are:
- the average of the worst three hypothetical losses from the historical simulation; and
- expected shortfall (also referred to as expected tail loss), which is the average of all hypothetical losses from the historical simulation beyond the 95th percentile used for DVaR.

Non-value at risk

Non-VaR reporting covers non-statistical measures of measuring and monitoring risk sensitivities and exposures as well as gross or notional limits where appropriate. All asset classes and product types have Non-VaR reporting and limit monitoring, as required. These limits are aligned to DVaR limits, but do not bear a direct linear relationship.

Stressed value at risk

SVaR is an estimate of the potential loss arising from a 12-month period of significant financial stress. Our sVaR model and period selection methodology was approved by the SARB. The SARB has also assigned an sVaR model multiplier to be used for calculations. SVaR uses DVaR methodology based on inputs calibrated to historical data from a continuous 12-month period to replicate a period of significant stress. A regular process is applied to assess the stress period in terms of the approved methodology, which means that the stress period is subject to change.

The sVaR RC requirement is calculated daily and is disclosed for the reporting period.

Stress testing

Stress testing provides an indication of the potential size of losses that could occur in extreme conditions. Stress testing assists in identifying risk concentrations across business lines and assists senior management in making capital planning decisions. We perform two main types of stress/scenario testing. Firstly, risk factor stress testing is carried out, where extended historical stress moves are applied to each of the main risk categories including interest rate, equity, foreign exchange, commodity and credit spread risk. Secondly, the trading book is subjected to multi-factor scenarios that simulate past periods of significant market disturbance and hypothetical extreme yet plausible events. Scenarios are reviewed at least annually.

Stress testing results are monitored against approved limits and triggers. A full revaluation approach is applied to undertake stress testing.

Standardised specific risk

Idiosyncratic risks are capitalised through the Basel/regulatory framework using standardised rules.

Risk control

Risk limits are set and reviewed at least annually to control our trading activities, in line with the defined risk appetite of the Group. The criteria for setting risk limits include relevant market analysis, market liquidity and business strategy.

This limit structure comprises the following types of market risk limits:

- VaR limits (VaR and sVaR);
- position and sensitivity (Non-VaR) limits;
- stress testing limits; and
- management action triggers: reporting of actual losses based on pre-determined tolerance levels.

Traded market risk

Traded market risk *(continued)*

Approach *(continued)*
Risk measurement *(continued)*
Risk control *(continued)*

Valuation control, independent price testing and bid-offer testing are conducted by Product Control and the results are reviewed monthly by the Valuation Governance and Control Committee of CIBW.

The Model Validation function is responsible for validating all valuation models used for accounting and risk. The validation reviews the theoretical approach and its applicability to the product. Focus is on ensuring the implementation of the model is correct, identifying the primary risks, model limitations or uncertainties and recommending provisions to account for such uncertainties.

Risk reporting

Our market risk team produces a number of detailed and summary market risk reports daily and monthly. These reports summarise the positions, risks and top stresses covering interest rate, foreign exchange, equity, commodity and credit spread risks. A risk summary is also presented at the AMRC and other governance committees, as required.

Analysis of risk exposure

The following table reflects the DVaR and expected shortfall statistics for our trading book activities as measured by the internal models approach (IMA) for general trading position risk. Our traded market risk exposure, as measured by average total DVaR, decreased to R17,67 million for the reporting period, which is down 9% compared to the six months ended 30 June 2012 (R19,44 million) and down 6% compared to the full 2012 financial year (R18,87 million). This was principally due to a decrease in the average interest rate and equity exposure. The business model of CIBW is orientated around client flow and the risk profile is maintained so that it is aligned with the near-term demands of our clients. The model showed resilience in tough trading conditions. Trading revenues declined marginally compared to the previous reporting period, but a favourable risk-adjusted return was sustained for the reporting period.

Our trading book DVaR summary

	30 June								31 December			
	2013				2012				2012			
	Average Rm	**High[1] Rm**	**Low[1] Rm**	**As at the reporting date Rm**	Average Rm	High[1] Rm	Low[1] Rm	As at the reporting date Rm	Average Rm	High[1] Rm	Low[1] Rm	As at the reporting date Rm
Interest rate risk	**15.75**	**37.04**	**7.06**	**11.49**	16.86	30.71	8.84	16.46	16.99	30.71	8.84	11.87
Foreign exchange risk	**7.34**	**23.59**	**2.33**	**9.26**	8.30	21.34	2.13	7.32	7.30	21.34	2.13	8.23
Equity risk	**3.61**	**11.89**	**1.38**	**3.92**	5.50	12.18	3.23	7.34	5.12	16.72	1.13	1.88
Commodity risk	**1.99**	**4.16**	**0.63**	**3.51**	0.94	1.97	0.32	0.83	0.85	2.92	0.17	1.29
Inflation risk	**10.03**	**17.37**	**4.87**	**8.75**	9.68	17.95	3.23	4.72	7.06	17.95	2.63	8.80
Credit spread risk	**5.12**	**8.96**	**2.18**	**5.11**	4.86	5.76	2.97	5.07	4.05	5.76	1.95	3.69
Diversification effect	**(26.17)**	**n/a**	**n/a**	**(20.39)**	(26.70)	n/a	n/a	(18.33)	(22.50)	n/a	n/a	(18.21)
Total DVaR	**17.67**	**31.61**	**10.34**	**21.65**	19.44	34.38	12.66	23.42	18.87	34.38	12.66	17.55
Expected Shortfall	**25.16**	**14.48**	**45.61**	**32.29**	27.68	49.65	17.58	33.32	27.46	49.65	17.58	23.84
Regulatory VaR[2]	**29.76**	**64.29**	**17.35**	**38.51**	32.31	53.67	20.11	41.40	32.38	53.67	20.11	31.91
Regulatory sVaR[2]	**48.99**	**67.35**	**33.40**	**38.31**	47.85	93.58	30.14	51.21	44.42	93.58	27.19	40.88

Notes

[1] The high and low DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) total DVaR. Consequently, a diversification effect number for the high (and low) DVaR figures would not be meaningful and is therefore omitted.

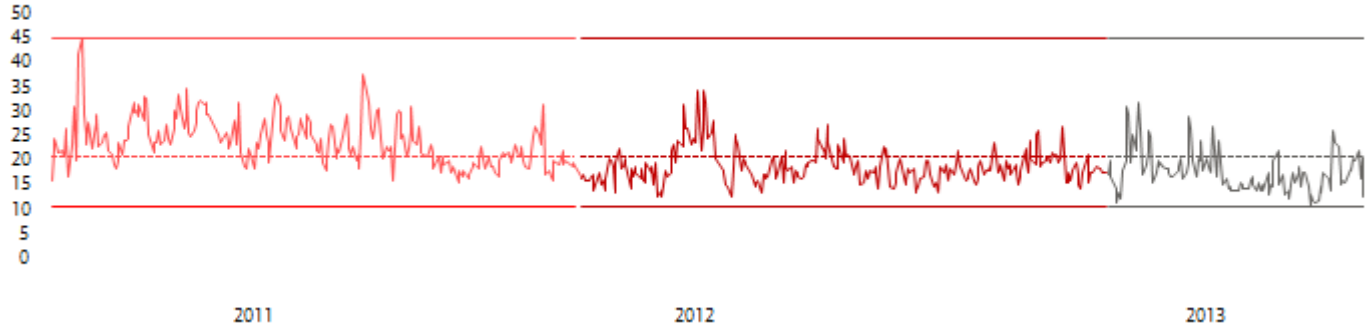
[2] Regulatory VaR and sVaR are reported with a 1-day holding period at a 99% confidence level. Consequently these figures are not directly comparable to the 95% risk metrics reported in the rest of the table. The sVaR period as required from 1 January 2012, is 1 April 2008 to 31 March 2009. This period is subject to on-going review for appropriateness.

Traded market risk

Analysis of risk exposure *(continued)*

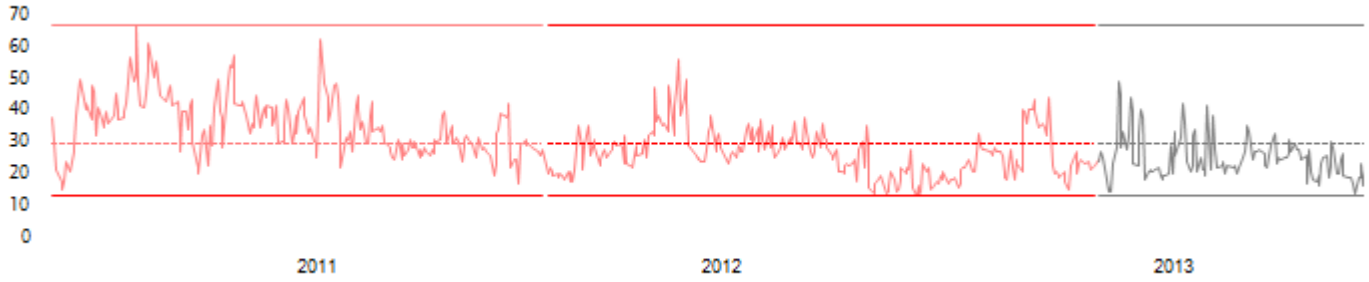
The following graph indicates the daily history of our total trading book DVaR for 2011, 2012 and the reporting period, along with the period averages, highs and lows. In comparison with 2011 and continuing the trend for 2012 and the reporting period, the DVaR demonstrated sustained low variability and limited large DVaR days and lower average risk levels. We, on some occasions in the conduct of client transactions, take on larger than usual market risk. This is undertaken within our market risk appetite.

Our trading book management daily value at risk (daily values, period average, high and low) (Rm)



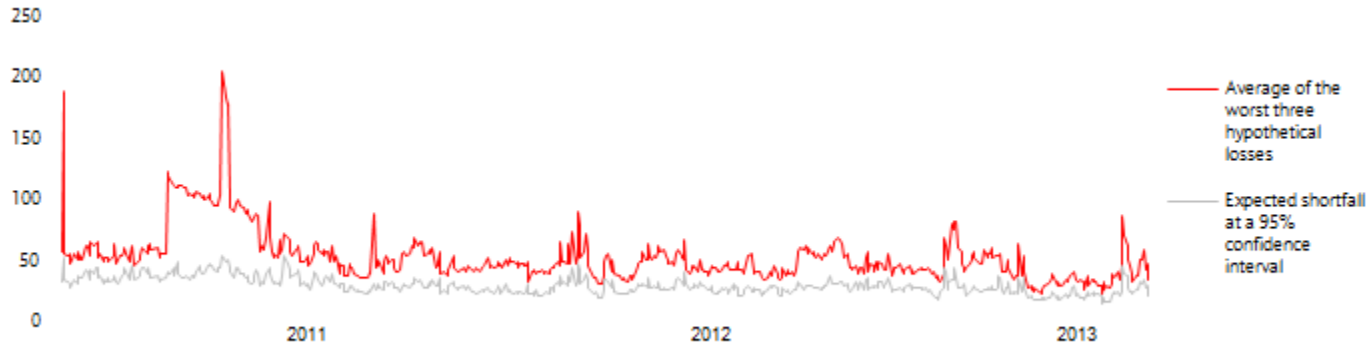
The following graph shows the daily history of our total trading book sVaR for 2011, 2012 and the reporting period.

Our trading book management stressed value at risk (daily values, period average, high and low) (Rm)



The following graph shows the daily history of our total trading book tail metrics for 2011, 2012 and the reporting period.

Our trading book tail metrics (daily values) (Rm)



Traded market risk

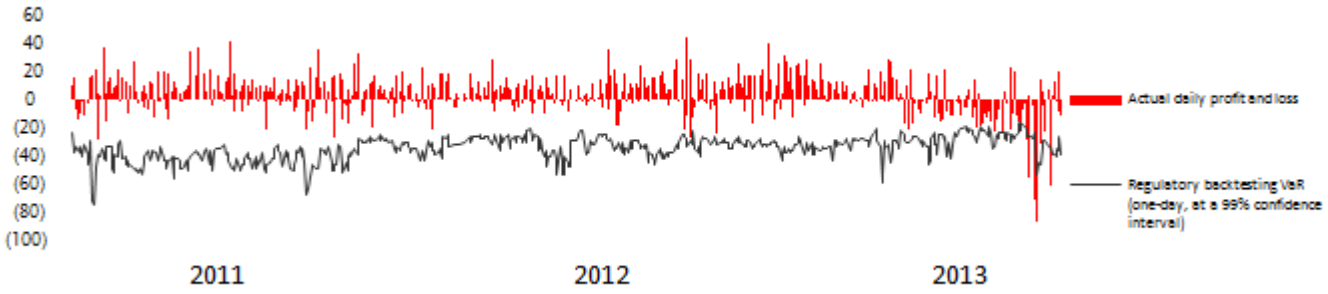
Traded market risk (continued)

Comparison of value at risk estimates with trading revenues

The following graph compares the total VaR estimates over a one-day holding period at a 99% confidence level with the daily revenues generated by the trading units for 2011, 2012 and the reporting period. Revenue as reported here, relates to actual trading book revenue only, excluding fees, commissions, bid-ask spreads and net interest income, as required for regulatory backtesting purposes.

During the reporting period, there were seven instances in which an actual daily trading loss exceeded the corresponding VaR estimate. There were also nine theoretical losses that exceeded the VaR estimate. This is higher than for the previous reporting period and can be attributed to significantly larger market moves recorded in the last month of the reporting period, which also caused a shift in the VaR distribution.

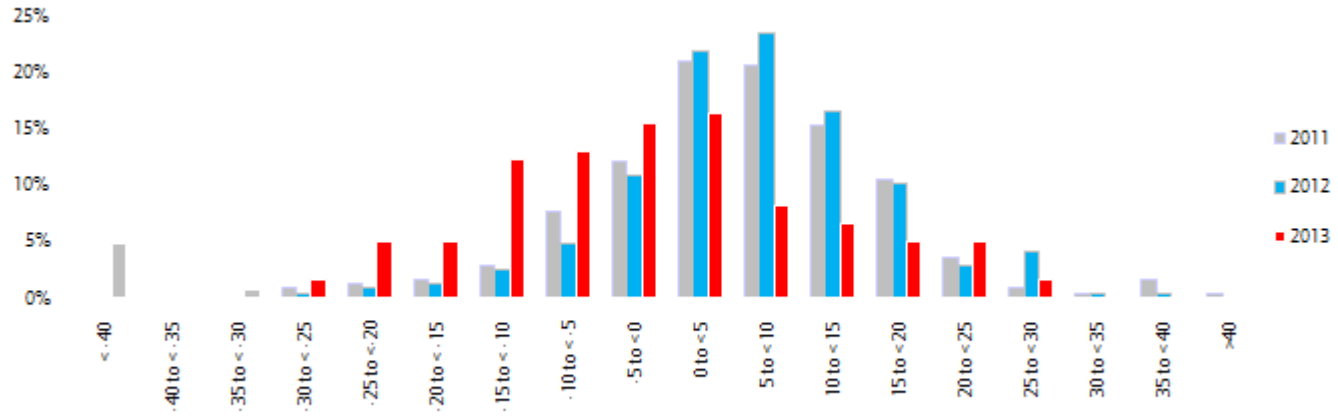
Our trading book revenue backtested against regulatory value at risk (Rm)



Analysis of trading revenue

The following histogram depicts the distribution of daily trading revenue of our trading book for 2011, 2012 and the reporting period. Revenue includes net trading book income, excluding net fees and commissions. The distributions are skewed to the profit side. The average daily trading revenue for the reporting period decreased compared to that of 2012. The percentage of positive revenue days decreased to 42% for the reporting period, from 80% in 2012 and 80% for the previous reporting period. This was driven by positioning and trade flow in a period of high market volatility.

Our daily trading book revenue (Rm) achieved per percentage of business days



Traded market risk

Traded market risk (continued)

Minimum regulatory capital requirement

Our traded market risk minimum RC requirement comprises two elements:

- Trading book positions where the market risk is measured under an internal VaR model approved by the SARB. The capital requirement is calculated based on the internal model with a 10-day holding period at a 99% confidence level and other regulatory 60-day averaging and capital multiplier specifications. This approach currently applies to close to 100% of our general position risk across interest rate, foreign exchange, commodity, equity and traded credit products.
- Trading book positions that have not yet met the SARB or our internal conditions for inclusion within the approved internal model. The capital requirement is calculated using standardised regulatory rules. This approach currently applies to our issuer-specific risk exposures.

Minimum regulatory capital requirement (at 9.5% of risk-weighted assets) for traded market risk

	30 June		31 December
	2013	2012	2012
	Rm	Rm	Rm
IMA	**922**	959	956
VaR	**340**	401	404
sVaR	**582**	558	552
Standardised approach	**394**	307	352
Interest rate risk	**310**	246	248
Equity risk	**84**	61	104
Total traded market risk capital requirement[1]	**1 316**	1 266	1 308

Notes

[1] Comparatives for the previous reporting period have been restated at 9.5% of RWAs, to align with the RC disclosures included in the capital management section of this report.

Non-traded market risk

Interest rate risk in the banking book

Approach

Interest rate risk is the risk that the Group's financial position may be adversely affected by changes in interest rate levels, yield curves and spreads. Non-traded interest rate risk arises in the banking book from the provision of retail and wholesale (non-traded) banking products and services, as well as from certain structural exposures within the statement of financial position, mainly due to repricing timing differences between assets, liabilities and equity. These risks impact both the earnings and the economic value of the Group.

The Group's objective for managing interest rate risk in the banking book is to ensure a higher degree of interest rate mismatch margin stability and lower interest rate risk over an interest rate cycle. This is achieved by transferring the interest rate risk from the business to the local treasury or Group Treasury, which in turn hedges material net exposures with the external market. As a result of mainly timing considerations, interest rate risk may arise when some of the net position remains with Group Treasury. A limits framework is in place to ensure that retained risk remains within approved risk appetite.

Risk management strategies considered include:
- strategies regarding changes in the volume, composition, pricing and interest rate risk characteristics of assets and liabilities and
- the execution of applicable derivative contracts to maintain the Group's interest rate risk exposure within limits

Where possible, hedge accounting is applied to derivatives that are used to hedge interest rate risk in the banking book. In cases where hedge relationships do not qualify for hedge accounting, mismatches may arise due to different bases used in fair valuing the hedges and the underlying banking book exposure. Applicable accounting rules, as detailed in the Group's accounting policies, are followed.

Structural interest rate risk arises from the variability of income from non-interest bearing products, managed variable rate products and the Group's equity and is managed by Group Treasury.

Interest rate risk also arises in each of the Africa subsidiaries' treasuries in the normal course of managing the statement of financial position and facilitating customer activity. The risk is managed by the local treasury functions, subject to modest risk limits and other controls.

Embedded customer optionality risk may also give rise to interest rate risk in the banking book. This risk arises from a customer's right to buy, sell or in some manner alter the cash flow of a financial contract. Embedded customer optionality is distinct from direct optionality, which arises through the underlying product structure (e.g. capped rate loan products). The Group's policy requires such direct option risk to be hedged explicitly.

Prepayment risk arises in relation to transactions where an early settlement option is embedded in the product. This risk most commonly arises in relation to fixed rate loans offered to retail customers, where the customer has an option to repay the loan prior to contractual maturity and where the Group is unable to collect full market related compensation. The risk is controlled through book and term limits, funding (hedging) new loans according to the expected behavioural repayment profile and tracking deviations of actual customer behaviour from the expected profile.

Recruitment risk arises when the Group commits to providing a product at a predetermined price for a period into the future. Customers have the option to take up this offer. Controls include campaign rules, pre-funding of anticipated take-up and the management of the resultant residual risk.

Risk measurement

The techniques used to measure and control interest rate risk in the banking book include repricing profiles, annual earnings at risk (AEaR), DVaR and tail metrics, economic value of equity sensitivity and stress testing.

Repricing profiles

With the repricing profile, instruments are allocated to time periods with reference to the earlier of the next contractual interest rate repricing date and the maturity date. Instruments which have no explicit contractual repricing or maturity dates are placed in time buckets based on the most likely repricing behaviour. Currently, the contractual profiles of assets are not adjusted for customer prepayment features.

Annual earnings at risk (AEaR)/ Net interest income (NII) sensitivity

AEaR/ NII sensitivity measures the sensitivity of net interest income over the next 12 months to a specified shock in interest rates. AEaR is assessed across a range of interest rate scenarios, including parallel and key rate shocks and yield curve twists and inversions as appropriate for each business. The AEaR calculation takes the assumed behavioural profile of relevant structural product balances into account. Currently, the contractual profiles of assets are not adjusted for customer prepayment features.

Daily value at risk

The Group uses a sensitivity based approach to calculate DVaR at a 95% confidence level for measuring interest rate risk in the banking book. The DVaR is monitored against approved internal limits and is used as a complementary tool to AEaR. DVaR is also supplemented by tail metrics.

Economic value of equity (EVE)

EVE sensitivity measures the sensitivity of the present value of the banking book at a specific point in time to a specified shock to the yield curve. Similar to DVaR, EVE is a present value sensitivity and is complementary to income sensitivity measures such as AEaR.

Stress testing

Stress testing is carried out by Group Treasury and the risk functions in the Africa subsidiaries to supplement DVaR and AEaR metrics. The stress testing is tailored to each banking book and consists of a combination of stress scenarios and historical stress movements applied to the respective banking books.

Non-traded market risk

Interest rate risk in the banking book *(continued)*

Risk control

Market risk is controlled through the use of DVaR and AEaR limits and supported by monthly monitoring of the risk profiles, EVE sensitivity and stress results. Limits are set at the business level and then cascaded down. The business level limits for DVaR and AEaR are agreed by the AMRC. Compliance with limits is monitored by the respective business market risk team with oversight provided by Group Market Risk.

Risk reporting

DVaR in respect of Group Treasury is reported daily whilst the DVaR of the Africa subsidiaries' treasuries is reported monthly. The repricing profiles, AEaR, EVE sensitivity and stress results are reported monthly for both Group Treasury and the Africa subsidiaries.

Interest rate sensitivity analyses

Three separate interest rate sensitivity analyses for the Group's banking book are set out in the table that follows, namely, the repricing profile of the book and the potential effect of changes in market interest rates on annual earnings and equity reserves.

Repricing profile

The repricing profile of the Group's domestic, Africa subsidiaries and consolidated banking books shows that the consolidated banking book remains asset sensitive, or positively gapped, as interest-earning assets reprice sooner than interest-paying liabilities before and after derivative hedging activities. Accordingly, future net interest income remains vulnerable to a decrease in market interest rates. However, asset sensitivity, as represented by the cumulative 12-month interest rate gap, decreased from 30 June 2012 to the reporting period.

Expected repricing profile

	30 June 2013			
	On demand - 3 months Rm	4 - 6 months Rm	7 - 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	125 254	(15 012)	(30 937)	(30 422)
Derivatives[2]	(106 042)	7 562	26 512	71 968
Net interest rate sensitivity gap	19 212	(7 450)	(4 425)	41 546
Cumulative interest rate gap	19 212	11 762	7 337	48 883
Cumulative gap as a percentage of Bank's total assets (%)	2.4	1.5	0.9	6.2
Foreign subsidiaries' bank books[3]				
Interest rate sensitivity gap	2 912	(1 043)	2 718	780
Derivatives[2]	92	-	-	(89)
Net interest rate sensitivity gap	3 004	(1 043)	2 718	691
Cumulative interest rate gap	3 004	1 961	4 679	5 370
Cumulative gap as a percentage of foreign subsidiaries' total assets(%)	16.7	10.9	26.0	29.8
Cumulative interest rate gap	22 216	13 723	12 016	54 253
Cumulative gap as a percentage of the Group's total assets (%)	2.6	1.6	1.4	6.4

Notes
[1]Includes exposures held in the banking book of CIBW.
[2]Derivatives for interest rate risk management purposes (net nominal value).
[3]Includes NBC and BBM.

Non-traded market risk

Interest rate risk in the banking book *(continued)*

Interest rate sensitivity analyses *(continued)*
Repricing profile (continued)
Expected repricing profile (*continued*)

	30 June 2012			
	On demand - 3 months Rm	4 - 6 months Rm	7 - 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	128 562	(24 417)	(32 027)	(34 268)
Derivatives[2]	(88 385)	16 444	14 214	57 727
Net interest rate sensitivity gap	40 177	(7 973)	(17 813)	23 459
Cumulative interest rate gap	40 177	32 204	14 391	37 850
Cumulative gap as a percentage of Bank's total assets (%)	5.3	4.2	1.9	4.9
Foreign subsidiaries' bank books[3]				
Interest rate sensitivity gap	2 481	(257)	1 650	379
Derivatives[2]	116	3	1	(108)
Net interest rate sensitivity gap	2 597	(254)	1 651	271
Cumulative interest rate gap	2 597	2 343	3 994	4 265
Cumulative gap as a percentage of foreign subsidiaries' total assets(%)	23.1	20.8	35.5	37.9
Cumulative interest rate gap	42 774	34 547	18 385	42 115
Cumulative gap as a percentage of the Group's total assets (%)	5.3	4.3	2.3	5.2

	31 December 2012			
	On demand - 3 months Rm	4 - 6 months Rm	7 - 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	126 839	(18 329)	(30 019)	(37 694)
Derivatives[2]	(93 476)	10 633	17 189	65 654
Net interest rate sensitivity gap	33 363	(7 696)	(12 830)	27 960
Cumulative interest rate gap	33 363	25 667	12 837	40 797
Cumulative gap as a percentage of Bank's total assets (%)	4.4	3.4	1.7	5.3
Foreign subsidiaries' bank books[3]				
Interest rate sensitivity gap	2 281	1 829	110	496
Derivatives[2]	98	1	13	(85)
Net interest rate sensitivity gap	2 379	1 830	123	411
Cumulative interest rate gap	2 379	4 209	4 332	4 743
Cumulative gap as a percentage of foreign subsidiaries' total assets(%)	18.5	32.7	33.6	36.8
Cumulative interest rate gap	35 742	29 876	17 169	45 540
Cumulative gap as a percentage of the Group's total assets (%)	4.4	3.7	2.1	5.6

Notes
[1]Includes exposures held in the banking book of CIBW.
[2]Derivatives for interest rate risk management purposes (net nominal value).
[3]Includes NBC and BBM.

Non-traded market risk

Interest rate risk in the banking book *(continued)*

Interest rate sensitivity analyses *(continued)*

Impact on earnings

The following table shows the AEaR from impacts to net interest income for 100 and 200 bps up and down movements in market interest rates for our banking books. Assuming no management action is taken in response to market interest rate movements, a hypothetical, immediate and sustained parallel decrease of 200 bps in all market interest rates would, at the reporting date, result in a pre-tax reduction in projected 12-month net interest income of R1,55 billion (30 June 2012: R0,94 billion; 31 December 2012: R1,64 billion). A similar increase would result in an increase in projected 12-month net interest income of R1,38 billion (30 June 2012: R0,96 billion; 31 December 2012: R1,65 billion). AEaR increased to 6,3% of our net interest income, mainly due to the decrease in the hedging offset in the total banking book. A sensitivity analysis by major currency market interest rates indicates that earnings sensitivity to South African rand (ZAR) market interest rates constitutes 96% of the total earnings at risk at the reporting date (30 June 2012: 95%; 31 December 2012: 96%), therefore indicating that we remain primarily exposed to South African market interest rates.

Annual earnings at risk for 100 and 200 bps changes in market interest rates

	Change in market interest rates			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
As at 30 June 2013				
Domestic bank book[1] (Rm)	**(1 493)**	**(729)**	**644**	**1 323**
Foreign subsidiaries[1] banks books[2] (Rm)	**(55)**	**(27)**	**27**	**55**
Total (Rm)	**(1 548)**	**(756)**	**671**	**1 378**
Percentage of the Group's net interest income (%)	**(6.3)**	**(3.1)**	**2.7**	**5.6**
Percentage of the Group's equity (%)	**(2.1)**	**(1.0)**	**0.9**	**1.9**
As at 30 June 2012				
Domestic bank book[1] (Rm)	(894)	(454)	448	914
Foreign subsidiaries[1] banks books[2] (Rm)	(50)	(25)	25	50
Total (Rm)	**(944)**	**(479)**	**473**	**964**
Percentage of the Group's net interest income (%)	(3.8)	(1.9)	1.9	3.9
Percentage of the Group's equity (%)	(1.3)	(0.7)	0.7	1.4
As at 31 December 2012				
Domestic bank book[1] (Rm)	(1 568)	(769)	776	1 574
Foreign subsidiaries[1] banks books[2] (Rm)	(71)	(36)	36	71
Total (Rm)	**(1 639)**	**(805)**	**812**	**1 645**
Percentage of the Group's net interest income (%)	(6.8)	(3.4)	3.4	6.9
Percentage of the Group's equity (%)	(2.3)	(1.1)	1.1	2.3

Impact on equity reserves

Market interest rate changes may affect equity (capital) in the following three ways:
- higher or lower profit after tax resulting from higher or lower net interest income;
- higher or lower available-for-sale reserves reflecting higher or lower fair values of available-for-sale financial instruments; and
- higher or lower values of derivatives held in the cash flow hedging reserve.

The pre-tax effect of net interest income sensitivity is reported in the preceding sensitivity analysis. The effect of taxation can be estimated using the tax rate for the reporting period. The equity reserve sensitivities that follow are illustrative, based on simplified scenarios and consider the impact on the cash flow hedges and available-for-sale portfolios that MTM through reserves. The impact on equity is calculated by revaluing the fixed rate available-for-sale financial assets, including the effect of any associated hedges and derivatives designated as cash flow hedges, for an assumed change in market interest rates. The increase in sensitivity of reserves is due to the increase in the structural position.

Notes
[1]Includes the Bank's domestic banking book, which includes exposures held in the banking book of CIBW.
[2]Includes NBC and BBM. The Africa subsidiaries' interest rate sensitivities are shown on a 100% (rather than actual) shareholding basis.

Non-traded market risk

Interest rate risk in the banking book *(continued)*

Interest rate sensitivity analyses *(continued)*

Impact on equity reserves (continued)

Sensitivity of reserves to market interest rate movements

	30 June						31 December		
	2013			2012			2012		
	Impact on equity Rm	**Maximum impact[1] Rm**	**Minimum impact[1] Rm**	Impact on equity Rm	Maximum impact[1] Rm	Minimum impact[1] Rm	Impact on equity Rm	Maximum impact[1] Rm	Minimum impact[1] Rm
+ 100 bps parallel move in all yield curves									
Available-for-sale reserve	**(970)**	**(1 077)**	**(970)**	(1 015)	(1 015)	(955)	(1 099)	(1 119)	(955)
Cash flow hedging reserve	**(1 851)**	**(1 851)**	**(1 768)**	(1 748)	(1 748)	(1 671)	(1 746)	(1 799)	(1 671)
	(2 821)	**(2 888)**	**(2 797)**	(2 763)	(2 763)	(2 663)	(2 845)	(2 892)	(2 663)
As a percentage of Group equity (%)	**(3.8)**	**(3.9)**	**(3.8)**	(3.9)	(3.9)	(3.8)	(3.9)	(4.0)	(3.7)
– 100 bps parallel move in all yield curves									
Available-for-sale reserve	**970**	**1 077**	**970**	1 015	1 015	955	1 099	1 119	955
Cash flow hedging reserve	**1 851**	**1 851**	**1 768**	1 748	1 748	1 671	1 746	1 799	1 671
	2 821	**2 888**	**2 797**	2 763	2 763	2 663	2 845	2 892	2 663
As a percentage of Group equity (%)	**3.8**	**3.9**	**3.8**	3.9	3.9	3.8	3.9	4.0	3.7

Note

[1]The maximum and minimum impacts reported for each reserve category did not necessarily occur for the same month as the maximum and minimum impact reported for the total.

Non-traded market risk

Interest rate risk in the banking book *(continued)*

Interest rate sensitivity analyses *(continued)*

Interest return on average balances

Average balances and weighted average effective interest rates were as follows:

	30 June						31 December		
	2013			2012			2012		
Group average statement of financial position	**Average balance[1] Rm**	**Average rate[2] %**	**Interest income/ (expense)[3] Rm**	Average balance[1] Rm	Average rate[2] %	Interest income/ (expense)[3] Rm	Average balance[1] Rm	Average rate[2] %	Interest income/ (expense)[3] 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	**-**	**-**	**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	**-**	**-**	**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]The average prime rate for the reporting period was 9.00% (30 June 2012: 9.87%, 31 December 2012: 8.77%)

[2]Calculated based on daily weighted average balances.

[3]Comparatives have been reclassified.

[4]Also includes fair value adjustments on hedging instruments and hedging items.

Non-traded market risk

Foreign exchange risk

Approach

The Group is exposed to two sources of foreign exchange risk, namely, transactional and translational risk.

Transactional foreign exchange risk

Transactional foreign exchange risk arises when the banking assets and liabilities are not denominated in the functional currency of the transacting entity. The Group's policy is for transactional foreign exchange risk to be concentrated and managed within the CIBW trading book.

Some transactional foreign exchange risk also arises within the Africa subsidiaries' treasuries in the course of foreign currency statement of financial position management and facilitation of customer activity. This risk is minimised through modest transactional open position and DVaR limits, as approved by the AMRC. Foreign exchange risk is monitored daily against these limits. Average foreign exchange DVaR for the reporting period amounted to R0,3 million (30 June 2012: R0,4 million; 31 December 2012: R0,3 million) on an undiversified basis across these treasuries. In accordance with the Group's policy, there were no significant net open currency positions outside the CIBW trading book at the reporting date, that would give rise to material foreign exchange gains and losses being recognised in the statement of comprehensive income or in equity as a result of a foreign exchange rate shock.

The Group's investments in foreign currency subsidiaries and branches create capital resources denominated in foreign currencies. Changes in the ZAR value of the investments resulting from foreign currency movements are captured in the currency translation reserve, which is currently excluded from qualifying capital under SARB rules.

Foreign currency translation sensitivity analysis

The following table depicts the carrying value of foreign currency net investments and the pre-tax impact on equity of a 5% change in the exchange rate between ZAR and the relevant functional foreign currencies.

Funtional foreign currency

Functional foreign currency	Botswana pula Rm	Mozambician metical Rm	Sterling Rm	Tanzanian shilling Rm	Zambia kwacha Rm	Total Rm
As at 30 June 2013						
Foreign currency net investments	**47**	**855**	**1 944**	**773**	**17**	**3 636**
Impact on equity from a 5% currency translation shock	**2**	**43**	**97**	**39**	**1**	**182**
As at 30 June 2012						
Foreign currency net investments	30	528	1 943	326	15	2 842
Impact on equity from a 5% currency translation shock	2	26	97	16	1	142
As at 31 December 2012						
Foreign currency net investments	32	928	2 150	321	12	3 443
Impact on equity from a 5% currency translation shock	2	46	108	16	1	173

The impact of a change in the exchange rate between ZAR and any relevant currencies would be:

- a higher or lower ZAR equivalent value of non-ZAR denominated capital resources and RWAs. This includes a higher or lower currency translation reserve within equity, representing the translation of non-ZAR subsidiaries, branches and associates, the impact of foreign exchange rate changes on derivatives and borrowings designated as hedges of net investments;
- a higher or lower profit after tax, arising from changes in the exchange rates used to translate items in the statement of comprehensive income; and
- a higher or lower value of available-for-sale investments denominated in foreign currencies, impacting the available for-sale reserve.

Other market risks

We maintain different pension plans with defined benefit and defined contribution structures for current and former employees. In respect of defined benefit plans, the ability to meet the projected pension payments is maintained through investments and regular contributions. Market risk arises when the estimated market value of the pension plan assets declines, their investment returns reduce, or when the estimated value of the pension liabilities increases, resulting in a funding deficit. In these circumstances, we could be required or might choose to make additional contributions to the defined benefit plan.

Asset management risk arises where the fee and commission income earned by asset management products and businesses is affected by a change in market levels, primarily through the link between income and the value of assets under management. The risk is measured in terms of AEaR to reflect the sensitivity of annual earnings to shocks in market rates. Group policy dictates that businesses monitor, report and regularly assess potential hedging strategies relating to this risk. Exposure to this risk currently arises mainly in Financial Services. Asset management risk was not material during the reporting period.

Insurance risk

Key points

- The hedging programme aimed at improving asset-liability matching in respect of Absa Life Limited's maturity guarantees, is being reviewed to ensure it remains the most optimal solution in the current market environment. The review happens annually in accordance with our risk management and governance requirements.
- All insurance risk types remained well within the set insurance appetites.
- Absa's South African insurance entities continued with preparations to adopt the Solvency Assessment and Management (SAM) legislation requirements. In particular, the insurance entities have undertaken an Own Risk and Solvency Assessment (ORSA) gap analysis.
- Short-term insurance loss ratios increased marginally notwithstanding a very challenging reporting period during which increased claim frequencies across all business lines were experienced.

Key performance indicators

	30 June		31 December
	2013	2012	2012
	%	%	%
Short-term loss ratio	**71.6**	68.7	69,9
Life new business margin	**7.9**	8.1	9,3
Return on shareholders' assets versus benchmark	**4.6 vs. 3.9**	3.8 vs. 4.1	9.4 vs. 10.4

Introduction

Insurance risk is the risk that future claims and expenses will exceed the allowance for expected claims and expenses in measuring policyholder liabilities and in product pricing. Within the Group, four categories of insurance risk are recognised, namely short-term insurance underwriting risk, life insurance underwriting risk, life insurance mismatch risk and life and short-term insurance investment risk. These four categories of insurance risk are managed within different entities within the Group.

Within Financial Services, the different risk types are managed through specific committees, as set out below:

- Short-term insurance underwriting risk is managed through underwriting authority mandates and through referral to an Underwriting Review Committee, as and when required. Risk governance is monitored by the Governance and Control Committees, the Actuarial Review Committee and Key Risk reporting.
- Life insurance underwriting risk is monitored on a quarterly basis by the Underwriting Risk Forum to ensure the risk taken is in line with the risk priced and reserved for. Risk governance is monitored by the Governance and Control Committees, the Actuarial Review Committee and Key Risk reporting.
- Life insurance mismatch risk is monitored on a monthly basis by the Investment Risk Committee. A quarterly review is conducted by the Absa Financial Services (AFS) Capital and Investment Risk Committee and an annual review by the Actuarial Review Committee.
- Life and short-term insurance investment risk is monitored by the entity Investment risk committee on a quarterly basis.

Strategy

The Group's insurance risk management objectives are:

- pursuing profitable growth opportunities;
- balancing exposure between life and short-term insurance to allow for better diversification; and
- growing risk exposures outside South Africa.

June 2013 in review

All insurance risk types remained well within the set appetite limits. There has been increased focus on profitability management per product line with corrective measures being implemented to ensure products met the required levels of return.

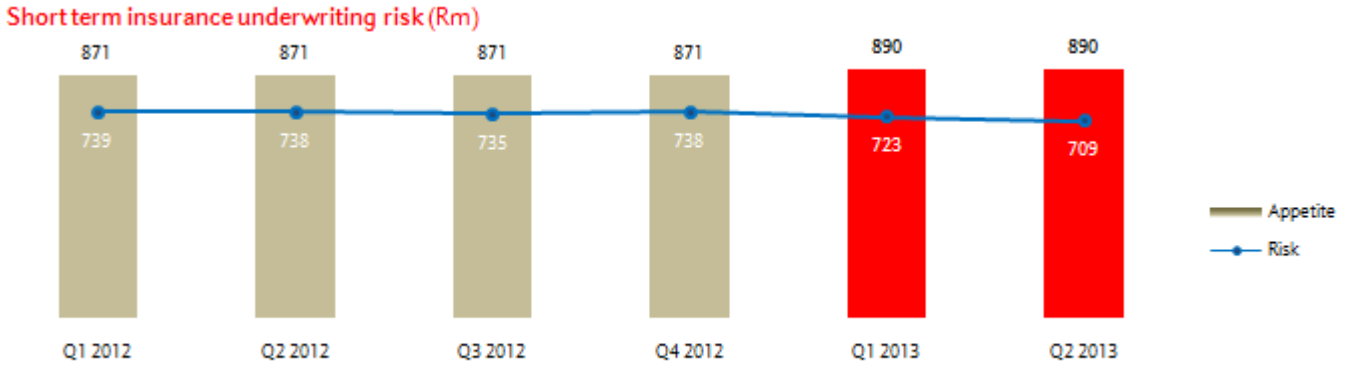
The development of the new regulatory solvency requirements for South African insurance entities, the SAM initiative, is progressing well. Absa's local insurance entities continue to stay abreast of developments and to prepare for the SAM requirements that are likely to be legislated.

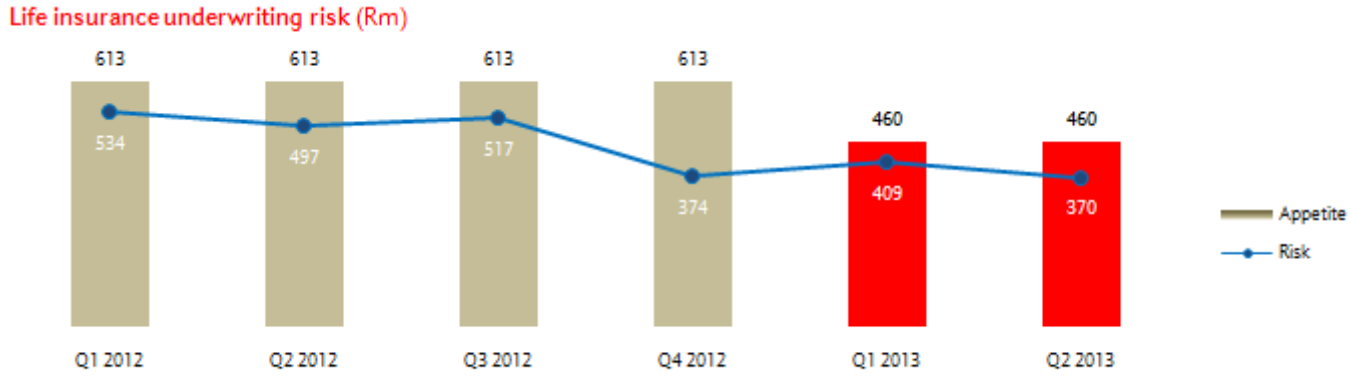
In line with the Group's One Africa strategy, Barclays Life Zambia, a new life insurance company, commenced business in August 2012.

Short-term and life insurance underwriting risk utilisation was monitored on a monthly and quarterly basis against the appetite levels set for the reporting period. The utilisation varied in accordance with expectations and in line with underlying business growth and changes in forecasts. Utilisation for both categories of risk remained within appetite throughout the reporting period.

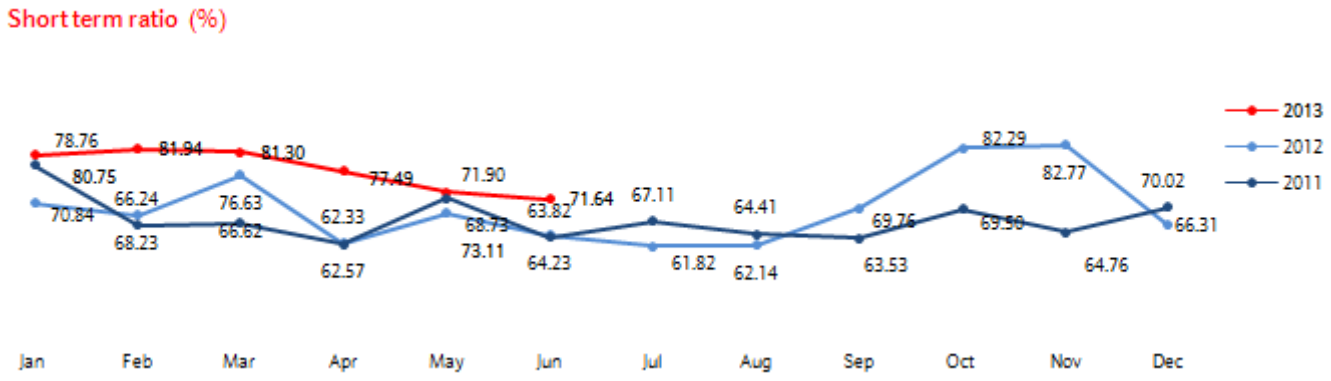
Insurance risk

June 2013 in review *(continued)*





Short-term insurance loss ratios were flat over the reporting period despite drought-related claims in the agricultural crop insurance.

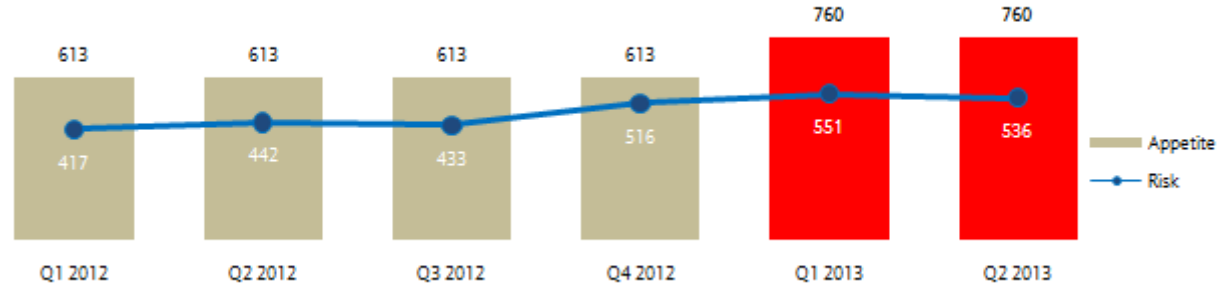


Insurance risk

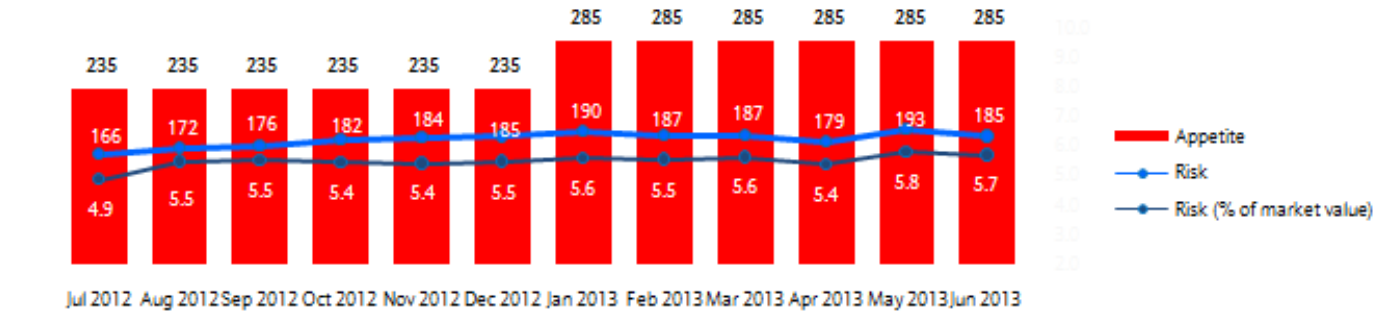
June 2013 in review *(continued)*

Life insurance mismatch risk remained well within appetite over the reporting period.

Life insurance mismatch risk (Rm)

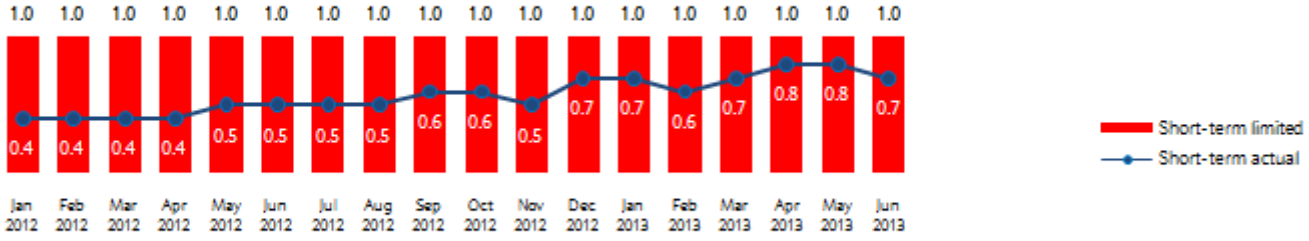


Life and short term investment risk - position vs. appetite (Rm)



The duration of the interest-bearing investments backing short-term insurance policy liabilities remained within the limit set.

Short term insurance duration matching (years)



Looking ahead

We will continue to develop the capital model for the short-term insurance environment and will maintain focus on driving product profitability by maximising returns on capital allocated to individual product lines. In preparation for the SAM legislation, an assessment of the risk profiles of the insurance entities and the capital requirements specific to these profiles will be carried out.

Management will continue to focus on diversifying risk between business lines and between South African and non-South African risks. Enhanced monitoring and reporting to maintain good oversight of new non-South African insurance exposure will receive attention.

We will continue to challenge existing processes, practices and offerings to ensure alignment with the TCF principles that were introduced into the insurance industry.

Insurance risk

Approach to insurance risk

The four categories of insurance risk recognised within the Group are defined as:

- **Short-term insurance underwriting risk**
  The risk associated with underwriting fixed and/or moveable assets, accidents, guarantees and liabilities.
- **Life insurance underwriting risk**
  The risk associated with insuring the lives and/or health of individuals or groups of individuals.
- **Life insurance mismatch risk**
  The risk that the profile of assets held to back Absa Life's policyholder liabilities is inappropriate to match the profile of these liabilities.
- **Life and short-term insurance investment risk**
  The risk associated with changes in asset values and includes interest rate, foreign exchange and equity investment risk.

Short-term insurance underwriting activities are undertaken by Absa Insurance Company, Absa Insurance Risk Management Services, Absa idirect and Absa Manx Insurance Company (Absa Manx). Life insurance underwriting activities are undertaken by Absa Life, Absa Life Botswana and Woolworths Financial Services, through an Absa Life cell captive. Global Alliance Mozambique underwrites both life and short- term insurance business.

Short-term insurance underwriting risk, life insurance underwriting risk, life insurance mismatch risk and investment risk are core to the business of the insurance entities. The successful management of these risks ultimately determines the success of the entities. The same risk management frameworks and governance structures that enabled the effective management of risks for South African entities are implemented and embedded in any new entities established.

Risk management

Short-term insurance underwriting risk

Management monitors loss ratios on a monthly basis and identifies portions of the business where claims are increasing compared to underlying premiums. In addition, reviews of rates and policy conditions are carried out, when necessary, to determine if any changes are needed. Volumes of business are monitored for increases in volumes out of line with expectations, indicating rates may be low compared to market rates. There are extensive measures in place to control claims which include assessing the claims, checking total potential claims against the sum insured (averaging) and bulk purchase of items required for repair of damaged insured items. The table below summarises risk management measures implemented per short-term insurance product line.

Risk management per short-term insurance product line

Homeowners' comprehensive insurance	Multiple, similar claims make claim rates more predictable in normal circumstances. Assessment and adjustment of potential claims is undertaken. Cover is included in the catastrophe reinsurance purchase.
Personal lines, accident and travel insurance	Scientific pricing using multiple risk factors is used in risk selection and to charge premiums matched to underlying risk. Assessment and adjustment of potential claims is undertaken. Cover is included in the catastrophe reinsurance purchase.
Commercial insurance for small, medium and large companies	In underwriting these risks, significant focus is placed on the quality of fire protection and other risk measures. Assessment and adjustment of potential claims is undertaken. Catastrophe reinsurance is purchased to protect against natural catastrophes, in particular earthquakes and against large individual losses.
Agricultural insurance	Diversification is sought across crops, seasons and geographical regions. Stop loss reinsurance is in place to protect against excessive claims. Risks are individually underwritten before being taken on. Constant assessment of crop development and adjustment of potential claims is undertaken.
Specialist lines	Risks underwritten by underwriting management agencies are only underwritten with specialists in their respective areas with track records of underwriting and claims control. Reinsurance for relevant risks is included in the main or specific reinsurance treaties.

Life insurance underwriting risk

The number of risks falling outside the ambit of standard underwriting mandates is reviewed on a regular basis to determine whether underwriting rules need to be tightened and/or risk parameters extended. The business relies on annual experience investigations, ongoing studies and analyses of surplus to set pricing and valuation parameters. The non-economic pricing and reserving assumptions (i.e. mortality, morbidity, persistency and expense assumptions) are revised to determine changes in trends that are likely to continue in the future.

Insurance risk

Approach to insurance risk (*continued*)

The table below summarises risk management measures implemented per life insurance product line.

Risk management per life insurance product line

Mortgage protection and complex underwritten life business	The main risks are mortality and morbidity. This is the only business that is individually underwritten at the application stage. Premium rates differentiate by gender, age, smoker status, socio-economic class and occupation. Sub-standard risks generally receive additional premium loadings or are declined. Correct pricing and effective underwriting control the mortality and morbidity risks. Exposure in excess of a retention limit for each policy is reinsured to reduce the variability of the claims experience and the exposure to a single life. Most policies have premium guarantee terms that vary from one year (for yearly renewable business) to 25 years (for products that have an investment component attached). For products with an investment component, the overall premium rate is guaranteed; the investment portion is not guaranteed and could be reduced at the discretion of Absa Life. However, when products are priced, it is not the intention to increase premium rates over the policy term. Experience is monitored to confirm actual experience is in line with pricing assumptions.
Funeral business	The main risk is mortality increased by high Aids rates experienced in the target market. The risk is exacerbated by premium rates that are the same, irrespective of the age of policyholders, since significant changes in the age profile of customers could impact on experience. Limitation of cover for certain pre-existing conditions for defined time periods (generally two years) applies. Strict experience monitoring limits the risk, combined with the contractual right to increase premiums with a three-month notice period. The intention is not to exercise this right, but we do have the option to do so. Reinsurance is not utilised as sums assured per individual life are minor.
Credit life business	The main risks are retrenchment and mortality. Treaty reinsurance arrangements are in place whereby risk is shared with external business partners. The right to change premiums with a 30-day notice period is retained. Premiums generally do not differentiate on the basis of gender, age or smoker status and demographic shifts could introduce additional insurance risk.
Group life business	The main risk is mortality risk. Treaty reinsurance arrangements are in place whereby risk is shared with external business partners. Contracts and premium rates are reviewed annually. Additional catastrophe reinsurance cover will be considered for an accumulation of losses that may occur due to the geographical concentration of a group.

Life insurance mismatch risk

A mismatch arises if the assets backing non-linked products do not grow sufficiently or materialise timeously to match specified amounts guaranteed on death, disability, critical illness or retrenchments, or on survival to the end of the policy. Mismatch risk is managed through setting asset allocations which appropriately match assets to underlying liabilities. Guaranteed life event benefits and guaranteed maturity benefits are each managed in terms of separate investment strategies.

Life and short-term investment risk

Investment risk relates to the variability in the value of life and short-term shareholder assets and of assets backing policyholder liabilities in respect of short-term insurance. Interest rate risk relates to the change in investment value of assets due to a change in interest rates. Foreign exchange risk is the risk that a change in the exchange rate could affect the financial results of the insurance entity. A portion of the current foreign exchange exposure, in respect of short-term insurance, relates to a United States dollar denominated investment used to hedge the amount payable to a foreign supplier contracted to develop an administration system. Investment risk is mitigated through diversified asset allocations and investment mandates.

Short-term insurance underwriting risk

Reinsurance

The impact of large individual short-term insurance claims is limited through the purchase of reinsurance that limits the risk retained on each claim. The accumulation of net retained exposures due to multiple claims is limited through the purchase of catastrophe reinsurance. Catastrophe reinsurance, particularly related to earthquake risk, is purchased to cover losses of up to R3,0 billion (30 June 2012: R3,0 billion; 31 December 2012: R3,0 billion).

Insurance risk

Short term insurance underwriting risk (*continued*)

Reinsurer credit risk

The credit risk in respect of reinsurance partners is managed by ensuring the entities only transact with reinsurers with good credit ratings. The creditworthiness of reinsurers is regularly monitored. To qualify as a reinsurance partner, reinsurers must be assigned a minimum 'A' rating by the Standard and Poor's (or equivalent) rating agency. Any exceptions to this policy must be approved by management as well as by the various boards of directors of the insurance businesses.

Concentration risk

The main source of concentration risk is exposure to personal property, personal lines and commercial and industrial insurance business. Geographically, the main concentrations are in Pretoria, Johannesburg and the East Rand. Approximately 10.60% as at 30 June 2013 (30 June 2012: 11,0%; 31 December 2012: 11,0%) of the total sum insured is concentrated in Pretoria with 10.20% as at 30 June 2013 (30 June 2012: 11,0%; 31 December 2012: 11,0%) in the East Rand. The maximum expected loss for a one in 250-year event is a loss of R3,0 billion as at 30 June 2013 (30 June 2012: R3,0 billion; 31 December 2012 based on one in 250 years). Catastrophe cover is purchased to cover losses up to R3,0 billion 30 June 2013 (30 June 2012: R3,0 billion; 31 December 2012: R3,0 billion).

Outstanding claims reserves

Outstanding claims reserves are held for claims which have been notified, but not yet fully settled. Individual estimates are sourced from claims assessors and are reviewed as and when new information regarding a claim becomes available. The claims provision includes the expected claim cost and any associated handling costs. Claims development patterns are regularly monitored to assess trends and to determine the appropriate level of reserving. The provision at the reporting date amounted to R695million (30 June 2012: R545million; 31 December 2012: R 625 million).

Incurred but not reported claims reserves

A stochastic reserving model is applied to calculate the incurred but not reported (IBNR) claim provision for the majority of the exposures. Where detailed data is not available, the provision is based on interim measures proposed by the Financial Services Board. The IBNR provision at the reporting date amounted to R148 million (30 June 2012: R151million; 31 December 2012: R154 million).

Sensitivity analysis

The IBNR provision is determined by taking the following factors, per class of business underwritten, into account:
- actual and expected claims experience;
- actual and expected reporting patterns; and
- premium volumes.

These factors affect the sensitivity of the IBNR and are taken into account in setting the level of reserves required.

Changes in assumptions

The IBNR and outstanding claims provisions take historical data, trends and recent experience in claims processing and loss ratios into account. These calculations, together with changes in the underlying risk profile of the business, impact the determination of the final balances.

Life insurance underwriting risk

Reinsurance

A formal reinsurance policy has been approved by Absa Life's board of directors. Reinsurance is used in respect of large individual risks and in respect of risks where Absa Life needs to build knowledge and experience as well as obtain technical assistance from the reinsurers. Catastrophe reinsurance is used as a protection against a large number of simultaneous losses.

Reinsurer

Reinsurer credit risk is managed by transacting solely with reinsurers in possession of international A credit ratings as well as by holding capital in line with or in excess of regulatory requirements.

Concentration risk

The risk of several claims arising simultaneously ('concentration risk') on individual lives is small. The size of individual policies is low and reinsurance is used to cover larger individual exposures.

In the case of the group life business, there is greater risk of geographic concentration since groups of lives, particularly per employer, are insured. In addition to comprehensive quota share reinsurance, catastrophe reinsurance is used to provide protection against an accumulation of losses in respect of risk retained.

Insurance risk

Life insurance underwriting risk *(continued)*

Mortality and morbidity risk

We use experienced underwriters to review risk cover applications in excess of specified limits and evaluate them against established standards. Where an applicant requires cover in excess of specified monetary or impairment limits, the excess is reinsured. Mortality and morbidity risks are managed per product line based on underwriting criteria, pricing, reinsurance and experience.
Effective claims management processes ensure that all valid claims are honoured, in time with policy documentation and allowances made with setting premiums or valuing liabilities. Proactive fraud detection capabilities continue to be developed and improved to minimise fraudulent claim payouts.

Human Immunodeficiency Virus and Acquired Immune Deficiency Syndrome risk

Absa Life is exposed to Human Immunodeficiency Virus (HIV) and Aids risk where an insufficient allowance has been made in the pricing and valuation bases. To manage risk for the business that is medically underwritten, HIV tests are performed as part of the normal underwriting process. Cover is not provided in instances where the mortality risk is uncertain or is deemed to be too high. For other lines of business, such as funeral and credit life, general pre-existing condition clauses are included in the contract to protect against anti-selection by policyholders. In such an event, a claim will not be paid if it occurs as a result of a condition existing at the inception of the policy or within a certain period (generally 24 months) from inception.

Aids mortality investigations are performed. The results of these investigations assist in setting the premium and mortality basis for life policies. Additional allowances are included in the valuation basis to allow for a worse than expected Aids risk experience.

Lapse risk

Lapse risk is the risk of not recouping expenses such as commission and/or underwriting costs generally incurred at the inception of the policy. In such instances, a loss is incurred if the policy lapses before the costs have been recouped. This risk is managed by entering into 'claw-back' arrangements with financial advisers, whereby the commission or underwriting cost is recouped. Annual investigations of lapse experience are done to ensure our pricing and valuation assumptions are appropriate, relevant and in line with experience.

Expense risk

An allowance for future maintenance and claim expenses, inflated at the assumed expense inflation rate, is included in liability calculations based on the current level of maintenance and claim expenses per policy. The risk of understating and pricing insufficiently for this risk is managed by:
- conducting annual expense investigations based on the most recent operating expenditure incurred;
- monitoring costs on a monthly basis to ensure they remain within anticipated levels and identifying trends at an early stage; and
- basing the assumed future inflation rate on observable economic indicators and experience.

Model risk

Model risk is the risk of determining expected future cash flows and liabilities from existing policies using modelling techniques or methodologies that may be incorrect or inappropriate for certain classes of business. This risk is managed by placing the models through rigorous checking procedures to ensure the cash flows projected by the models are reasonable. Experienced and approved external consultants are used in this process. The modelling methodologies used are in line with guidance issued by the Actuarial Society of South Africa (ASSA) or, in the absence of such guidance, generally accepted actuarial methods.

Data risk

Data risk is the risk that the policy data used in the models is inaccurate or incomplete, leading to incorrect premiums being set or insufficient reserves being held. This risk is managed by conducting reasonability checks on data and by reconciling the data with the previous valuation data (i.e. a movement analysis) and the financial statements. A new and improved administration system is in the process of being implemented for Absa Life to further mitigate data risk.

Assumption risk

Assumption risk is the risk that the change and effect of the assumptions used in the most recent valuation are not considered. Best estimate assumptions are derived from annual investigations into the demographic experience of the business and economic assumptions are based on observable, actual, consistent economic indicators. Margins are added to best estimate assumptions to allow for variability in the assumptions. These margins include compulsory margins according to the ASSA's Professional Guidance Note 104 and further discretionary margins, where considered necessary by the statutory actuary.

The risk discount rate used to discount future profits includes a margin over assumed investment returns to allow for the risk that experience in future years may differ from assumptions.

Additional allowances are incorporated into the liabilities to mitigate assumption risk. The compulsory margins prescribed in the SAP 104 have been applied in the valuation of liabilities.

Assumptions regarding future mortality and morbidity experience have a significant impact on the quantum of the actuarial liability. Future developments in mortality and morbidity experience, whether positive or negative, will impact on profits in future years, particularly in areas influenced by Aids infection rates. A further factor to take into consideration is the impact of investment returns. Although a significant portion of the book, such as credit life, is short-term, the mortgage protection business increases the duration of the overall business and therefore future investment returns.

Insurance risk

Life insurance underwriting risk (continued)

Life insurance mismatch risk

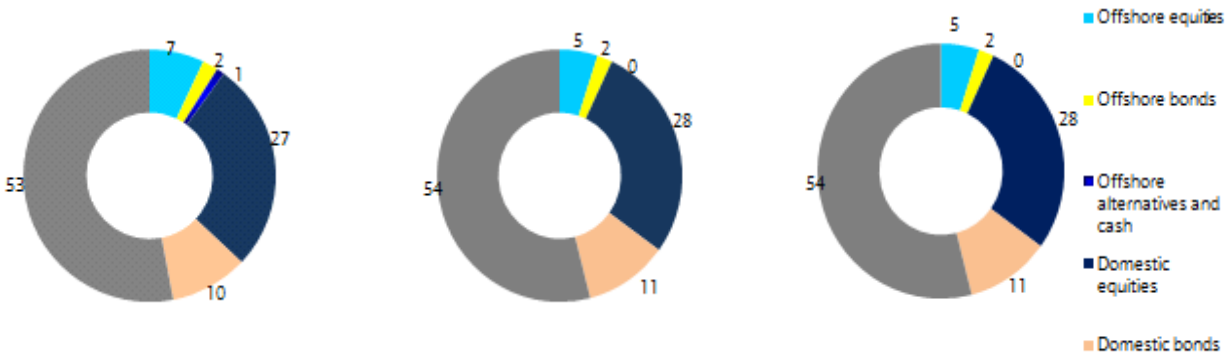
Through the use of asset-liability modelling, appropriate investment strategies for the assets backing policyholder liabilities are determined to mitigate mismatch risk as far as possible. These investment strategies are reviewed annually. For guaranteed mortality, morbidity and retrenchment benefits, an asset allocation comprising cash and bonds of various terms to maturity is used. For guaranteed maturity benefits, cash and long-dated bonds are used and for policies close to maturity, hedging strategies are implemented. Monthly meetings are held with the asset manager to monitor these asset durations and targeted levels.

Life and short-term investment risk

A single investment strategy is maintained for short-term insurance shareholder assets and for assets backing short-term insurance policyholder liabilities. Assets are invested in short-dated interest-earning assets and preference shares. The duration of interest-earning assets is monitored against a maximum effective duration.

The Absa Life insurance shareholders' funds are invested in a balanced portfolio. The current mandated asset allocation is as follows:

Absa Life Shareholder funds – mandated asset allocation (%)



30 Jun 2013 30 Jun 2012 31 Dec 2012

Domestic assets have a limit on active equity exposures or tracking error taken on by the asset manager versus the underlying equity benchmark.

Counterparty credit risk in respect of investments is managed by investing with a spread of issuers with F1 or F1+ credit ratings.

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. Liquidity risk is managed in the short-term insurance businesses by investing in short-dated interest-earning assets, with limits on investments in less liquid assets such as preference shares and corporate bonds. The life insurance businesses are less exposed to liquidity risks due to the low risk of large cumulative claims. Liquidity risk is managed through close management of potential cash outflow in discussion with the asset managers.

Operational Risk

Contents

Overview

Key points

Advanced measurement approach (AMA) approval by the SARB maintained.
- Overall increase in the number of events however the total value of losses has decreased.
- Fraud and transaction operations were the core drivers of expected losses.
- Continuous focus on fraud tools and processes to manage emerging fraud risks, including cyber fraud.

Key performance indicators

	30 June 2013	30 June 2012	31 December 2012
Total number of events	↑	↓	↓
Total loss of value	↓	↑	↑

Introduction

Operational risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes or systems, human error or external events. Operational risk exists in the natural course of business activity therefore it is impossible to eliminate all operational risk exposure. Risk events of significance are not frequent and we seek to reduce the likelihood of these in accordance with its risk appetite.

We recognise the significance of operational risk and is committed to enhancing the measurement and management thereof. Within our operational risk framework, qualitative and quantitative methodologies and tools are applied to identify and assess operational risks and to provide management with information for determining appropriate mitigating measures.

Strategy

Our operational risk management objectives are:

- further embedding an operational risk-aware culture throughout the organisation;
- holding risk-sensitive RC for operational risk under the AMA;
- enhancing controls using automated solutions as far as possible, specifically relating to fraud;
- meeting regulatory requirements;
- proactively managing and effectively mitigating key operational risks;
- setting and monitoring appropriate operational risk appetite and tolerance levels; and
- further improving and embedding post-event follow-up and recovery actions, including full controls reviews related to unexpected losses.

June 2013 in review

Expected losses accounted for the bulk of losses, while unexpected losses contributed to budget variances. Total losses for 2013 increased in volume but decreased in value. Fraud and transaction operations remained the main drivers for expected losses.

We initiated strategic and tactical risk and control projects in 2013. There were specific control improvement initiatives implemented in 2013, which included new systems and technological processes to reduce operational risk and consequent losses. Process enhancements were prioritised to making our customers' lives easier, with the additional benefit of positively impacting on our control environment.

We saw an elevated people risk profile driven by accelerated organisational restructure across the first half of 2013. This was offset by close change management across the organisation to provide stability, combined with targeted action plans to address concerns in specific businesses/functions.

Looking ahead

Fraud will remain a major driver for operational losses, as the growth in card fraud, particularly debit card fraud, is a South African industry concern. We will continue to embed fraud prevention processes and controls through further implementation of fraud systems. This will limit increases in losses, but fraud is nevertheless expected to remain the key operational risk impacting expected losses.

We will ensure that operational risks inherent to the implementation of new projects and programmes are effectively mitigated. Plans to further embed our African presence will require continuous reassessment of capability changes required. While change has not traditionally resulted in operational risk losses, risks related to change will be a constant focus in the positioning of the Group in the changing economic environment. Continued focus will also be applied to meeting the stringent demands of increased regulatory rigour, of changes to current regulation and of new regulations introduced.

Technology is essential to the success of the operations of any financial institution. We will continue to invest in technology advancement, and will further promote our technology risk management capabilities.

Operational risk

Looking ahead *(continued)*

Consumerism is not currently causing significant losses but, given regulatory changes and increasing focus on consumer protection, all trends will be monitored. In this regard, we will continue to place our customers at the core and prioritise process enhancements to measure and improve the customer experience. We fully subscribe to the principles and ethos of TCF.

We realise the importance of our human capital and have programmes in place to ensure we remain an employer of choice, including the talent and reward programme aimed at defining a long-term approach to compensation and performance measurement and our culture and values programme, which is aimed at shaping the organisational mind set.

Significant planned investment will have a positive impact on the future control environment and risk profile, including:
– streamlining the back- and middle-office processes to improve efficiency and manage increased volumes;
– continued investment in technology; and
– further strengthening pro-active fraud monitoring to curb losses.

Approach to operational risk

Operational risk is a principal risk managed through an associated ORF, which is underpinned by a taxonomy of key risks. These key risks constitute the risk environment for operational risk and are all owned by relevant senior management with the appropriate expertise. The people key risk is owned by the Group Human Resources Executive, and the technology key risk is owned by the Chief Information Officer. The ORF comprises a number of elements that allow us to manage and measure our operational risk profile and to calculate the amount of operational risk capital that needs to be held to absorb potential losses. The minimum, mandatory requirements for each of these elements are set out in our operational risk policies. These policies are implemented across the Group: vertically, through the organisational structure with all businesses required to implement and operate the ORF that meets, as a minimum, the requirements detailed in these operational risk policies; and horizontally, with the key risk owners required to monitor information relevant to their key risk from each ORF element.

We track boundary events, i.e. operational risk within credit risk. Through root cause analysis of these boundary events, we design and implement appropriate remediation targeted at continuously improving our operational credit management processes.

We have two key objectives relating to the management of operational risk:
- To minimise the impact of losses suffered in the normal course of business and to avoid or reduce the likelihood of suffering a large extreme loss.
- To improve the effective management of the Group and strengthen its brand and external reputation.

We are committed to the management and measurement of operational risk and were granted approval to operate an AMA for operational risk under Basel II, which commenced in January 2008. The majority of the divisions in the Group calculates RC using AMA, however, in specific areas we apply the basic indicator approach (BIA) or the standardised approach. In certain joint ventures and associates, we may not be able to apply the AMA.

Operational risk is one of four principal risks in the PRP and comprises a number of specific key risks defined as follows:

- External supplier risk - inadequate selection and ongoing management of external suppliers.
- Financial reporting risk - reporting misstatement or omission in external financial or regulatory reporting.
- Fraud risk - dishonest behaviour with the intent to make a gain or cause a loss to others.
- Information risk - inadequate protection of Absa's information in accordance with its value and sensitivity.
- Legal risk - failure to identify and manage legal risks.
- Product risk - inadequate design, assessment and testing of products/services.
- Payment process risk - failure in operation of payments processes.
- People risk - inadequate people capabilities and/or performance/reward structures, and/or inappropriate behaviour.
- Premises and security risk - unavailability of premises (to meet business demand) and/or safe working environments, and inadequate protection of physical assets, employees and customers against external threats.
- Regulatory risk - failure or inability to comply fully with the laws, regulations or codes applicable specifically to the financial services industry.
- Taxation risk - failure to comply with tax laws and practice that could lead to financial penalties, additional tax charges or reputational damage.
- Technology risk - failure to develop and deploy secure, stable and reliable technology solutions.
- Transaction operations risk - failure in the management of critical transaction processes.

These risks can result in financial and/or non-financial impacts including legal/regulatory breaches or reputational damage.
We operate within a robust system of internal control that enables business to be transacted and risk taken without exposure to unacceptable potential losses or reputational damage.

The prime responsibility for the management of operational risk rests with the business and functional units where the risk arises. Operational risk managers are widely distributed throughout the organisation and support these areas, assisting line managers in understanding and managing their risks. The heads of Operational Risk for each of the product lines are responsible for ensuring the implementation of and compliance with the operational risk policies and the ORF.

The central operational risk function is responsible for establishing, owning and maintaining an appropriate ORF and for overseeing the portfolio of operational risk across the Group. The ORC is the senior executive body responsible for the oversight and challenge of operational risk in the Group. The ORC presents relevant risk profile information to the GRCMC.

Operational risk

Approach to operational risk *(continued)*

In addition, business unit CRCs monitor control effectiveness. The Group CRC receives reports from these committees and considers Group significant control issues and their remediation. The Group CRC presents relevant information to the GACC.

Business units are required to report their operational risks on both a regular and an event-driven basis. The reports include a profile of the material risks to their business objectives and the effectiveness of key controls, control issues of Group-level significance, operational risk events and a review of capital. Operational risk is recorded and reported according to the ORF. Specific reports are prepared on a regular basis for the GCC, Group CRC, GRCMC and GACC.

The objective of the operational risk management methodology is to ensure that we manage operational risks in an optimal and consistent manner, making certain these risks are measured accurately and are adequately capitalised. A further aim is to increase the efficiency and effectiveness of our resources, and to make use of growth opportunities while minimising operational risks.

The ORF has been designed to meet external and internal governance requirements including Basel and the Banks Act. The ORF includes the following elements:

Risk and control assessments

We identify and assess all material risks in the business and evaluate key controls in place to mitigate those risks. Managers in the business use self-assessment techniques to identify risks, evaluate the effectiveness of key controls and assess whether the risks are effectively managed within business risk appetite. The businesses are then able to make decisions on what, if any, action is required to reduce the level of risk. These risk assessments are monitored on a regular basis to ensure that each business continually understands the risks it faces.

Internal risk events

An operational risk event is any circumstance where there is a potential or actual impact to the Group resulting from inadequately controlled or failed internal processes, people and systems or from an external event. The definition includes situations in which we could have made a loss, but in fact made a gain, as well as incidents resulting in reputational damage or regulatory impact only. Thresholds are used across the organisation for reporting risk events and as part of our analysis we seek to identify where improvements are needed to processes or controls, to reduce the recurrence and/or magnitude of risk events. We also use a database of external risk events, which are publicly available and through Barclays who is a member of the operational risk data exchange, a not-for-profit association of international banks formed to share anonymous loss data information. The external loss information is used to support and inform risk identification, assessment, and measurement, and provide management with insight into possible emerging risks.

Key indicators

Key indicators (KIs) are metrics that are used to monitor our operational risk profile. KIs include measurable thresholds that reflect the risk appetite of the business. KIs are monitored to alert management when risk levels exceed acceptable ranges or risk appetite levels and drive timely decision making and actions.

Key risk scenarios

Key risk scenarios (KRSs) are business area level assessments of the material operational risks, or risk themes. By combining data from risk and control assessments, KIs, internal risk events, external risk events, audit findings, expert management judgement and other internal data sources such as control issues, we are able to generate KRSs. These scenarios identify the most significant operational risks across the Group. The KRSs are validated at a product line level as well as at a Group level.

Operational risk appetite

Absa's approach to determining appetite for operational risk combines both quantitative measures and qualitative judgement, in order to best reflect the nature of non-financial risks.

The monitoring and tracking of operational risk measures is supplemented with qualitative review and discussion at senior management executive committees on the actions being taken to improve controls and reduce risk to an acceptable level.

Our operational appetite is aligned to the Group's risk appetite framework.

Basel II measurement elected

We apply the AMA to calculate EC and RC requirements for operational risk. This is subject to the relevant RC floor. However, certain areas are not included in the AMA, namely:

- joint ventures and non-controlling interests where we are unable to dictate the implementation of the ORF or capital methodology; and any cross-border legal entities where local regulatory policy/requirements either do not permit the use of or do not support the practical implementation of the AMA framework.

Operational risk

Basel II measurement elected *(continued)*

Capital modelling

The model used to determine the Group's operational risk capital is periodically reviewed and approved for continued use. The need for any changes or updates to the model is considered on an ongoing basis to ensure that it is in line with best practice as well as narrowing industry practices and regulatory feedback. Any such changes deemed necessary follow a robust internal process of development and approval prior to being submitted for regulatory approval where relevant.

The AMA approach follows a key risk scenario-based process. KRSs exist for all of the Key Risks as detailed in the Principal Risk Framework under Operational Risk. Currently, the most significant KRSs relate to the Fraud, Transaction Operations, Regulatory and Premises & Security Key Risks. These Key Risks will thus also account for the most amount of capital.

KRSs are the main input to the model and assess the Group's material operational risks on an expected and unexpected basis. The KRSs provide a forward-looking view of operational risk and the Group believes this is currently the most effective way to measure unexpected losses. KRSs are also used as a tool in managing operational risk.

For each KRS, a frequency and severity distribution is constructed and aggregated to derive the Group loss distribution. The modelled regulatory capital is measured at a 99,9% confidence level. Once the overall regulatory capital for the Group has been established it is allocated to product lines based on a methodology that includes a risk-sensitive component.

Coverage of the AMA approach

The AMA approach is applied across the Group. Each component of the framework provides effective risk management and indirectly also determines the capital that should be held. The resultant capital split is indicated below.

Operational risk

Operational risk profile

The Group monitors trends in operational risk events by size, product line and internal risk categories (including Key Risk). For comparative purposes, the analysis below presents Absa's operational risk events by Basel II category. The highest frequency of events occurred in external fraud (77%). This pattern is in line with the nature of operational risk and the environment in which we operate.

External fraud (41%) and Execution, Delivery and Process management (32%) account for the highest portion of losses by value. There has been a decrease in debit card fraud in this reporting period. The previous reporting period numbers for Execution, Delivery and Process management was driven by a single event in NBC.

Total risk events by count (%)

Total risk events by value (%)

Insurance in mitigation of operational risk

Insurance is used as a mechanism to mitigate the impact of some operational risks. The Insurance Committee is responsible for overseeing the principal insurance programmes that relate to key aspects of our operational risk. The Insurance Committee ensures that these policies are current and remain applicable to the operating environment.

The primary insurance policies in place for the Group are:

- comprehensive crime and electronic crime;
- professional indemnity; and
- various asset policies.

Funding Risk

Liquidity risk

Funding risk

Liquidity risk

Key points

- Continued to maintain a surplus above the internal liquidity risk appetite.
- Continued to hold high levels of surplus liquid asset in anticipation of Basel III.
- Sustained strong funding tenor position in challenging market conditions, while balancing optimal cost implications.
- Liquidity risk management process remains robust and comprehensive.

Key performance indicators

	30 June 2013 %	2012 [1] %	31 December 2012 [1] %
Long-term funding ratio	**28.2**	25.6	26.2
Loans-to-deposits ratio	**90.4**	86.9	90.2

Introduction

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

Liquidity risk is inherent in all banking operations. Confidence in the organisation, and hence liquidity, can be affected by a range of institution specific and market-wide events including, but not limited to, market rumours, credit events, payment system disruptions, systemic shocks, terrorist attacks and even natural disasters.

The appropriate and efficient management of liquidity risk by banks is of utmost importance in maintaining confidence in the financial markets and in ensuring that banks pursue sustainable business models.

Strategy

Our liquidity risk management objectives are:

- growing and diversifying the funding base to support asset growth and other strategic initiatives;
- lengthening our funding profile balanced with a strategy to reduce the weighted average cost of funds;
- maintaining adequate levels of surplus liquid asset holdings in order to remain within the liquidity risk appetite; and
- re-aligning our business models and balance sheet mix to take into account the Basel III implications.

2013 in review

The Group's liquidity risk position is strong and remains well managed in line with the board approved liquidity risk appetite.

While the South African banking system survived the financial crisis relatively unscathed, internationally driven regulatory requirements outlined in the Basel III liquidity framework will increase costs in the industry. Navigating towards full compliance while minimising the impact on the Group's 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. The implementation of new processes towards refining data, coupled with the availability of a committed liquidity facility (SARB CLF) has resulted in further progress towards compliance with the LCR during the first half of 2013. The net stable funding ratio (NSFR) remains a challenge given the structural features of the South African economy and will remain a key focus.

Looking ahead

The Board approved liquidity risk appetite will continue to drive key decisions relating to liquidity risk. The expectation is that Absa will continue to have a healthy liquidity position throughout 2013.

Note

[1]Previous reporting period figures have been restated

Liquidity risk

Approach to liquidity risk

Group Treasury is responsible for implementing the liquidity risk framework and policy and for ensuring that liquidity risk is adequately managed across the Group. Treasury also monitors and manages the Group's liquidity position to ensure full regulatory compliance in respect of liquidity risk management and reporting. As part of this process, Treasury takes the contractual and business-as-usual liquidity positions, as well as the stress tested liquidity position into consideration.

Business-as-usual liquidity risk management

Business-as-usual liquidity risk management refers to the management of the cash inflows and outflows of the bank in the ordinary course of business. The business-as-usual environment tends to display fairly high probability, low severity liquidity events and involves balancing the Group's day-to-day cash needs. Group Treasury's approach to managing business-as-usual liquidity focuses on the following key areas:

- managing net anticipated cash flows (between assets and liabilities), within approved cash outflow limits;
- active daily management of the funding and liquidity profile, taking the board-approved liquidity risk metrics into consideration. These metrics were designed to ensure compliance with the Group's business-as-usual liquidity risk tolerance and to position the Group to deal with stressed liquidity events;
- maintaining a portfolio of highly liquid assets as a buffer against any unforeseen interruption to cash flow;
- participating in local money and capital markets to support the day-to-day funding requirements such as refinancing maturities, meeting customer withdrawals and supporting growth in advances;
- monitoring and managing liquidity costs; and
- conducting an ongoing assessment of the various funding sources in order to grow and diversify the Group's funding base and achieve an optimal funding profile.

Key risk metrics used in business-as-usual liquidity management

Risk metric	Purpose of metric
Short-, medium- and long-term funding ratios	Provides a measure of the contractual term of the funding used. For example, the long-term funding ratio shows the proportion of total funding that has a remaining contractual term in excess of six months.
Interbank funding ratio	Provides an indication of the extent to which reliance is placed on funding from other banks.
Short-term maturity cash flow mismatches (at a contractual and behavioural level)	Provides a measure of the extent to which cash flow mismatches occur in the short term (i.e. less than one month).
Cash outflow limits	Measures expected cash outflows against predetermined limits.
Concentration of deposits	Provides a measure of the extent to which reliance is placed on funding from certain customers or market sectors.

Stress liquidity risk management

Stress liquidity risk management refers to the management of liquidity risk during times of unexpected outflows arising from Group specific or systemic stress events. Treasury regularly performs liquidity scenario analyses and stress tests to assess the adequacy of the Group's stress funding sources, liquidity buffers and contingency funding strategies in the event of such a stressed scenario. Scenario analysis and stress testing encompasses a range of realistic adverse events which, while remote, could have a material impact on the liquidity of the Group's operations.

Through scenario analysis and stress testing, the Group aims to manage and mitigate liquidity risk by:

- determining, evaluating and testing the impact of adverse liquidity scenarios:
- identifying appropriate rapid and effective responses to a crisis: and,
- setting liquidity limits, sources of stress funding and liquidity buffers as well as formulating a funding strategy designed to minimise liquidity risk.

Our overall objective is to ensure that during a liquidity stress event, our stress funding sources and liquidity buffers exceed the estimated stress funding requirements for a period of at least 30 days. Stress testing and scenario analysis is used to evaluate the efficiency of identified sources of stress funding along a continuum of risk scenarios and to formulate and test contingency plans.

A detailed 'contingent funding and liquidity plan has been designed to protect depositors, creditors and shareholders during adverse liquidity conditions. The plan includes early warning indicators and sets out the crisis response strategy addressing sources of stress funding, strategies for crisis avoidance/minimisation and the internal and external communication strategy. Liquidity simulation exercises are conducted regularly to test the robustness of the plan and to ensure that key stakeholders remain up to date on liquidity matters.

Absa is in the process enhancing our recovery and resolution initiative, which included a liquidity plan to protect depositors.

Liquidity risk

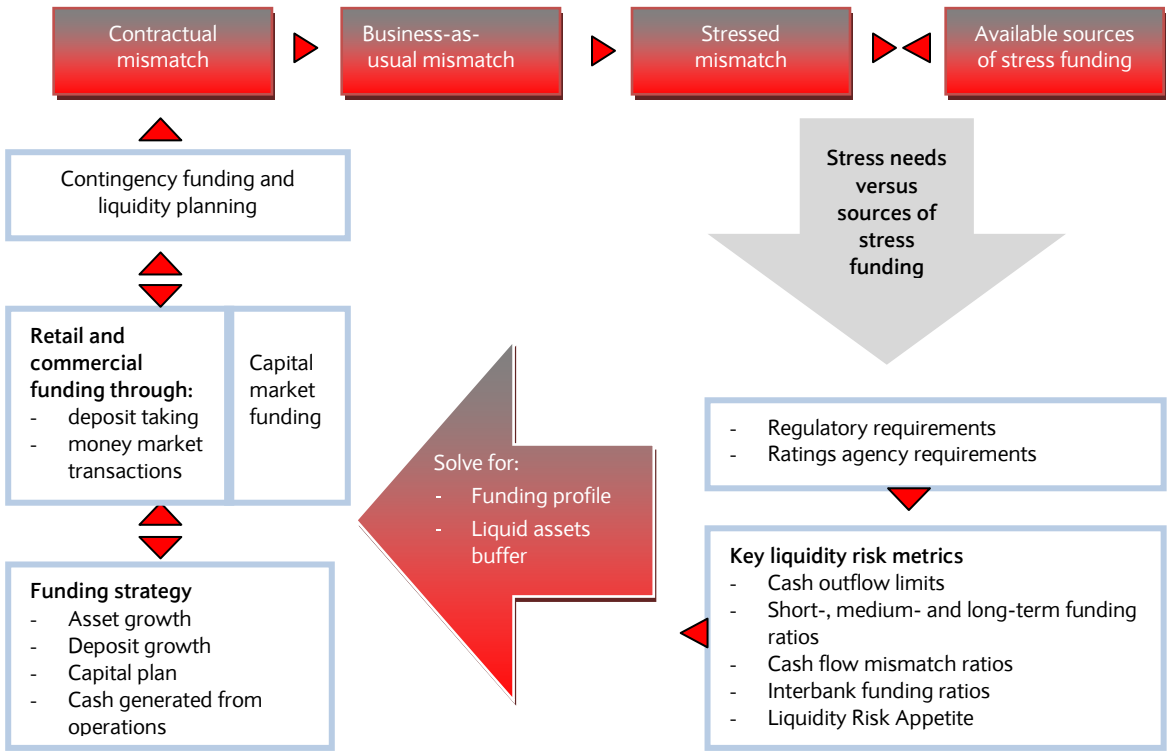
Approach to liquidity risk *(continued)*

Stress liquidity risk management *(continued)*

Key risk metric used in stress liquidity risk management

Risk metric	Purpose of metric
Survival horizon	Provides a measure of the adequacy of the bank's liquidity resources during times of severe stress, measured as the number of days that the bank is expected to survive a defined liquidity scenario.

Our liquidity risk management approach of Absa is summarised in the diagram below:



Regulatory changes in 2013

The following regulatory changes were announced:

- South African Banks are required to report their Basel III positions on both LCR and NSFR from January 2013 onwards.
- In January 2013 the Basel Committee on Banking Supervision announced that the implementation timeframes for the LCR will be relaxed, with full compliance only required by 2019. The SARB indicated that all the relevant changes made to the LCR framework will be incorporated.

Key metrics under Basel liquidity risk framework and timeframes for compliance

Risk metric	Purpose of metric	Implementation timeframes
LCR	To promote short-term resilience of a bank's liquidity risk profile by ensuring it has sufficient high-quality liquid assets to survive a significant stress scenario lasting for one month.	Requirements phased in from 2015 with full compliance required by 2019.
NSFR	To promote resilience over a longer-time horizon (one year) by creating additional incentives for banks to fund their activities with more stable sources of funding on an ongoing basis.	Compliance required by 2018. (Basel Committee currently reviewing)

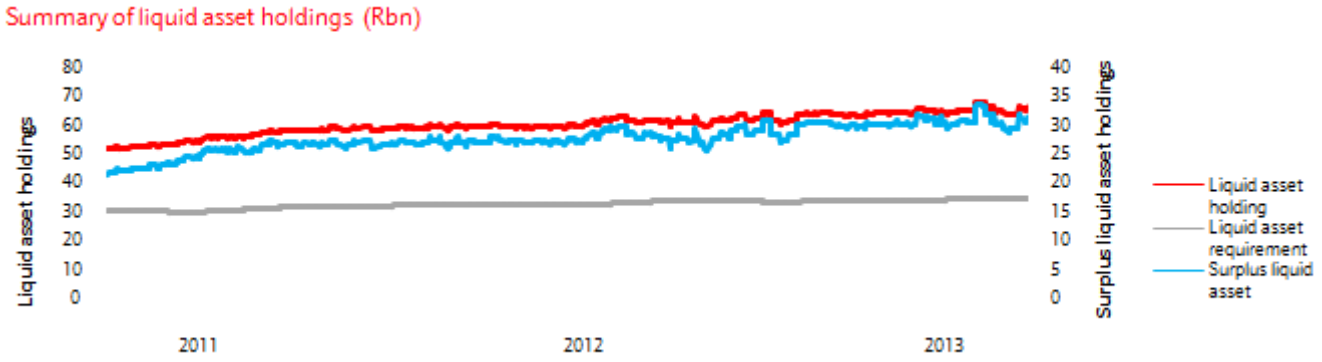
Liquidity risk

Regulatory changes in 2013 *(continued)*

We maintained a strong liquid assets buffer and funding tenor position of the wholesale funding book, ahead of the timeframes required by the Basel rules outlined in the previous table. Liquidity resources remain sufficient under the liquidity risk appetite framework with surplus liquid assets under a one-month survival horizon. We are currently reassessing our strategy in relation to liquidity buffers in light of the regulatory developments outlined above to ensure that an optimal approach is followed. Further information on progress made and on the plans for the rest of the period can be found in the sections that follow.

Surplus liquid assets held

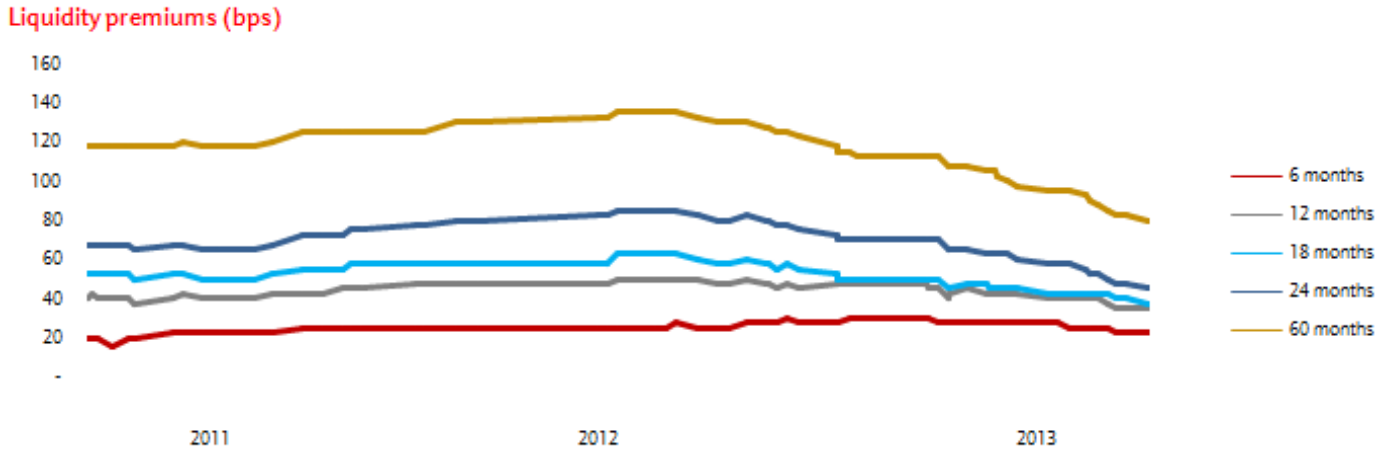
The level of surplus liquid assets held by the Group (defined as unencumbered liquid assets held in excess of the amount required to be held in accordance with the regulations) was maintained at R30bn for the current reporting period in line with a Board approved decision and internal liquidity risk appetite.



Cost of liquidity

The cost of maintaining the liquidity pool (consisting of liquid assets held to comply with regulatory requirements, plus surplus liquid assets held over and above the minimum regulatory requirements) is a function of the cost of funding used to purchase the liquid assets compared with the return earned on the liquid assets.

The graph below indicates that liquidity premiums reduced significantly over the period.



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.

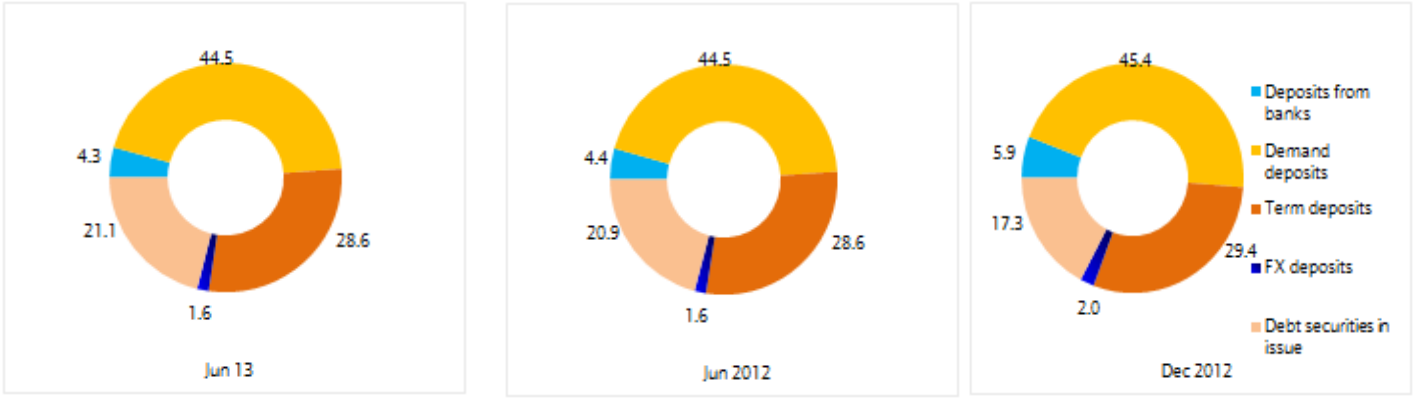
Liquidity risk

Funding structure

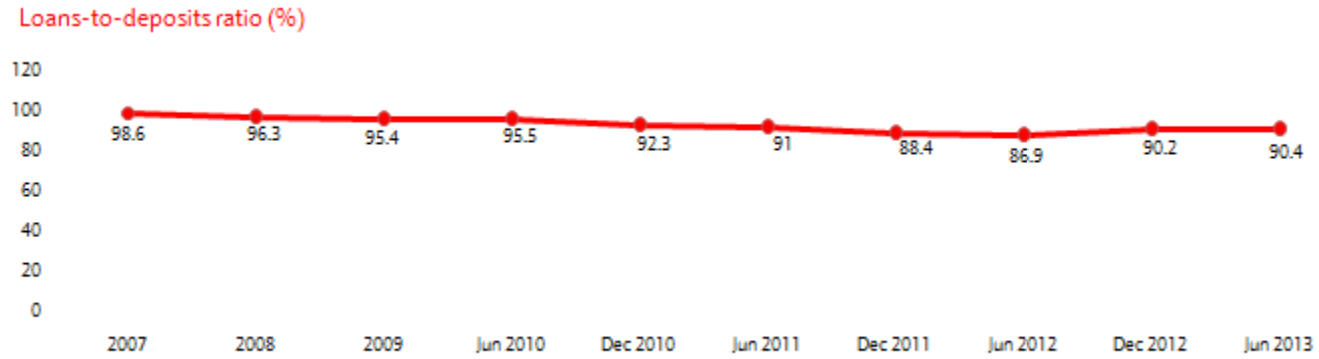
Our funding position has further improved during the reporting period with further increases in term deposits and reduced reliance on wholesale debt securities. Retail Banking remains partly funded by retail deposits, while the corporate business is self-funded. We rely on wholesale funding markets for the balance of funding required. CIBW acts as our 'face to the market' for obtaining wholesale funding.

Funding is sourced from a variety of depositors representing a diversity of South African economic sectors, with a wide range of maturities. We have a well diversified deposit base and concentration risk is managed within appropriate guidelines. Sources of liquidity are regularly reviewed to maintain a wide diversity of provider, product and term.

Summary Funding composition (%)



The progression of the loans-to-deposits ratio of the Group is summarised in the graph below. The ratio remained stable during H1 2013, with continued focus on asset quality and prudent liquidity risk management practices.



	30 June 2013 Rm	2012 [1] Rm	31 December 2012 [1] Rm
Advances			
Loans and advances to customers (note 9)	**539 343**	505 730	527 328
Deposits			
Deposits due to customers (note 22)	**490 394**	458 344	477 853
Debt securities in issue (note 23)	**106 235**	123 786	106 779
	596 629	582 130	584 632
Loans-to-deposits ratio (%)	**90.4%**	86.9%	90.2%

Maintaining an appropriate funding profile of the Group's funding base is a key strategic aim, while structural constraints in the South African economy limit the extent to which South African banks are able to lengthen their funding profiles. The Group considers the optimal funding implications while obtaining the appropriate profile. During the reporting period a reduction in the demand for long term funding was experienced.

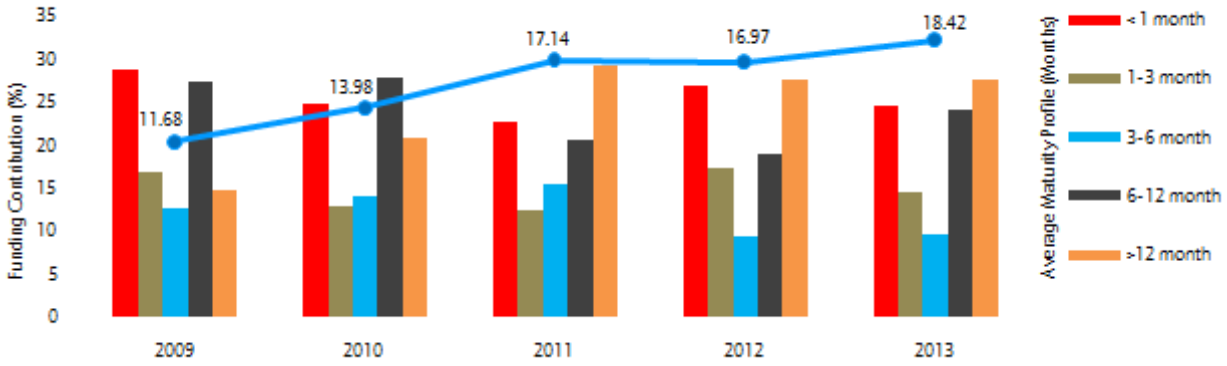
Liquidity risk

Funding structure *(continued)*

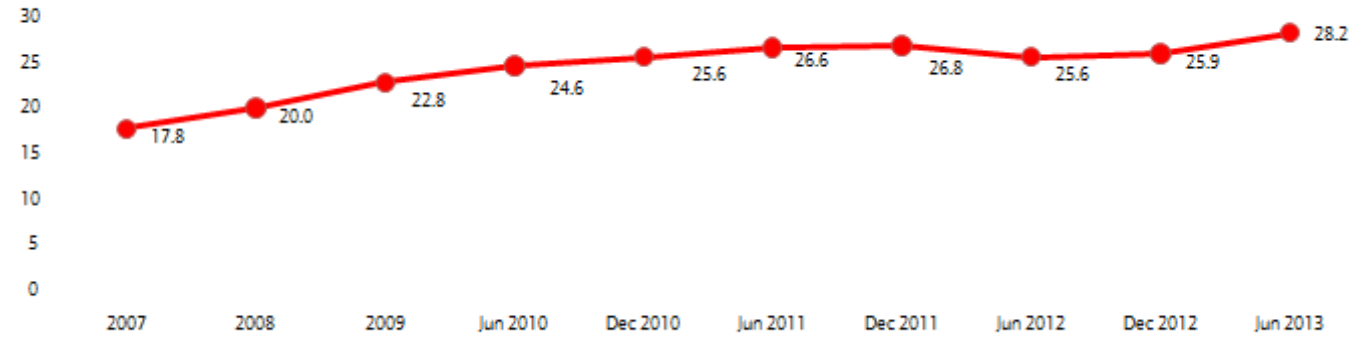
The graph below summarises the extent to which we have been able to extend the wholesale funding profile since 31 December 2009. The weighted average remaining term of wholesale funding has increased from 11.68 months at 31 December 2009 to 18.42 months at the reporting date. The proportion of wholesale funding that has a term in excess of 12 months has also seen a marked increase over this period.

A key metric used to track the funding structure of is the long-term funding ratio. This ratio reflects the proportion of total funding with an outstanding term in excess of six months. The progression in Absa's long-term funding ratio is shown below. The ratio has remained robust during the first half of 2013. Absa plans to contain the long term funding around the current level for the remainder of 2013.

Wholesale funding composition of Absa Bank Limited as at 30 June (% and months)



Average long-term funding ratio for Absa Bank Limited as at 30 June (%)



Note

[1]Comparatives have been reclassified.

Liquidity risk

Contractual and behavioural liquidity mismatch positions

The graph below summarises the our contractual mismatch position.

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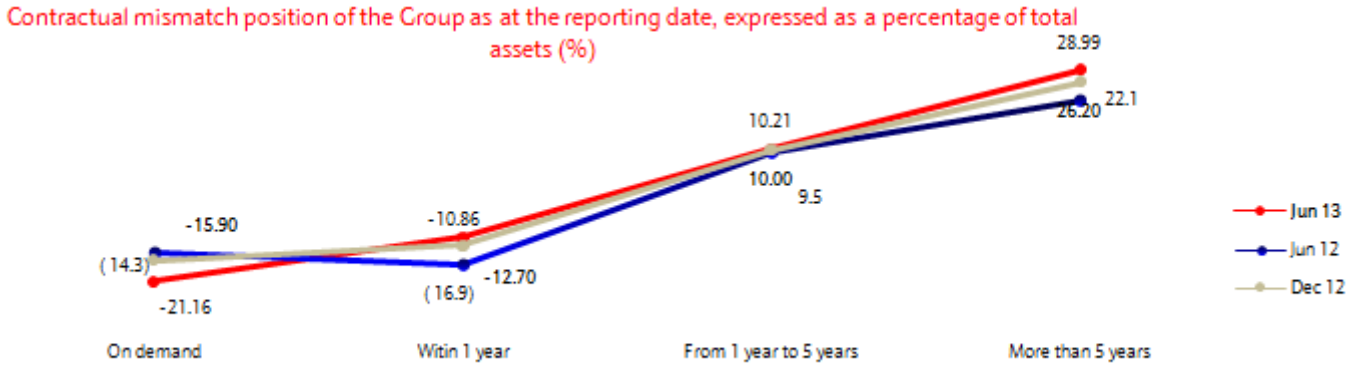
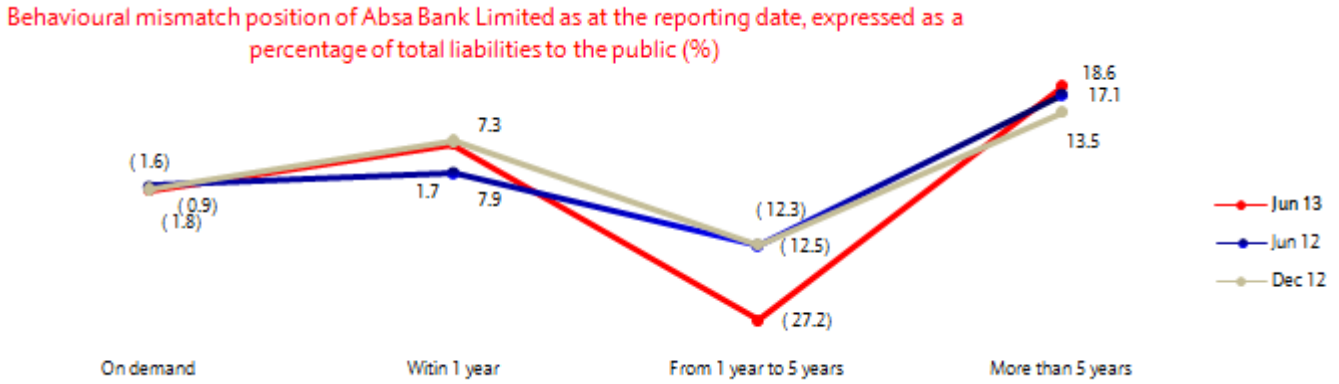




We manage our behavioural (business-as-usual) mismatches within board-approved limits.

Stress and scenario testing

Further steps were taken during the year to reduce reliance on unsecured wholesale funding sources and to maintain surplus liquid assets. As part of stress and scenario testing, our liquid assets portfolio serves as the main source of liquidity under stress. Liquidity value is also assigned to unsecured funding lines, readily marketable investment securities held and price sensitive overnight loans.

Other funding risks

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 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.

Note
[1]Comparatives have been reclassified.

Capital management

Key points

- 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 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 %	2012 %	31 December 2012 %
Common Equity Tier 1[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 %	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.

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.

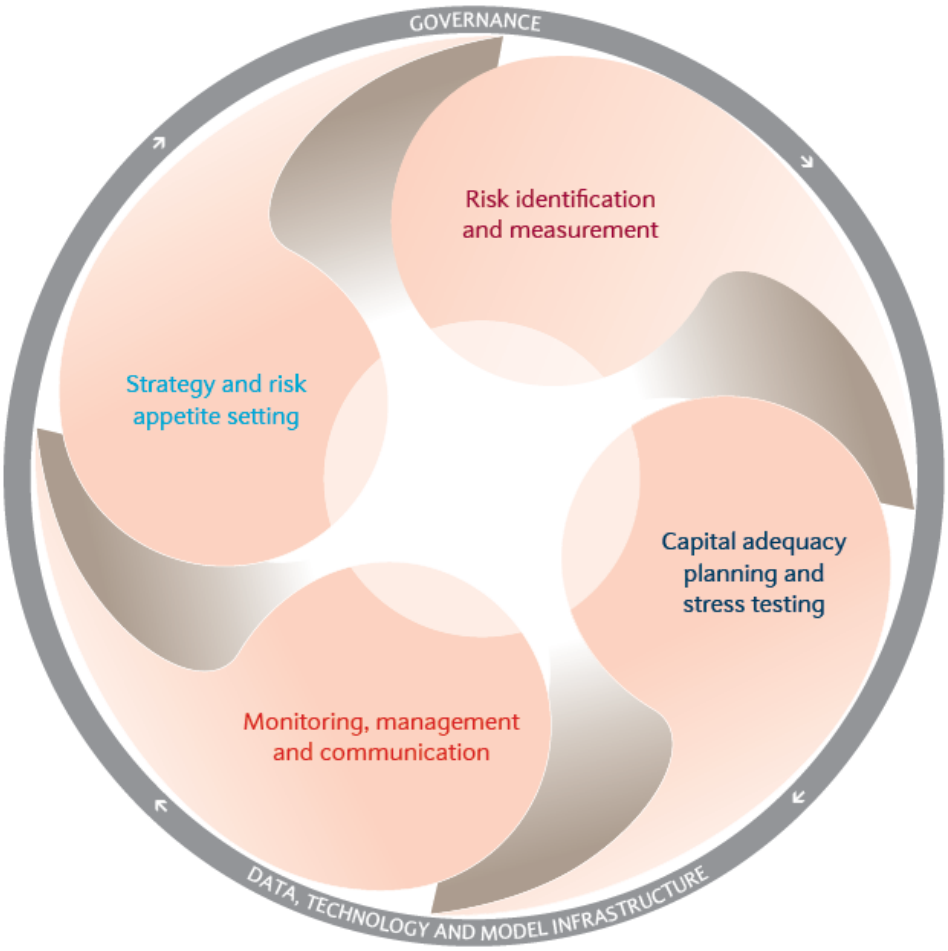
Notes

[1] The December 2012 disclosure is based on Basel II.5 and the June 2013 disclosure is 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 *(continued)*

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



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

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 the Group's depositors and other stakeholders.

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, we are not aware of any material impediments to the prompt transfer of capital resources or repayment of intragroup liabilities when due.

Looking ahead

Our 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.

Capital management

Statutory capital adequacy

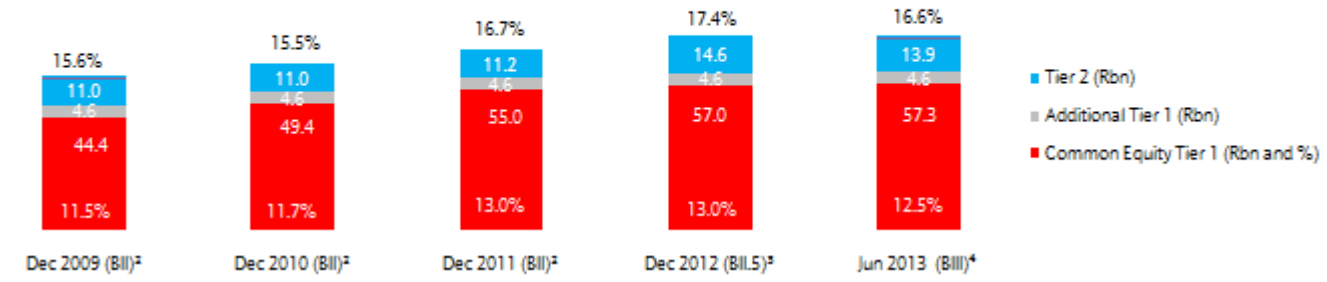
The Group sets target capital ranges/levels for regulated entities to ensure that the objectives of capital management are met. Appropriate capital management actions are taken if these target ranges/levels are at risk of being breached. The Group and its regulated entities (including insurance entities) 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 Minimum regulatory capital requirements**	**Board target ranges 2013**
	2013	2012	2012		
	%	%	%	**%**	**%**
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	**9.5**	**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

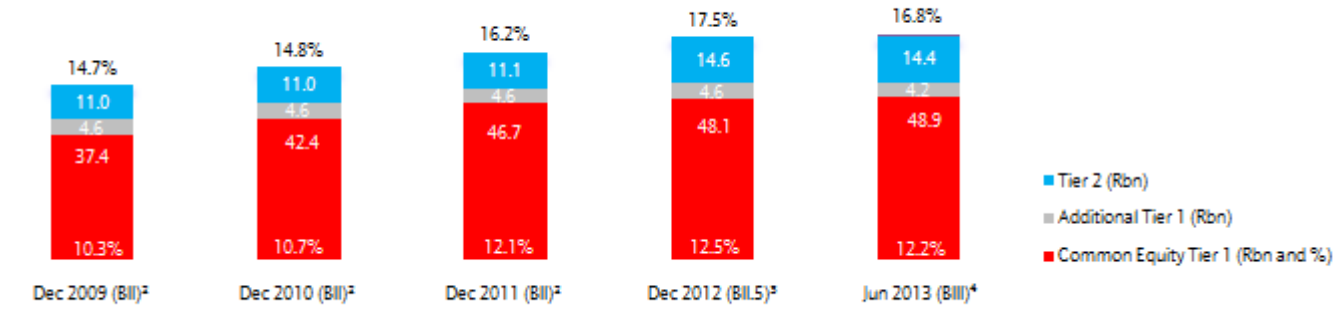
[1]Reported ratios include unappropriated profits.
[2]BII: Basel II.
[3]BII.5: Basel II.5.
[4]BIII: Basel III.

Capital management

Statutory capital adequacy *(continued)*

	Bank				
	30 June		31 December	2013 Minimum regulatory capital requirements	Board target ranges 2013
	2013 %	2012 %	2012 %	%	%
Capital adequacy ratios (%)[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.

Capital management

Capital adequacy

Target capital ranges/levels were set for the regulated entities listed below:

Local, foreign banking and insurance entities

		30 June					
		2013			2012		
	Regulator	Total qualifying capital Rm	Tier 1 ratio %	Total capital adequacy %	Total qualifying capital Rm	Tier 1 ratio %	Total capital adequacy %
Local entities (South Africa)							
Absa Group	SARB						
Including unappropriated profits		**75 822**	**13.5**	**16.6**	72 261	14.3	16.9
Excluding unappropriated profits		**66 193**	**11.4**	**14.5**	66 531	13.0	15.6
Absa Bank	SARB						
Including unappropriated profits		**67 463**	**13.2**	**16.8**	64 076	13.7	16.6
Excluding unappropriated profits		**62 874**	**12.0**	**15.6**	60 641	12.8	15.7
Foreign banking entities							
BBM[1]	Banco de Mozambique	**716**	**20.5**	**20.5**	221	11.2	11.2
NBC[1]	Bank of Tanzania	**956**	**15.0**	**15.0**	630	10.9	10.9
Insurance entities							
Absa Life Limited	FSB[2]	**1 183**	**n/a**	**3.0xCAR[3]**	1 207	n/a	2,9xCAR[3]
Absa Insurance Company Limited	FSB[2]	**1 630**	**n/a**	**61.4%xNWP[4]**	1 626	n/a	57,3%xNWP[4]
Absa *idirect* Limited	FSB[2]	**142**	**n/a**	**78.5%xNWP[4]**	128	n/a	117.4%xNWP[4]

		31 December 2012			Total target capital adequacy ratio	
					2013	2013
	Regulator	Total qualifying capital Rm	Tier 1 ratio %	Total capital adequacy %	Regulatory minimum %	Board Target ranges %
Local entities (South Africa)						
Absa Group	SARB					
Including unappropriated profits		**76 298**	**14.0**	**17.4**		**12.5-14.0**
Excluding unappropriated profits		**68 652**	**12.3**	**15.7**	**9.50**	
Absa Bank	SARB					
Including unappropriated profits		**67 349**	**13.7**	**17.5**		**12.0-13.5**
Excluding unappropriated profits		**64 154**	**12.8**	**16.6**	**9.50**	
Foreign banking entities						
BBM[1]	Banco de Mozambique	**688**	**29.8**	**29.8**	**8.0**	**15.0**
NBC[1]	Bank of Tanzania	**511**	**8.3**	**8.7**	**14.5**	**15.5**
Insurance entities						
Absa Life Limited	FSB[2]	**1 217**	**n/a**	**3,0xCAR[3]**	**1,0xCAR[3]**	**2,0xCAR[3]**
Absa Insurance Company Limited	FSB[2]	**1 592**	**n/a**	**55,8%xNWP[5]**	**27,9%xNWP[4]**	**45%xNWP[4,5]**
Absa *idirect* Limited	FSB[2]	**131**	**n/a**	**136,9%xNWP[5]**	**24.8%xNWP[4]**	**45%xNWP[4,6]**

Notes

[1]Basel I regulatory ratios and regulatory requirements. [2]Financial Services Board.

[3] Capital adequacy requirement (CAR): Actuarial calculation of value at risk on insurance liabilities. 2,0 times (2012: 2,0 times) being the required capital level determined by Absa Life Limited.

[4]NWP: Net Written Premiums. [5]45% (2012: 45%) of NWP, being the required capital level determined by Absa Insurance Company Limited.

[6]Quota share reinsurance is used to maintain capital adequacy levels at a level sufficient in excess of the regulatory minimum.

Capital management

Statutory capital adequacy *(continued)*

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 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.

RWAs and minimum required capital

	30 June				31 December	
	2013		2012		2012	
Group	**RWAs Rm**	**Minimum required capital capital[1] Rm**	RWAs Rm	Minimum required capital capital[1] Rm	RWAs Rm	Minimum required capital 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-weight 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

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 standardised approach.

Capital management

RWAs and minimum required capital

	30 June				31 December	
	2013		2012		2012	
Bank	**RWAs Rm**	**Minimum required capital capital[1] Rm**	RWAs Rm	Minimum required capital capital[1] Rm	RWAs Rm	Minimum required capital 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-weight 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

Capital management

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 standardised approach.

Capital management

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		2013	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 loan 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 profit	**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	%	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	**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[2]	**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[2]	**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)	**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 instruments; and changes in regulatory deductions.

[3]Reserves exclude unappropriated profits.

Capital management

Breakdown of qualifying capital *(continued)*

	30 June				31 December	
	2013		2012		2012	
Bank	**Rm**	**%[1]**	Rm	%[1]	Rm	%[1]
Common Equity Tier 1 capital	**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	**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[2]	**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 [2]	**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 instruments; and changes in regulatory deductions.

[3]Reserves exclude unappropriated profits

Capital management

Economic capital resources

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

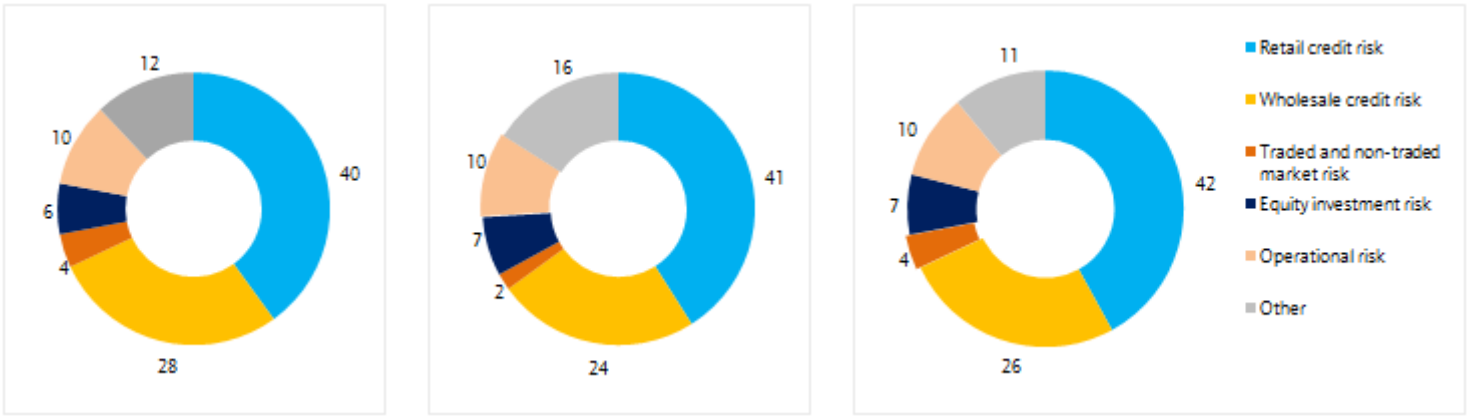
The following equity reserves are excluded from EC resources:

- 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 a surplus with a consequent increase in shareholders' equity. This represents a non-cash increase in shareholders' equity. For the purposes of calculating EC, pension surplus is excluded from shareholders' equity;
- Non-controlling interest;
- Other perpetual debt, preference shares and subordinated debt; and
- Tertiary capital.

The following are deducted from EC supply:

- goodwill; and
- intangible assets.

Economic capital demand[1,2] (%)



Jun 2013 Jun 2012 Dec 2012

Notes

[1]Prior period numbers have changed in line with accounting restatements.

[2]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 therand 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]	Fitch ratings	
	Absa Bank	Absa Bank	Absa Group
National			
Short-term	Prime-1.za	F1+ (zaf)	F1+ (zaf)
Long-term	Aa2.za	AAA (zaf)	AAA (zaf)
Outlook	-	Stable	Stable
Local currency			
Short-term	Prime-2	-	-
Long-term	A3	A-	A-
Outlook	Negative	Stable	Stable
Foreign currency			
Short-term	Prime-2	F2	F2
Long-term	Baa1	A-	A-
Outlook	Negative	Stable	Stable
Bank's financial strength	C-	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.

Capital management

Composition of capital disclosure template

Absa Group Limited
30 June 2013

		30 June 2013	
	Group	Amount subject to Basel III Rm	Amount subject to Pre-Basel III treatment Rm
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	5 902	
2	Retained earnings	45 715	
3	Accumulated other comprehensive income (and other reserves)	2 020	
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	0	
	Public sector capital injections grandfathered until 1 January 2018	0	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	383	953
6	**Common Equity Tier 1 capital before regulatory adjustments**	54 020	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	0	0
8	Goodwill (net of related tax liability)	554	0
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	1 464	0
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	54	0
11	Cash-flow hedge reserve	718	0
12	Shortfall of provisions to expected losses	2 558	0
13	Securitisation gain on sale	0	0
14	Gains and losses due to changes in own credit risk on fair valued liabilities	0	0
15	Defined-benefit pension fund net assets	432	0
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	0	0
17	Reciprocal cross-holdings in common equity	0	0
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	0	0
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	0	0
20	Mortgage servicing rights (amount above 10% threshold)	0	0
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	0	0
22	Amount exceeding the 15% threshold	0	0
23	of which: significant investments in the common stock of financials	0	0
24	of which: mortgage servicing rights	0	0
25	of which: deferred tax assets arising from temporary differences	0	0
26	National specific regulatory adjustments	558	0
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	0	
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	0	
	OF WHICH	0	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	0	
28	**Total regulatory adjustment to Common equity Tier 1**	6 338	

29	Common Equity Tier 1 capital (CET1)	47 682	
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	0	
31	of which: classified as equity under applicable accounting standards	0	
32	of which: classified as liabilities under applicable accounting standards	0	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	0	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	4 760	
35	of which: instruments issued by subsidiaries subject to phase out	4 180	
36	**Additional Tier 1 capital before regulatory adjustments**	4 760	
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	0	0
38	Reciprocal cross-holdings in Additional Tier 1 instruments	0	0
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	0	0
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	133	0
41	National specific regulatory adjustments	0	
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	0	
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	0	
	OF WHICH	0	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	0	
43	**Total regulatory adjustments to Additional Tier 1 capital**	133	
44	**Additional Tier 1 capital (AT1)**	4 627	
45	**Tier 1 capital (T1 = CET1 + AT1)**	52 309	
	Tier 2 capital and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	0	
47	Directly issued capital instruments subject to phase out from Tier 2	0	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	13 677	
49	of which: instruments issued by subsidiaries subject to phase out	14 225	
50	Provisions	207	
51	Tier 2 capital before regulatory adjustments	13 884	
	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	0	0
53	Reciprocal cross-holdings in Tier 2 instruments	0	0
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	0	0
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0	0
56	National specific regulatory adjustments	0	
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	0	
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	0	
	OF WHICH	0	
57	**Total regulatory adjustments to Tier 2 capital**	0	
58	**Tier 2 capital (T2)**	13 884	

Capital management

59	**Total capital (TC = T1 + T2)**	66 193
	RISK WEIGHTED ASSETS IN REPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	438 216
	of which: Basel III amendments	6 338
60	**Total risk weighted assets**	457 480
	Capital ratios	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	10.4
62	Tier 1 (as a percentage of risk weighted assets)	11.4
63	Total capital (as a percentage of risk weighted assets)	14.5
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	20 587
65	of which: capital conservation buffer requirement	0.00
66	of which: bank specific countercyclical buffer requirement	0.00
67	of which: G-SIB buffer requirement	0.00
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	5.9
	National minima (if different from Basel 3)	
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	4.5
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	6.0
71	National total capital minimum ratio (if different from Basel 3 minimum)	9.5
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financials	0
73	Significant investments in the common stock of financials	6
74	Mortgage servicing rights (net of related tax liability)	0
75	Deferred tax assets arising from temporary differences (net of related tax liability)	381
	Applicable caps on the inclusion of provisions in Tier 2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	287
77	Cap on inclusion of provisions in Tier 2 under standardised approach	207
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	0
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	0
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
80	Current cap on CET1 instruments subject to phase out arrangements	0
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0
82	Current cap on AT1 instruments subject to phase out arrangements	0
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0
84	Current cap on T2 instruments subject to phase out arrangements	0
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0

Main features disclosure template

Absa Group Limited

30 June 2013

	Disclosure template for main features of regulatory capital instruments	1	2	3	4	5	6	7	8	9	10	11
1	Issuer	Absa Group Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	ZAE000174124	ZAE000079810	ZAG000029315	ZAG000037086	ZAG000065251	ZAG000073669	ZAG000077074	ZAG000077082	ZAG000101221	ZAG000101239	ZAG000101254
3	Governing law(s) of the instrument	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended)	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended)	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.
	Regulatory treatment											
4	Transitional Basel III rules	Common Equity Tier 1	Additional Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional Basel III rules	Common Equity Tier 1	Ineligible	Ineligible	Ineligible	Ineligible	Ineligible	Ineligible	Ineligible	Ineligible	Ineligible	Ineligible
6	Eligible at solo/group/group&solo	Group	Solo and Group	Solo and Group	Solo and Group	Solo and Group	Solo and Group	Solo and Group	Solo and Group	Solo and Group	Solo and Group	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Preference shares	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	R1 435	R4 180	R2 000	R1 725	R3 000	R1 500	R400	R600	R1 805	R2 007	R1 188
9	Par value of instrument	R1 435	R4 644	R2 000	R1 725	R3 000	R845	R400	R600	R1 805	R2 007	R1 188
10	Accounting classification	Shareholders' equity	Shareholders' equity	Liability – fair value option	Liability – fair value option	Liability – fair value option	Liability – fair value option	Liability – fair value option	Liability – fair value option	Liability – fair value option	Liability – fair value option	Liability – fair value option
11	Original date of issuance	1986	2006 and 2007	27 Mar 2006	07 Mar 2007	20 Mar 2009	10 Dec 2009	03 May 2010	03 May 2010	21 Nov 2012	21 Nov 2012	21 Nov 2012
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	NA	NA	27 Mar 2020	07 Mar 2019	20 Sep 2019	07 Dec 2028	03 May 2022	03 May 2022	21 Nov 2022	21 Nov 2023	21 Nov 2023
14	Issuer call subject to prior supervisory approval	NA	NA	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	NA	NA	27 Mar 2015, tax contingent event call, redemption amount equal to Principal amount issued	07 Mar 2014, tax contingent event call, redemption amount equal to Principal amount issued.	20 Sep 2014, tax and regulatory contingent events call, redemption amount equal to Principal amount issued plus CPI adjustment if the amount is not less than R 3.000.000.000 otherwise redemption amount equal to Principal Amount issued.	07 Dec 2023, tax and regulatory contingent events call, nominal amount plus CPI adjustment if the amount is not less than R 845.283.052 otherwise redemption amount equal to Principal Amount issued.	03 May 2017, tax and regulatory contingent events call, redemption amount equal to Principal Amount issued.	03 May 2017, tax and regulatory contingent events call, redemption amount equal to Principal Amount issued.	21 Nov 2017, tax and regulatory contingent events call, redemption amount equal to Principal Amount issued.	21 Nov 2018, tax and regulatory contingent events call, redemption amount equal to Principal Amount issued.	21 Nov 2018, tax and regulatory contingent events call, redemption amount equal to Principal Amount issued.
16	Subsequent call dates, if applicable	NA	NA	NA	NA	NA	NA	NA	NA	Quarterly after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Semiannualy after the first optional call date until maturity
	Coupons / dividends											
17	Fixed or floating dividend/coupon	Floating	Fixed	Fixed to floating	Fixed to floating	Floating	Floating	Floating	Fixed to floating	Floating	Floating	Fixed
18	Coupon rate and any related index	NA	70% of the prime overdraft lending rate	8.1%	8.8%	6.0% indexed to ZAR non revised CPI	5.5 % indexed to ZAR revised CPI	3M JIBAR+210bps	10.28%	3M JIBAR+195bps	3M JIBAR+205bps	8.295%
19	Existence of a dividend stopper	No	No	No	No	No	No	No	No	No	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	NA	No	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	NA	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
25	If convertible, fully or partially	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
26	If convertible, conversion rate	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
27	If convertible, mandatory or optional conversion	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Capital management

Main features disclosure template

Absa Group Limited

30 June 2013

	Disclosure template for main features of regulatory capital instruments	1	2	3	4	5	6	7	8	9	10	11
28	If convertible, specify instrument type convertible into	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
29	If convertible, specify issuer of instrument it converts into	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
30	Write-down feature	No	No	No	No	No	No	No	No	No	No	No
31	If write-down, write-down trigger(s)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
32	If write-down, full or partial	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
33	If write-down, permanent or temporary	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
34	If temporary write-down, description of write-up mechanism	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Columns 3 to 11, then Column 2	Columns 3 to 11	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes
36	Non-compliant transitioned features	NA	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
37	If yes, specify non-compliant features	NA	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability

Disclaimer

FORWARD-LOOKING STATEMENTS

Certain statements in this document are forward looking that relate to, among other things, the plans, objectives, goals, strategies, future operations and performance of Absa group Limited ("Absa"). Words such as "anticipates","estimates", "expects", "projects", "believes", "intends", "plans", "may", "will"and "should" and similar expressions are typically indicative of a forward looking statement. These statements are not guarantees of Absa's future operating, financial or other results and involve certain risks, uncertainties and assumptions. Accordingly, actual results and outcomes may differ materially from these expressed or implied by such statements. Absa makes no representation or warranty, express or implied, that the operating, financial or other results anticipated by such forward-looking statements will be achieved and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. Absa undertakes no obligation to update the historical information or forward-looking statements in this document.