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

# ABSA GROUP LIMITED: PROFIT AND DIVIDEND ANNOUNCEMENT
## AUDITED CONDENSED CONSOLIDATED FINANCIAL RESULTS
## FOR THE YEAR ENDED 31 DECEMBER 2011

CONSOLIDATED SALIENT FEATURES

31 December

| | 2011 | 2010(1) | Change | 2009(1) |
|---|---|---|---|---|
| | (Audited) | (Audited) | % | (Audited) |
| Statement of comprehensive income (Rm) | | | | |
| Headline earnings(2) | 9 719 | 8 041 | 21 | 7 621 |
| Profit attributable to ordinary equity holders of the Group | 9 674 | 8 118 | 19 | 6 840 |
| Statement of financial position | | | | |
| Total assets (Rm) | 786 719 | 725 957 | 8 | 721 641 |
| Loans and advances to customers (Rm) | 503 503 | 508 780 | (1) | 517 008 |
| Deposits due to customers (Rm) | 440 960 | 387 598 | 14 | 367 210 |
| Loans-to-deposits ratio (%)(3) | 88,1 | 92,1 | | 96,0 |
| Off-statement of financial position (Rm) | | | | |
| Assets under management and administration(4) | 213 186 | 194 949 | 9 | 168 289 |
| Financial Services(5) | 167 669 | 163 415 | 8 | 145 453 |
| Money market | 57 798 | 66 256 | (13) | 55 320 |
| Non-money market | 109 871 | 97 159 | 13 | 90 133 |
| Financial performance (%) | | | | |
| Return on average equity(3) | 16,4 | 15,1 | | 15,5 |
| Return on average assets(6) | 1,32 | 1,10 | | 1,00 |
| Return on average risk-weighted assets(6) | 2,35 | 1,99 | | 1,97 |
| Operating performance (%) | | | | |
| Net interest margin on average interest-bearing assets(6) | 4,11 | 3,94 | | 3,65 |

| | | | | |
|---|---|---|---|---|
| Impairment losses on loans and advances as % of average loans and advances to customers(6) | 1,01 | 1,18 | | 1,70 |
| Non-performing loans as % of loans and advances to customers(6) | 6,9 | 7,6 | | 6,8 |
| Non-interest income as % of total operating income(3) | 46,7 | 45,5 | | 48,1 |
| Cost-to-income ratio(3) | 55,5 | 56,2 | | 49,6 |
| Effective tax rate, excluding indirect taxation | 28,3 | 27,5 | | 23,8 |
| Share statistics (million) | | | | |
| Number of ordinary shares in issue | 718,2 | 718,2 | | 718,2 |
| Weighted average number of ordinary shares in issue | 716,8 | 716,3 | | 693,2 |
| Diluted weighted average number of ordinary shares in issue | 719,9 | 720,7 | | 711,5 |
| Share statistics (cents) | | | | |
| Headline earnings per share | 1 355,9 | 1 122,6 | 21 | 1 099,4 |
| Diluted headline earnings per share | 1 350,0 | 1 115,7 | 21 | 1 072,0 |
| Basic earnings per share | 1 349,6 | 1 133,3 | 19 | 986,7 |
| Diluted earnings per share | 1 343,8 | 1 126,4 | 19 | 962,2 |
| Dividends per ordinary share relating to income for the year | 684 | 455 | 50 | 445 |
| Dividend cover (times)(3) | 2,0 | 2,5 | | 2,5 |
| Net asset value per share(3) | 8 690 | 7 838 | 11 | 7 038 |
| Tangible net asset value per share(3) | 8 392 | 7 588 | 11 | 6 865 |
| Capital adequacy (%)(6) | | | | |
| Absa Group | 16,7 | 15,5 | | 15,6 |
| Absa Bank | 16,2 | 14,8 | | 14,7 |

Notes

(1) Comparatives have been reclassified. Refer to note 20.

(2) After allowing for R284 million (2010: R320 million) profit attributable to preference equity holders of the Group.

(3) These ratios have been calculated by management based on extracted audited information contained in the audited annual consolidated financial statements.

(4) Comparatives have been restated for the inclusion of assets managed by Absa Capital on behalf of clients, alternative asset management and exchange-traded funds, in order to align assets under management and administration to current market practice.

(5) The segmentation of assets under management and administration is unaudited.

(6) These ratios are unaudited.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December

| | | 2011 | 2010(1) | | 2009(1) |
|---|---|---|---|---|---|
| | | (Audited) | (Audited) | Change | (Audited) |
| | | Rm | Rm | % | Rm |
| Assets | | | | | |
| Cash, cash balances and balances with central banks | | 26 997 | 23 741 | 14 | 20 206 |
| Statutory liquid asset portfolio | | 57 473 | 48 215 | 19 | 33 943 |
| Loans and advances to banks | | 57 432 | 27 495 | >100 | 43 223 |
| Trading portfolio assets | | 84 623 | 62 047 | 36 | 52 302 |
| Hedging portfolio assets | | 4 299 | 4 662 | (8) | 2 558 |
| Other assets | | 16 219 | 12 855 | 26 | 10 586 |
| Current tax assets | | 288 | 196 | 47 | 234 |
| Non-current assets held for sale | 1 | 35 | - | 100 | - |
| Loans and advances to customers | 2,3,4 | 503 503 | 508 780 | (1) | 517 008 |
| Reinsurance assets | | 1 009 | 860 | 17 | 719 |
| Investment securities | | 21 182 | 24 446 | (13) | 29 955 |
| Investments in associates and joint ventures | | 420 | 416 | 1 | 487 |
| Goodwill and intangible assets | | 2 135 | 1 794 | 19 | 1 245 |
| Investment properties | | 2 839 | 2 523 | 13 | 2 195 |
| Property and equipment | | 7 996 | 7 493 | 7 | 6 606 |
| Deferred tax assets | | 269 | 434 | (38) | 374 |
| Total assets | | 786 719 | 725 957 | 8 | 721 641 |
| | | | | | |
| Liabilities | | | | | |
| Deposits from banks | | 38 339 | 15 406 | >100 | 36 541 |
| Trading portfolio liabilities | | 55 960 | 47 454 | 18 | 44 245 |
| Hedging portfolio liabilities | | 2 456 | 1 881 | 31 | 565 |
| Other liabilities | | 14 695 | 11 239 | 31 | 12 212 |
| Provisions | | 1 710 | 1 808 | (5) | 1 684 |
| Current tax liabilities | | 267 | 965 | (72) | 59 |
| Deposits due to customers | 5 | 440 960 | 387 598 | 14 | 367 210 |
| Debt securities in issue | 6 | 130 262 | 164 545 | (21) | 171 376 |
| Liabilities under investment contracts | | 15 233 | 13 964 | 9 | 12 446 |
| Policyholder liabilities under insurance contracts | | 3 183 | 3 001 | 6 | 3 136 |
| Borrowed funds | 7 | 14 051 | 13 649 | 3 | 13 530 |

| | | | | |
|---|---|---|---|---|
| Deferred tax liabilities | 1 198 | 2 298 | (48) | 2 147 |
| Total liabilities | 718 314 | 663 808 | 8 | 665 151 |
| | | | | |
| Equity | | | | |
| Capital and reserves | | | | |
| Attributable to ordinary equity holders of the Group: | | | | |
| Share capital | 1 434 | 1 433 | 0 | 1 432 |
| Share premium | 4 676 | 4 590 | 2 | 4 784 |
| Retained earnings | 53 813 | 47 958 | 12 | 43 153 |
| Other reserves | 2 385 | 2 309 | 3 | 1 178 |
| | 62 308 | 56 290 | 11 | 50 547 |
| Non-controlling interest - ordinary shares | 1 453 | 1 215 | 20 | 1 299 |
| Non-controlling interest - preference shares | 4 644 | 4 644 | - | 4 644 |
| Total equity | 68 405 | 62 149 | 10 | 56 490 |
| Total equity and liabilities | 786 719 | 725 957 | 8 | 721 641 |

Note

(1)Comparatives have been reclassified. Refer to note 20.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December

| | | 2011 | 2010 | |
|---|---|---|---|---|
| | | (Audited) | (Audited) | Change |
| | | Rm | Rm | % |
| Net interest income | | 24 429 | 23 340 | 5 |
| Interest and similar income | 8.1 | 51 221 | 54 241 | (6) |
| Interest expense and similar charges | 8.2 | (26 792) | (30 901) | 13 |
| Impairment losses on loans and advances | 3 | (5 081) | (6 005) | 15 |
| Net interest income after impairment losses on loans and advances | | 19 348 | 17 335 | 12 |
| Non-interest income | | 21 403 | 19 474 | 10 |
| Net fee and commission income | | 15 293 | 14 391 | 6 |
| Fee and commission income | 9.1 | 17 422 | 16 454 | 6 |
| Fee and commission expense | 9.1 | (2 129) | (2 063) | (3) |
| Net insurance premium income | | 5 209 | 4 602 | 13 |
| Net insurance claims and benefits paid | | (2 517) | (2 405) | (5) |
| Changes in investment contract and insurance contract liabilities | | (914) | (1 059) | 14 |
| Gains and losses from banking and trading activities | 9.2 | 2 594 | 2 349 | 10 |
| Gains and losses from investment activities | 9.3 | 966 | 884 | 9 |
| Other operating income | | 772 | 712 | 8 |
| Operating profit before operating expenditure | | 40 751 | 36 809 | 11 |
| Operating expenditure | | (26 581) | (24 949) | (7) |
| Operating expenses | 10.1 | (25 458) | (24 070) | (6) |
| Other impairments | 10.2 | (52) | (108) | 52 |
| Indirect taxation | | (1 071) | (771) | (39) |
| Share of post-tax results of associates and joint ventures | | 40 | (9) | >100 |
| Operating profit before income tax | | 14 210 | 11 851 | 20 |
| Taxation expense | | (4 026) | (3 262) | (23) |
| Profit for the year | | 10 184 | 8 589 | 19 |

| | | | |
|---|---|---|---|
| Other comprehensive income | | | |
| Foreign exchange differences on translation of foreign operations | 522 | (371) | >100 |
| Movement in cash flow hedging reserve | (237) | 1 152 | >(100) |
| Fair value gains arising during the year | 1 972 | 3 421 | (42) |
| Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income | (2 300) | (1 820) | (26) |
| Deferred tax | 91 | (449) | >100 |
| Movement in available-for-sale reserve | (17) | 166 | >(100) |
| Fair value (losses)/gains arising during the year | (58) | 146 | >(100) |
| Amortisation of government bonds - release to the profit and loss component of the statement of comprehensive income | 20 | 92 | (78) |
| Deferred tax | 21 | (72) | >100 |
| Movement in retirement benefit asset and liabilities | (51) | 21 | >(100) |
| (Decrease)/increase in retirement benefit surplus | (66) | 27 | >(100) |
| (Increase)/decrease in retirement benefit deficit | (5) | 2 | >(100) |
| Deferred tax | 20 | (8) | >100 |
| Total comprehensive income for the year | 10 401 | 9 557 | 9 |
| | | | |
| Profit attributable to: | | | |
| Ordinary equity holders of the Group | 9 674 | 8 118 | 19 |
| Non-controlling interest - ordinary shares | 226 | 151 | 50 |
| Non-controlling interest - preference shares | 284 | 320 | (11) |
| | 10 184 | 8 589 | 19 |
| Total comprehensive income attributable to: | | | |
| Ordinary equity holders of the Group | 9 791 | 9 138 | 7 |
| Non-controlling interest - ordinary shares | 326 | 99 | >100 |
| Non-controlling interest - preference shares | 284 | 320 | (11) |
| | 10 401 | 9 557 | 9 |
| Earnings per share: | | | |
| Basic earnings per share (cents) | 1 349,6 | 1 133,3 | 19 |
| Diluted earnings per share (cents) | 1 343,8 | 1 126,4 | 19 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December

| | 2011 | 2010(1) | |
|---|---|---|---|
| | (Audited) | (Audited) | Change |
| | Rm | Rm | % |
| Net cash generated from operating activities | 8 305 | 2 822 | >100 |
| Net cash (utilised)/generated from investing activities | (511) | 880 | >(100) |
| Net cash utilised in financing activities | (4 143) | (4 263) | 3 |
| Net increase/(decrease) in cash and cash equivalents | 3 651 | (561) | >100 |
| Cash and cash equivalents at the beginning of the year 1 | 6 417 | 6 976 | (8) |
| Effect of exchange rate movements on cash and cash equivalents | 0 | 2 | (100) |
| Cash and cash equivalents at the end of the year 2 | 10 068 | 6 417 | 57 |
| | | | |
| NOTES | | | |
| 1. Cash and cash equivalents at the beginning of the year | | | |
| Cash, cash balances and balances with central banks | 4 939 | 5 175 | (5) |
| Loans and advances to banks | 1 478 | 1 801 | (18) |
| | 6 417 | 6 976 | (8) |
| 2. Cash and cash equivalents at the end of the year | | | |
| Cash, cash balances and balances with central banks | 7 893 | 4 939 | 60 |
| Loans and advances to banks | 2 175 | 1 478 | 47 |
| | 10 068 | 6 417 | 57 |

Note

(1)Comparatives have been reclassified. Refer to note 20.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

| | 2011 | | | |
|---|---|---|---|---|
| | (Audited) | | | |
| | Total equity attributable to ordinary equity holders of the Group | Non-controlling interest-ordinary shares | Non-controlling interest-preference shares | Total equity |
| | Rm | Rm | Rm | Rm |
| Balance at the beginning of the year | 56 290 | 1 215 | 4 644 | 62 149 |
| Total comprehensive income for the year | 9 791 | 326 | 284 | 10 401 |
| Profit for the year | 9 674 | 226 | 284 | 10 184 |
| Other comprehensive income | 117 | 100 | – | 217 |
| Dividends paid during the year | (3 744) | (173) | (284) | (4 201) |
| Share buy-back in respect of equity-settled share-based payment schemes | (281) | – | – | (281) |
| Elimination of the movement in treasury shares held by Absa Group Limited Share Incentive Trust | 28 | – | – | 28 |
| Elimination of the movement in treasury shares held by Group subsidiaries | 166 | – | – | 166 |
| Movement in the share-based payment reserve | 58 | – | – | 58 |
| Transfer from share-based payment reserve | – | – | – | – |
| Transfer from share-based payment reserve | (174) | – | – | (174) |
| Transfer to share capital and share premium | 174 | – | – | 174 |
| Value of employee services | 58 | – | – | 58 |

| | | | | |
|---|---|---|---|---|
| Movement in general credit risk reserve | – | – | – | – |
| Transfer from general credit risk reserve | (48) | – | – | (48) |
| Transfer to retained earnings | 48 | – | – | 48 |
| Movement in insurance contingency reserve | – | – | – | – |
| Transfer to insurance contingency reserve | 19 | – | – | 19 |
| Transfer from retained earnings | (19) | – | – | (19) |
| Share of post-tax results of associates and joint ventures | – | – | – | – |
| Transfer to associates' and joint ventures' reserve | 40 | – | – | 40 |
| Transfer from retained earnings | (40) | – | – | (40) |
| Disposal of associates and joint ventures – release of reserves | – | – | – | – |
| Transfer to associates' and joint ventures' reserve | 13 | – | – | 13 |
| Transfer from retained earnings | (13) | – | – | (13) |
| Increase in interest of non-controlling equity holders | – | 21 | – | 21 |
| Non-controlling interest arising from business combinations | – | 64 | – | 64 |
| Balance at the end of the year | 62 308 | 1 453 | 4 644 | 68 405 |

| | 2010 | | | |
|---|---|---|---|---|
| | (Audited) | | | |
| | Total equity attributable to ordinary equity holders of the Group | Non-controlling interest-ordinary shares | Non-controlling interest-preference shares | Total equity |
| | Rm | Rm | Rm | Rm |
| Balance at the beginning of the year | 50 547 | 1 299 | 4 644 | 56 490 |
| Total comprehensive income for the year | 9 138 | 99 | 320 | 9 557 |
| Profit for the year | 8 118 | 151 | 320 | 8 589 |
| Other comprehensive income | 1 020 | (52) | – | 968 |
| Dividends paid during the year | (3 191) | (142) | (320) | (3 653) |
| Share buy-back in respect of equity-settled share-based payment schemes | (234) | – | – | (234) |
| Elimination of the movement in treasury shares held by Absa Group Limited Share Incentive Trust | 31 | – | – | 31 |
| Elimination of the movement in treasury shares held by Group subsidiaries | (49) | – | – | (49) |
| Movement in the share-based payment reserve | 48 | – | – | 48 |
| Transfer from share-based payment reserve | – | – | – | – |
| Transfer from share-based payment reserve | (61) | – | – | (61) |
| Transfer to share capital, share premium and retained earnings | 61 | – | – | 61 |
| Value of employee services | 48 | – | – | 48 |

| | | | | |
|---|---|---|---|---|
| Movement in general credit risk reserve | – | – | – | – |
| Transfer to general credit risk reserve | 39 | – | – | 39 |
| Transfer from retained earnings | (39) | – | – | (39) |
| Movement in insurance contingency reserve | – | – | – | – |
| Transfer to insurance contingency reserve | 55 | – | – | 55 |
| Transfer from retained earnings | (55) | – | – | (55) |
| Share of post-tax results of associates and joint ventures | – | – | – | – |
| Transfer from associates' and joint ventures' reserve | (9) | – | – | (9) |
| Transfer to retained earnings | 9 | – | – | 9 |
| Disposal of associates and joint ventures - release of reserves | – | – | – | – |
| Transfer to associates' and joint ventures' reserve | 60 | – | – | 60 |
| Transfer from retained earnings | (60) | – | – | (60) |
| Dilution of non-controlling equity holders' interest | 0 | (0) | – | – |
| Increase in the interest of non-controlling equity holders | – | 37 | – | 37 |
| Non-controlling interest arising from business combinations | – | (78) | – | (78) |
| Balance at the end of the year | 56 290 | 1 215 | 4 644 | 62 149 |

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December

## 1. NON-CURRENT ASSETS HELD FOR SALE

On 30 June 2011, the Group, through its Absa Capital and Absa Business Bank segments, transferred its investment in Sekunjalo Investments Limited, with a carrying value of R43 million, to non-current assets held for sale. A portion of this investment was subsequently sold in July 2011 and the remaining portion transferred to investment securities.

The Group, through its Absa Capital segment, also transferred certain investments designated at fair value through profit or loss with a carrying value of R326 million to non-current assets held for sale on 30 June 2011. These investments were subsequently sold in August 2011.

The Group, through its Corporate Real Estate business, concluded contracts for the sale of several properties during 2011, with transfer due to take place during 2012.

## 2. LOANS AND ADVANCES TO CUSTOMERS

| | 2011 | 2010(1) | Change | 2009(1) |
|---|---|---|---|---|
| | (Audited) | (Audited) | % | (Audited) |
| | Rm | Rm | | Rm |
| Cheque accounts | 33 398 | 32 005 | 4 | 39 801 |
| Corporate overdrafts and specialised finance loans | 10 681 | 9 612 | 11 | 13 484 |
| Credit cards | 21 579 | 20 663 | 4 | 20 202 |
| Foreign currency loans | 9 628 | 6 609 | 46 | 7 870 |
| Instalment credit agreements | 57 385 | 56 967 | 1 | 59 396 |
| Gross advances | 68 540 | 67 517 | 2 | 69 849 |
| Unearned finance charges | (11 155) | (10 550) | (6) | (10 453) |
| Reverse repurchase agreements | 1 613 | 3 063 | (47) | 1 988 |
| Loans to associates and joint ventures | 7 909 | 8 025 | (1) | 7 878 |
| Microloans | 1 922 | 2 069 | (7) | 2 936 |
| Mortgages | 292 463 | 307 054 | (5) | 304 724 |
| Other(2) | 3 197 | 2 948 | 8 | 3 322 |
| Overnight finance | 12 320 | 7 647 | 61 | 12 340 |
| Personal and term loans | 29 925 | 28 283 | 6 | 21 645 |
| Preference shares | 6 958 | 6 622 | 5 | 7 967 |

| | | | | |
|---|---|---|---|---|
| Wholesale overdrafts | 26 656 | 31 115 | (14) | 26 613 |
| Gross loans and advances to customers | 515 634 | 522 682 | (1) | 530 166 |
| Impairment losses on loans and advances (refer to note 3) | (12 131) | (13 902) | 13 | (13 158) |
| | 503 503 | 508 780 | (1) | 517 008 |

Notes

(1) Comparatives have been reclassified. Refer to note 20.

(2) Other includes client liabilities under acceptances and working capital solutions.

3. IMPAIRMENT LOSSES ON LOANS AND ADVANCES

| | 2011 | 2010(1) | |
|---|---|---|---|
| | (Audited) | (Audited) | Change |
| | Rm | Rm | % |
| Balance at the beginning of the year | 13 902 | 13 158 | 6 |
| Amounts written off during the year | (6 493) | (5 219) | (24) |
| Foreign exchange differences | 1 | (2) | >100 |
| Interest on impaired assets (refer to note 8.1) | (1 173) | (764) | (54) |
| | 6 237 | 7 173 | (13) |
| Impairments raised during the year | 5 894 | 6 729 | (12) |
| Balance at the end of the year | 12 131 | 13 902 | (13) |
| Comprising: | | | |
| Identified impairments | 11 306 | 12 949 | (13) |
| Unidentified impairments | 825 | 953 | (13) |
| | 12 131 | 13 902 | (13) |
| | | | |
| 3.1 Statement of comprehensive income charge for the year ended 31 December | | | |
| Impairments raised during the year | 5 894 | 6 729 | (12) |
| Identified impairments | 6 015 | 6 919 | (13) |
| Unidentified impairments | (121) | (190) | 36 |
| Recoveries of loans and advances previously written off | (813) | (724) | (12) |
| | 5 081 | 6 005 | (15) |

Note

(1) Comparatives have been reclassified. Refer to note 20.

4. NON-PERFORMING LOANS

| | 2011 | | | |
|---|---|---|---|---|
| | (Unaudited) | | | |
| | Outstanding balance | Expected recoveries and fair value of collateral | Net exposure | Total identified impairment |
| | Rm | Rm | Rm | Rm |
| Cheque accounts | 184 | 52 | 132 | 132 |
| Credit cards | 2 013 | 713 | 1 300 | 1 300 |
| Instalment credit agreements | 2 645 | 1 370 | 1 275 | 1 275 |
| Microloans | 348 | 76 | 272 | 272 |
| Mortgages | 23 590 | 19 558 | 4 032 | 4 032 |
| Personal loans | 1 362 | 538 | 824 | 824 |
| Retail Banking | 30 142 | 22 307 | 7 835 | 7 835 |
| | | | | |
| Cheque accounts | 749 | 432 | 317 | 317 |
| Commercial Asset Finance | 932 | 395 | 537 | 537 |
| Commercial Property Finance | 1 894 | 1 354 | 540 | 540 |
| Term loans | 975 | 766 | 209 | 209 |
| Absa Business Bank | 4 550 | 2 947 | 1 603 | 1 603 |
| | | | | |
| Absa Capital | 844 | 405 | 439 | 439 |
| | | | | |
| Non-performing loans | 35 536 | 25 659 | 9 877 | 9 877 |
| | | | | |
| Non-performing loans ratio (%) | 6,9 | | | |
| | | | | |
| | 2010(1) | | | |
| | (Unaudited) | | | |
| | Outstanding balance | Expected recoveries and fair value of collateral | Net exposure | Total identified impairment |
| | Rm | Rm | Rm | Rm |
| Cheque accounts | 220 | 110 | 110 | 110 |
| Credit cards | 2 822 | 797 | 2 025 | 2 025 |
| Instalment credit agreements | 3 058 | 1 776 | 1 282 | 1 282 |
| Microloans | 445 | 84 | 361 | 361 |
| Mortgages | 25 642 | 20 740 | 4 902 | 4 902 |

| | | | | |
|---|---|---|---|---|
| Personal loans | 1 413 | 442 | 971 | 971 |
| Retail Banking | 33 600 | 23 949 | 9 651 | 9 651 |
| | | | | |
| Cheque accounts | 880 | 448 | 432 | 432 |
| Commercial Asset Finance | 1 082 | 429 | 653 | 653 |
| Commercial Property Finance | 2 483 | 2 032 | 451 | 451 |
| Term loans | 1 047 | 760 | 287 | 287 |
| Absa Business Bank | 5 492 | 3 669 | 1 823 | 1 823 |
| | | | | |
| Absa Capital | 549 | 208 | 341 | 341 |
| | | | | |
| Non-performing loans | 39 641 | 27 826 | 11 815 | 11 815 |
| | | | | |
| Non-performing loans ratio (%) | 7,6 | | | |

Note

(1) Comparatives have been reclassified. Refer to note 20.

| 5. DEPOSITS DUE TO CUSTOMERS | | | | |
|---|---|---|---|---|
| | 2011 | 2010(1) | | 2009(1) |
| | (Audited) | (Audited) | Change | (Audited) |
| | Rm | Rm | % | Rm |
| Call deposits | 55 783 | 54 707 | 2 | 61 995 |
| Cheque account deposits | 134 505 | 117 274 | 15 | 103 110 |
| Credit card deposits | 1 884 | 1 830 | 3 | 1 868 |
| Fixed deposits | 125 273 | 114 180 | 10 | 106 886 |
| Foreign currency deposits | 8 947 | 9 661 | (7) | 9 011 |
| Notice deposits | 28 500 | 11 365 | >100 | 10 293 |
| Other(2) | 2 771 | 3 702 | (25) | 7 618 |
| Repurchase agreements with non-banks | 8 734 | 7 035 | 24 | 1 712 |
| Savings and transmission deposits | 74 563 | 67 844 | 10 | 64 717 |
| | 440 960 | 387 598 | 14 | 367 210 |

Notes

(1) Comparatives have been reclassified. Refer to note 20.

(2) Other includes partnership contributions received, deposits due on structured deals, preference investments on behalf of customers and unclaimed deposits.

| 6. DEBT SECURITIES IN ISSUE | | | |
|---|---|---|---|
| | 2011 | 2010 | |
| | (Audited) | (Audited) | Change |
| | Rm | Rm | % |
| Abacas – Commercial paper issued and floating rate notes | – | 1 789 | (100) |
| Credit linked notes | 8 976 | 6 360 | 41 |
| Floating rate notes | 69 553 | 75 740 | (8) |
| Liabilities arising from securitised SPEs | 4 218 | 4 216 | 0 |
| Negotiable certificates of deposit | 30 214 | 64 271 | (53) |
| Promissory notes | 1 550 | 1 811 | (14) |
| Structured notes and bonds | 1 451 | 1 220 | 19 |
| Senior notes | 14 300 | 9 138 | 56 |
| | 130 262 | 164 545 | (21) |
| | | | |
| 7. BORROWED FUNDS | | | |
| Subordinated callable notes | | | |
| The subordinated debt instruments listed below qualify as secondary capital in terms of the Banks Act No 94 of 1990 (as amended). | | | |
| Interest rate Final maturity date | | | |
| 8 75% 1 September 2017 | 1 500 | 1 500 | – |
| 8 80% 7 March 2019 | 1 725 | 1 725 | – |
| 8 10% 27 March 2020 | 2 000 | 2 000 | – |
| 10 28% 3 May 2022 | 600 | 600 | – |
| Three-month JIBAR + 2 10% 3 May 2022 | 400 | 400 | – |
| CPI-linked notes fixed at the following coupon rates: | | | |
| 6 25% 31 March 2018 | 1 886 | 1 886 | – |
| 6 00% 20 September 2019 | 3 000 | 3 000 | – |
| 5 50% 7 December 2028 | 1 500 | 1 500 | – |
| Accrued interest | 1 157 | 826 | 40 |
| Fair value adjustment | 283 | 212 | 33 |
| | 14 051 | 13 649 | 3 |

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December

| 8. NET-INTEREST INCOME | | | |
|---|---|---|---|
| 8.1 Interest and similar income | | | |
| | 2011 | 2010 | |
| | (Audited) | (Audited) | Change |
| | Rm | Rm | % |
| Interest and similar income is earned from: | | | |
| Cash, cash balances and balances with central banks | 159 | 103 | 54 |
| Fair value adjustments on hedging instruments | 1 063 | 1 023 | 4 |
| Investment securities | 390 | 495 | (21) |
| Loans and advances to banks | 991 | 1 234 | (20) |
| Other | 836 | 954 | (12) |
| Reverse repurchase agreements | 155 | 280 | (45) |
| Loans and advances to customers | 43 852 | 48 316 | (9) |
| Cheque accounts | 2 947 | 3 162 | (7) |
| Corporate overdrafts and specialised finance loans | 664 | 1 254 | (47) |
| Credit cards | 2 991 | 2 998 | (0) |
| Foreign currency loans | 177 | 252 | (30) |
| Instalment credit agreements | 5 577 | 6 095 | (8) |
| Interest on impaired financial assets (refer to note 3) | 1 173 | 764 | 54 |
| Loans to associates and joint ventures | 417 | 486 | (14) |
| Microloans | 544 | 706 | (23) |
| Mortgages | 22 062 | 25 071 | (12) |
| Other(1) | 412 | 943 | (56) |
| Overnight finance | 584 | 640 | (9) |
| Personal and term loans | 3 649 | 3 225 | 13 |
| Preference shares | 619 | 693 | (11) |
| Wholesale overdrafts | 2 036 | 2 027 | 0 |
| Other | 484 | 87 | >100 |
| Statutory liquid asset portfolio | 4 282 | 2 983 | 44 |
| | 51 221 | 54 241 | (6) |

Note

(1)Includes items such as interest on factored debtors' books.

| 8.2 Interest expense and similar charges | | | |
|---|---|---|---|
| | 2011 | 2010 | |
| | (Audited) | (Audited) | Change |
| | Rm | Rm | % |
| Interest expense and similar charges are paid on: | | | |
| Borrowed funds | 1 350 | 1 586 | (15) |
| Debt securities in issue | 9 602 | 12 786 | (25) |
| Deposits due to customers | 15 636 | 17 204 | (9) |
| Call deposits | 3 082 | 3 237 | (5) |
| Cheque account deposits | 2 761 | 3 196 | (14) |
| Credit card deposits | 10 | 13 | (23) |
| Fixed deposits | 6 315 | 7 197 | (12) |
| Foreign currency deposits | 102 | 142 | (28) |
| Notice deposits | 777 | 457 | 70 |
| Other | 494 | 609 | (19) |
| Savings and transmission deposits | 2 095 | 2 353 | (11) |
| Deposits from banks | 410 | 273 | 50 |
| Call deposits | 309 | 177 | 75 |
| Fixed deposits | 98 | 62 | 58 |
| Other | 3 | 34 | (91) |
| Fair value adjustments on hedging instruments | (472) | (1 116) | 58 |
| Interest incurred on finance leases | 85 | 108 | (21) |
| Other | 181 | 60 | >100 |
| | 26 792 | 30 901 | (13) |
| | | | |
| 9. NON-INTEREST INCOME | | | |
| 9.1 Fee and commission income | | | |
| Asset management and other related fees | 81 | 105 | (23) |
| Consulting and administration fees | 520 | 510 | 2 |
| Credit-related fees and commissions | 12 672 | 11 800 | 7 |
| Cheque accounts | 3 334 | 3 198 | 4 |
| Credit cards(1)(2) | 1 094 | 883 | 24 |
| Electronic banking | 4 095 | 3 828 | 7 |
| Other(3) | 1 762 | 1 474 | 20 |
| Savings accounts | 2 387 | 2 417 | (1) |
| Insurance commission received | 901 | 950 | (5) |
| Merchant income(2) | 1 185 | 1 055 | 12 |
| Other | 256 | 299 | (14) |
| Pension fund payment services | 484 | 497 | (3) |
| Project finance fees | 222 | 209 | 6 |
| Trust and other fiduciary services | 1 101 | 1 029 | 7 |
| Portfolio and other management fees(3) | 849 | 783 | 8 |

| | | | |
|---|---|---|---|
| Trust and estate income | 252 | 246 | 2 |
| | 17 422 | 16 454 | 6 |
| | | | |
| Fee and commission expense | | | |
| Cheque processing fees | (171) | (173) | 1 |
| Insurance commission paid | (877) | (867) | (1) |
| Other(2) | (659) | (524) | (26) |
| Transaction-based legal fees | (229) | (192) | (19) |
| Trust and other fiduciary service fees(2)(4) | (51) | (122) | 58 |
| Valuation fees | (142) | (185) | 23 |
| | (2 129) | (2 063) | (3) |
| | | | |
| Net fee and commission income | 15 293 | 14 391 | 6 |

Included above are net fees and commissions linked to financial instruments not at fair value to the value of R6 940 million (2010: R6 571 million).

Notes

(1) Includes acquiring and issuing fees.

(2) During the year under review, merchant income, trust and other fiduciary service fees have been disclosed in order to achieve fair presentation. This resulted in a reclassification of comparative information.

(3) Includes service, credit-related fees, commission on mortgage loans and foreign exchange transactions.

(4) During the year under review, debt collection fees have been included in trust and other fiduciary service fees. This resulted in a reclassification of comparative information.

9.2 Gains and losses from banking and trading activities(1)

| | 2011 | 2010 | |
|---|---|---|---|
| | (Audited) | (Audited) | Change |
| | Rm | Rm | % |
| Associates and joint ventures | - | 87 | (100) |
| Dividends received | - | 45 | (100) |
| Profit realised on disposal | - | 42 | (100) |
| Net gains on investments | 437 | 88 | >100 |
| Debt instruments | 29 | 26 | 12 |
| Equity instruments | 428 | 154 | >100 |
| Available-for-sale unwind from reserves | (20) | (92) | 78 |
| Net trading result | 2 627 | 1 789 | 47 |
| Net trading income excluding the impact of hedge accounting | 2 571 | 1 689 | 52 |
| Ineffective portion of hedges | 56 | 100 | (44) |

| | | | |
|---|---|---|---|
| Cash flow hedges | 33 | 44 | (25) |
| Economic hedges | 30 | 71 | (58) |
| Fair value hedges | (7) | (15) | 53 |
| Other | (470) | 385 | >(100) |
| | 2 594 | 2 349 | 10 |

Net gains on investments comprise debt and equity instruments designated at fair value through profit or loss and available for sale unwind from reserves.

Net trading result comprises gains and losses from instruments designated at fair value through profit or loss as well as gains and losses from instruments classified as held for trading.

The net trading income of R2 571 million (2010: R1 689 million), consists of the following:

- Losses on financial instruments designated at fair value through profit or loss of R851 million (2010: R1 061 million).
- Gains on financial instruments held for trading of R3 422 million (2010: R2 750 million).

Financial instruments designated at fair value through profit or loss consist of:

- Net gains of R534 million (2010: R705 million) on financial assets designated at fair value through profit or loss.
- Net losses of R1 385 million (2010: R1 766 million) relating to financial liabilities designated at fair value through profit or loss.

Other includes gains and losses from instruments designated at fair value through profit or loss as well as gains and losses from instruments classified as held for trading.

- Gains on financial instruments designated at fair value through profit or loss of R6 million (2010: R565 million).
- Losses on financial instruments held for trading of R476 million (2010: R180 million).

Note

(1) During the year under review, the presentation of “Gains and losses from banking and trading activities” has been amended to align with market practice and improve the quality of disclosure to the market. This resulted in a reclassification of comparative information.

| 9.3 Gains and losses from investment activities(1) | | | |
|---|---|---|---|
| | 2011 | 2010 | |
| | (Audited) | (Audited) | Change |
| | Rm | Rm | % |
| Available-for-sale unwind from reserves | 1 | 0 | >100 |
| Net gains on investments from insurance activities | 886 | 820 | 8 |
| Policyholder investment contracts | 511 | 214 | >100 |
| Policyholder insurance contracts | 173 | 234 | (26) |
| Shareholder funds | 202 | 372 | (46) |
| Other | 79 | 64 | 23 |
| | 966 | 884 | 9 |

Net gains on investments from insurance activities comprise cash, debt and equity instruments designated at fair value through profit or loss as well as gains and losses from instruments held for trading.

Net gains on investments from insurance activities of R886 million (31 December 2010: R820 million) consist of the following:

- Gains on financial instruments designated at fair value through profit or loss of R880 million (31 December 2010: R796 million).
- Gains on financial instruments held for trading of R6 million (31 December 2010: R24 million).

Other includes gains and losses from instruments designated at fair value through profit or loss.

Note

(1) During the year under review, the presentation of "Gains and losses from investment activities" has been amended to align with market practice and improve the quality of disclosure to the market. This resulted in a reclassification of comparative information.

| 10. OPERATING EXPENDITURE | | | |
|---|---|---|---|
| 10.1 Operating expenses | | | |
| | 2011 | 2010 | |
| | (Audited) | (Audited) | Change |
| | Rm | Rm | % |
| Amortisation of intangible assets | 289 | 165 | 75 |
| Auditors' remuneration | 166 | 159 | 4 |
| Cash transportation | 726 | 729 | (0) |
| Depreciation | 1 261 | 1 147 | 10 |
| Equipment costs | 224 | 271 | (17) |
| Information technology(1) | 2 241 | 2 085 | 7 |
| Investment property charges | 41 | 4 | >100 |
| Change in fair value of investment properties | 41 | 0 | 100 |

| | | | |
|---|---|---|---|
| Other | 0 | 4 | (100) |
| Marketing costs | 1 036 | 1 070 | (3) |
| Operating lease expenses on properties | 1 018 | 978 | 4 |
| Other(2)(3) | 1 562 | 1 871 | (17) |
| Printing and stationery | 253 | 272 | (7) |
| Professional fees(1) | 1 076 | 1 096 | (2) |
| Property costs(3) | 1 120 | 866 | 29 |
| Staff costs | 13 642 | 12 537 | 9 |
| Bonuses | 1 285 | 1 101 | 17 |
| Current service costs on post-retirement benefits | 772 | 635 | 22 |
| Other(4) | 487 | 528 | (8) |
| Salaries | 10 379 | 9 707 | 7 |
| Share-based payments | 467 | 297 | 57 |
| Training costs | 252 | 269 | (6) |
| Telephone and postage | 803 | 820 | (2) |
| | 25 458 | 24 070 | 6 |

Notes

(1) Both lines include research and development costs totalling R101 million (2010: R133 million).

(2) Includes accommodation, travel and entertainment costs.

(3) During the year under review, property costs were moved from other and disclosed separately due to the significance thereof. This resulted in a reclassification of comparative information.

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

| 10.2 Other impairments | | | |
|---|---|---|---|
| | 2011 | 2010 | |
| | (Audited) | (Audited) | Change |
| | Rm | Rm | % |
| Financial instruments | 5 | 37 | (86) |
| Amortised cost | 5 | 12 | (58) |
| Available-for-sale | – | 25 | (100) |
| Other | 47 | 71 | (34) |
| Computer software development costs | – | 4 | (100) |
| Equipment | – | 13 | (100) |
| Goodwill | 28 | – | 100 |
| Investments in associates and joint ventures | (2) | 29 | >(100) |
| Repossessed properties | 21 | 25 | (16) |
| | 52 | 108 | (52) |

| 11. HEADLINE EARNINGS | | | | | |
|---|---|---|---|---|---|
| | 2011 | | 2010 | | |
| | (Audited) | | (Audited) | | Net |
| | Gross | Net | Gross | Net | change |
| | Rm | Rm | Rm | Rm | % |
| Headline earnings(1) are determined as follows: | | | | | |
| Profit attributable to ordinary equity holders of the Group | | 9 674 | | 8 118 | 19 |
| Total headline earnings adjustment: | | 45 | | (77) | >100 |
| IFRS 3 - Goodwill impairment and (gain on bargain purchase) | 28 | 28 | (72) | (72) | >100 |
| IAS 16 - Profit on disposal of property and equipment | (33) | (30) | (41) | (37) | 19 |
| IAS 28 and 31 - Headline earnings component of share of post-tax results of associates and joint ventures | (0) | (0) | (1) | (1) | 97 |
| IAS 28 and 31 - Profit on disposal of investments in associates and joint ventures | - | - | (42) | (42) | 100 |
| IAS 28 and 31 - Impairment (reversal)/charge of investments in associates and joint ventures | (2) | (1) | 29 | 21 | >(100) |
| IAS 36 - Impairment of equipment | - | - | 13 | 9 | >(100) |
| IAS 38 - Impairment of intangible assets | 2 | 1 | 4 | 3 | (67) |
| IAS 39 - Release of available-for-sale reserves | 20 | 14 | 92 | 66 | (79) |
| IAS 39 - Impairment of available-for-sale assets | - | - | 25 | 18 | (100) |
| IAS 40 - Change in fair value of investment properties | 39 | 33 | (50) | (42) | >100 |
| Headline earnings / diluted headline earnings | | 9 719 | | 8 041 | 21 |
| Headline earnings per share (cents) | | 1 355,9 | | 1 122,6 | 21 |
| Diluted headline earnings per share (cents) | | 1 350,0 | | 1 115,7 | 21 |

Note

(1)The net amount is reflected after taxation and non-controlling interest.

| 12. DIVIDENDS PER SHARE | | | |
|---|---|---|---|
| | 2011 | 2010 | |
| | (Audited) | (Audited) | Change |
| | Rm | Rm | % |
| Dividends paid to ordinary equity holders during the year | | | |
| 15 February 2011 final dividend number 49 of 230 cents per ordinary share (16 February 2010: 220 cents) | 1 652 | 1 580 | 5 |
| 2 August 2011 interim dividend number 50 of 292 cents per ordinary share (4 August 2010: 225 cents) | 2 098 | 1 616 | 30 |
| Dividends paid on treasury shares held by Absa Group subsidiaries | (6) | (5) | (20) |
| | 3 744 | 3 191 | 17 |
| Dividends paid to ordinary equity holders relating to income for the year | | | |
| 2 August 2011 interim dividend number 50 of 292 cents per ordinary share (4 August 2010: 225 cents) | 2 098 | 1 616 | 30 |
| 15 February 2012 final dividend number 51 of 392 cents per ordinary share (15 February 2011: 230 cents) | 2 815 | 1 652 | 70 |
| Dividends paid on treasury shares held by Absa Group subsidiaries | (2) | (3) | 33 |
| | 4 911 | 3 265 | 50 |

Note

The STC payable by the Group in respect of the final dividend approved and declared subsequent to the reporting date amounts to R282 million (2010: R 165 million). No provision has been made for this dividend and the related STC in the financial statements at the reporting date in accordance with IFRS.

| | | | |
|---|---|---|---|
| Dividends paid to non-controlling preference equity holders during the year | | | |
| 15 February 2011 final dividend number 10 of 2 887 6 cents per preference share (16 February 2010: 3 280 3 cents) | 143 | 162 | (12) |
| 2 August 2011 interim dividend number 11 of 2 858 3 cents per preference share (4 August 2010: 3 197 5 cents) | 141 | 158 | (11) |
| | 284 | 320 | (11) |
| Dividends paid to non-controlling preference equity holders relating to income for the year | | | |
| 2 August 2011 interim dividend number 11 of 2 858 3 cents per preference share (4 August 2010: 3 197 5 cents) | 141 | 158 | (11) |
| 10 February 2012 final dividend number 12 of 2 827,2 cents per preference share (15 February 2011: 2 887 6 cents) | 140 | 143 | (2) |
| | 281 | 301 | (7) |

Notes

(1) The STC payable by the Group in respect of the final dividend approved and declared subsequent to the reporting date amounts to R14 million (2010: R 14 million). No provision has been made for this dividend and the related STC in the financial statements at the reporting date in accordance with IFRS.

(2) In 2007, the Minister of Finance announced a two-phase approach to STC reform which included the reduction of the STC tax rate to 10% and the replacement of STC with a new dividend tax on shareholders (dividend tax). When the dividend tax comes into effect on 1 April 2012, the tax will cease to be levied at a company level, and will instead be levied on the shareholders who received the dividends.

Unutilised STC credits at the end of 2011 will be utilised against the STC payable on the final dividend after 31 December 2011. Before the new withholding dividend tax comes into effect, deferred tax assets relating to unutilised STC credits up to 31 March 2012 will be utilised.

## 13. ACQUISITIONS AND DISPOSALS

The following interests were acquired/disposed of during the year under review:

### 13.1 Subsidiaries and business combinations

Absa Financial Services Africa Holdings Proprietary Limited (AFS Africa Holdings), originally a dormant company, became operational in January 2011 as the holding company for Absa Financial Services Limited's African operations. AFS Africa Holdings is a wholly-owned subsidiary of Absa Financial Services Limited which in turn is a wholly-owned subsidiary of the Group.

Absa Life Botswana (Proprietary) Limited (Absa Life Botswana) was established in Botswana as a wholly-owned subsidiary of AFS Africa Holdings during 2010. Absa Life Botswana only became operational during March 2011. It provides credit life and funeral policies. Non-underwritten life products were introduced in the second half of the year and efforts will continue to enter the Group schemes market. Absa Life Botswana has a strong working relationship with Barclays Bank Botswana and its branches.

The Group acquired 76% of the units in the Absa Property Equity Fund (APEF) for R211 million during April 2011, and as a result, has taken on a majority share of the risks and rewards of the fund. The net assets acquired was R211 million. APEF operates as a special purpose entity specifically for the investment in community upliftment projects and is consolidated in terms of SIC 12. The APEF was disposed of in 2010 and reacquired in 2011. Since acquisition, the APEF contributed a net profit before tax of R13 million and revenue of R10 million to the Group for the period 1 April 2011 to 31 December 2011. If the acquisition occurred on 1 January 2011, the Group's revenue would have been R17 million higher and the net profit before tax for the year would have been R18 million higher.

Through its AFS Africa Holdings the Group acquired a 100% stake in Global Alliance Seguros, S.A (Global Alliance) for R117 million during September 2011. Global Alliance is one of the largest insurance providers in Mozambique and has recently launched a life offering. Net assets acquired in the acquisition was R94 million with goodwill raised of R23 million. Since acquisition of Global Alliance, Global Alliance has contributed a net profit before tax of R16 million and revenue of R31 million to the Group for the period 1 September 2011 to 31 December 2011. If the acquisition occurred on 1 January 2011, the Group's revenue would have been R86 million higher and the net profit before tax for the year would have been R39 million higher. The acquisition is strategically attractive in that it will allow Absa Financial Services to progress its African expansion objectives by entering the market in Mozambique with immediate scale and provide a platform for growth. As at the acquisition date, the accounting for the business combination its determined provisionally since the fair values of the identifiable assets and liabilities are in the process of being finalised, pending the finalisation of due diligence. Acquisition-related costs amounted to R3 million in the statement of comprehensive income.

During October 2011, the Group acquired the operations of Takafol South Africa Proprietary Limited (Takafol), an underwriting management agent for R3 million. Absa Insurance Company Limited underwrote the Islamic insurance policies administered by Takafol. Takafol is the sole provider of Islamic insurance products in South Africa. The integration of Takafol into the Group will provide synergies with Absa Islamic Banking, expand the Group's Islamic Banking product offerings and allowing the Group to progress its African expansion objectives.

The Group subscribed for additional shares in Barclays Bank Mozambique S.A. (BBM) at a total consideration of R268 million in terms of a rights issue during July 2010. The 12 016 200 additional shares acquired during 2010 increased the effective interest held from 80% to 95,85% at the time. The non-controlling shareholders were granted options until 18 June 2011 to acquire their pro-rata shares in terms of the rights issue from the Group at the original subscription price of Mt 100 plus interest equal to 17,85% per annum. Interest was to accrue from the date on which Absa made payment of the subscription price. None of the non-controlling shareholders exercised their rights in terms of the options granted upon expiry of the options by 18 June 2011. The term of the options were not extended. The final effective interest of the Group remained at 95,85%.

The Group together with two other parties have a shareholding in Barrie Island Investments Proprietary Limited (Barrie Island). During January 2011, the Group entered into an agreement to purchase an additional 30% of the shares in Barrie Island from another shareholder who wished to exit the arrangement. Following this purchase, the Group owns 70% of the shares of Barrie Island. At the acquisition date, the investment was recognised at R nil million. A fair value adjustment of R3 million was processed as a loss in the statement of comprehensive income when the additional shares in Barrie Island were acquired. Net liabilities incurred in the further acquisition totalled R3 million with goodwill raised of R3 million. Barrie Island holds property in Alberton. The property is zoned for commercial and residential property. The goodwill in Barrie Island has been impaired because Barrie Island has been consistently making losses and is not expected to be profitable in the near future. Since the further acquisition, Barrie Island had no revenue and profit before tax impact to the Group for the period to 31 December 2011.

The partnership in the IFU Property Fund was dissolved during the year under review. Overlook at Sugarloaf Incorporated (a new legal entity incorporated in the

United States of America) was established to replace the IFU Property Fund. This did not affect the Group's overall statement of financial position.

During the year under review, the Group sold certain exposures to Commissioner Street No. 4 (RF) Limited (Commissioner Street 4), a special purpose entity (SPE) established by the Group. Commissioner Street 4 issued various classes of notes to investors.

The following table summarises the significant acquisition-date fair values of the assets and liabilities acquired in the above business combination transactions:

| | APEF | Barrie Island | Global Alliance |
|---|---|---|---|
| | (Audited) | (Audited) | (Audited) |
| Class of asset/(liability) | Rm | Rm | Rm |
| Cash, cash balances and balances with central banks | 0 | 0 | 38 |
| Other assets | 1 | 40 | 91 |
| Investment securities | 277 | – | – |
| Intangible assets | – | – | 72 |
| Investment properties | – | – | 28 |
| Property and equipment | – | – | 24 |
| Deferred tax asset/ (liabilities) | – | 1 | (20) |
| Other liabilities | (0) | (50) | (139) |
| Fair value of existing interest | – | 3 | – |
| Non-controlling interest | (67) | 3 | – |
| Net assets acquired/ (liabilities incurred) | 211 | (3) | 94 |
| | | | |
| Cash outflow on acquisition | 211 | 0 | 117 |
| Fair value of net (assets acquired)/ liabilities incurred | (211) | 3 | (94) |
| Goodwill | – | 3 | 23 |
| | | | |
| Total cash and cash equivalents acquired | 0 | 0 | 38 |

A full list of subsidiaries as at 31 December 2011 is available, on request, at the registered address of the Group.

13.2 Associates and joint ventures

The following interests were disposed of during the year under review:
Sekunjalo Investments Limited was classified as an “equity accounted” associate held by Absa Capital and Absa Business Bank. Absa Capital’s investment was disposed of and the remaining investment held by Absa Business Bank was transferred to investment securities.

## 14. RELATED PARTIES

Barclays Bank PLC owns 55,5% (2010: 55,5%) of the ordinary shares in the Group. The remaining 44,5% (2010: 44,5%) of the shares are widely held on the JSE.
The following are defined as related parties of the Group:

- key management personnel;
- the parent company;
- subsidiaries;
- associates  joint ventures and retirement benefit funds;
- an entity controlled/jointly controlled or significantly influenced by any individual referred to above;
- post-employment benefit plans for the benefit of employees or any entity that is a related party of the Group; and
- children and/or dependants and spouses or partners of the individuals referred to above.

IAS 24 requires the identification of key management personnel who are individuals responsible for planning directing and controlling the activities of the entity including directors. Key management personnel are defined as executive and non-executive directors and members of the Group Executive Committee (Exco).

### 14.1 Transactions with key management personnel and entities controlled by key management

A number of banking and insurance transactions are entered into with key management personnel in the normal course of business under terms that are no more favourable than those arranged with third parties. These include loans deposits and foreign currency transactions. The related party transactions  outstanding balances at year-end  and related expenses and income with related parties for the year are as follows:

| | 2011 | 2010 | Change |
|---|---|---|---|
| | (Audited) | (Audited) | |
| | Rm | Rm | % |
| Balances | | | |
| Loans | 624 | 25 | >100 |
| Deposits | 33 | 25 | 32 |
| Guarantees issued by the Group | 79 | 70 | 13 |
| Other investments | 81 | 68 | 19 |

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

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

| | 2011 | 2010 | Change |
|---|---|---|---|
| | (Audited) | (Audited) | |
| | Rm | Rm | % |
| Transactions | | | |
| Interest income | 56 | 2 | >100 |
| Interest expense | 1 | 1 | - |
| Insurance premiums paid | 0,41 | 0,38 | 8 |
| Insurance claims received | 0,17 | 0,28 | (39) |
| Key management personnel compensation | | | |
| Executive directors | | | |
| Post-employment benefit contributions | 1 | 1 | - |
| Salaries and other short-term benefits | 33 | 38 | (13) |
| Share-based payments | 27 | 17 | 59 |
| Termination benefits | - | 10 | (100) |
| | 61 | 66 | (8) |
| Other key management personnel | | | |
| Post-employment benefit contributions | 2 | 2 | - |
| Salaries and other short-term benefits | 42 | 43 | (2) |
| Share-based payments | 36 | 33 | 9 |
| Termination benefits | 3 | - | 100 |
| | 83 | 78 | 6 |

14.2 Balances and transactions with parent company and fellow subsidiaries(1), associates and joint ventures

| | Parent company(2) | | Fellow subsidiaries(3) | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (Audited) | (Audited) | (Audited) | (Audited) |
| | Rm | Rm | Rm | Rm |
| Balances | | | | |
| Loans and advances to banks | 41 065 | 15 261 | 188 | 412 |
| Derivative assets | 10 254 | 9 079 | 0 | 65 |
| Nominal value of derivative assets | 637 611 | 489 895 | 608 | 3 507 |
| Other assets | 338 | 498 | – | 54 |
| Investment securities | 499 | 581 | – | – |
| Deposits from banks | (5 784) | (5 821) | – | (261) |
| Derivative liabilities | (10 488) | (8 999) | (72) | (7) |
| Nominal value of derivative liabilities | (462 870) | (375 175) | (1 441) | (292) |
| Other liabilities | (1 167) | (267) | (52) | – |
| Transactions | | | | |
| Interest and similar income | (111) | (80) | 2 | – |
| Interest and similar expense | 67 | 36 | – | – |
| Net fee and commission income | (17) | (15) | (12) | – |
| Gains and losses from banking and trading activities | (136) | 1 646 | – | – |
| Other operating income | (152) | (42) | – | – |
| Operating expenditure | (115) | (252) | 152 | 279 |
| Dividends paid | 2 082 | 1 775 | – | – |

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

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

Notes

(1) Debit amounts are shown as positives; credit amounts are shown as negatives.

(2) Absa Group Limited is a subsidiary of Barclays Bank PLC, which has majority equity interest in the Group.

(3) Fellow subsidiaries are those subsidiaries of Barclays Bank PLC. Balances and transactions between the Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

15. ASSETS UNDER MANAGEMENT AND ADMINISTRATION (1)

| | 2011 | 2010 | |
|---|---|---|---|
| | (Audited) | (Audited) | Change |
| | Rm | Rm | % |
| Alternative asset management and exchange traded funds | 30 486 | 25 904 | 18 |
| Deceased estates | 2 166 | 2 153 | 1 |
| Other | 10 505 | 10 898 | (4) |
| Participation bond schemes | 2 544 | 2 315 | 10 |
| Portfolio management | 26 792 | 21 145 | 27 |
| Private equity | 728 | 732 | (1) |
| Trusts | 6 720 | 6 482 | 4 |
| Unit trusts | 133 245 | 125 320 | 6 |
| | 213 186 | 194 949 | 9 |
| | | | |
| 16. FINANCIAL GUARANTEE CONTRACTS | | | |
| Financial guarantee contracts(2) | 356 | 599 | (41) |
| | | | |
| 17. COMMITMENTS | | | |
| Authorised capital expenditure | | | |
| Contracted but not provided for(3) | 283 | 1 061 | (73) |
| Operating lease payments due(4) | | | |
| No later than one year | 1 106 | 1 066 | 4 |
| Later than one year and no later than five years | 2 136 | 2 059 | 4 |
| Later than five years | 585 | 482 | 21 |
| | 3 827 | 3 607 | 6 |
| Sponsorship payments due(5)(6) | | | |
| No later than one year | 209 | 305 | (31) |
| Later than one year and no later than five years | 299 | 508 | (41) |
| | 508 | 813 | (38) |
| | | | |

| 18. CONTINGENCIES | | | |
| --- | --- | --- | --- |
| | 2011 | 2010 | |
| | (Audited) | (Audited) | Change |
| | Rm | Rm | % |
| Guarantees(7) | 13 226 | 11 051 | 20 |
| Irrevocable debt facilities(8) | 46 189 | 46 495 | (1) |
| Irrevocable equity facilities(8) | 494 | 750 | (34) |
| Letters of credit | 5 190 | 4 979 | 4 |
| Other | 10 | 44 | (77) |
| | 65 109 | 63 319 | 3 |

Notes

(1) Comparatives have been restated for the inclusion of assets managed by Absa Capital on behalf of clients, exchange-traded funds and alternative asset management funds, in order to align assets under management and administration to current market practice.

(2) Represents the maximum exposure, which is not necessarily the measurement recognised on the statement of financial position in accordance with IFRS.

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

(4) The operating lease commitments comprise a number of separate operating leases in relation to properties and equipment, none of which is individually significant to the Group. Leases are negotiated for an average term of three to five years and rentals are renegotiated annually.

(5) During the year under review, additional information has been included for sponsorships. This resulted in a reclassification of comparative information.

(6) The Group has sponsorship commitments in respect of sports, arts and culture sponsorships. Certain sponsorship agreements in place expire in 2012 and are under review by management for renewal in the foreseeable future.

(7) Guarantees include performance and payment guarantee contracts.

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

19. SEGMENT PERFORMANCE

19.1 Condensed consolidated profit contribution by segment

for the year ended 31 December

| | 2011 | 2010(1) | |
|---|---|---|---|
| | (Audited) | (Audited) | Change |
| | Rm | Rm | % |
| Banking operations | | | |
| Retail Banking | 4 179 | 3 258 | 28 |
| Home Loans | 516 | 196 | >100 |
| Vehicle and Asset Finance | 403 | 236 | 71 |
| Card | 1 758 | 1 483 | 19 |
| Personal Loans | 720 | 515 | 40 |
| Retail Bank | 782 | 828 | (6) |
| Absa Business Bank | 2 895 | 2 866 | 1 |
| Absa Capital | 1 496 | 1 612 | (7) |
| Corporate centre | (301) | (397) | 24 |
| Capital and funding centres | 315 | (192) | >100 |
| Non-controlling interest - preference shares(2) | (283) | (319) | 11 |
| Total banking | 8 301 | 6 828 | 22 |
| Financial Services | 1 373 | 1 290 | 6 |
| Profit attributable to ordinary equity holders of the Group | 9 674 | 8 118 | 19 |
| Headline earnings adjustments | 45 | (77) | >100 |
| Headline earnings | 9 719 | 8 041 | 21 |

Notes

(1) Comparatives have been reclassified. Refer to note 20.

(2) Includes the elimination of non-controlling interest - preference shares of Retail Banking.

19.2 Condensed consolidated total revenue(1) contribution by segment

for the year ended 31 December

| | 2011 | 2010(2) | |
|---|---|---|---|
| | (Audited) | (Audited) | Change |
| | Rm | Rm | % |
| Banking operations | | | |
| Retail Banking | 24 640 | 23 090 | 7 |
| Home Loans | 4 064 | 3 531 | 15 |
| Vehicle and Asset Finance | 2 224 | 2 035 | 9 |
| Card | 4 970 | 4 601 | 8 |
| Personal Loans | 2 108 | 1 960 | 8 |
| Retail Bank | 11 274 | 10 963 | 3 |
| Absa Business Bank | 11 839 | 11 545 | 3 |
| Absa Capital | 5 519 | 5 508 | 0 |
| Corporate centre | (860) | (827) | (4) |
| Capital and funding centres | 679 | (106) | >100 |
| Total banking | 41 817 | 39 210 | 7 |
| Financial Services | 4 015 | 3 604 | 11 |
| Total revenue | 45 832 | 42 814 | 7 |

Notes

(1) Revenue includes net interest income and non-interest income.

(2) Comparatives have been reclassified. Refer to note 20.

19.3 Condensed consolidated total internal revenue(1) contribution by segment

for the year ended 31 December

| | 2011 | 2010(2) | |
|---|---|---|---|
| | (Audited) | (Audited) | Change |
| | Rm | Rm | % |
| Banking operations | | | |
| Retail Banking | (10 660) | (13 334) | 20 |
| Home Loans | (12 896) | (15 119) | 15 |
| Vehicle and Asset Finance | (2 436) | (2 753) | 12 |
| Card | (633) | (738) | 14 |
| Personal Loans | (569) | (611) | 7 |
| Retail Bank | 5 874 | 5 887 | (0) |
| Absa Business Bank | 2 739 | 1 551 | 77 |
| Absa Capital | 9 401 | 12 516 | (25) |
| Corporate centre | 91 | (423) | >100 |
| Capital and funding centres | (1 170) | (820) | (43) |
| Total banking | 401 | (510) | >100 |
| Financial Services | (401) | 510 | >(100) |
| Total internal revenue | - | - | - |

Notes

(1) Revenue includes net interest income and non-interest income.

(2) Comparatives have been reclassified. Refer to note 20.

19.4 Condensed consolidated total assets by segment

as at 31 December

| | 2011 | 2010(1) | |
|---|---|---|---|
| | (Audited) | (Audited) | Change |
| | Rm | Rm | % |
| Banking operations | | | |
| Retail Banking | 469 710 | 470 240 | (0) |
| Home Loans | 239 376 | 247 881 | (3) |
| Vehicle and Asset Finance | 46 500 | 50 385 | (8) |
| Card | 29 456 | 26 746 | 10 |
| Personal Loans | 13 489 | 12 887 | 5 |
| Retail Bank | 140 889 | 132 341 | 6 |
| Absa Business Bank | 206 051 | 184 326 | 12 |
| Absa Capital | 369 797 | 356 110 | 4 |
| Corporate centre | (368 448) | (380 521) | 3 |
| Capital and funding centres | 83 966 | 72 855 | 15 |
| Total banking | 761 076 | 703 010 | 8 |
| Financial Services | 25 643 | 22 947 | 12 |
| Total assets | 786 719 | 725 957 | 8 |

Note

(1) Comparatives have been reclassified. Refer to note 20.

## 20. RECLASSIFICATIONS

20.1 Some items within the statement of financial position for the years ended 31 December 2010 and 31 December 2009 were reclassified in the current year:

| | 2010 | | |
|---|---|---|---|
| | (Audited) | | |
| | As previously reported | Reclassification | Reclassified |
| | Rm | Rm | Rm |
| Cash, cash balances and balances with central banks (1) | 24 361 | (620) | 23 741 |
| Loans and advances to banks (2) | 24 877 | 2 618 | 27 495 |
| Other assets (2) | 16 131 | (3 276) | 12 855 |
| Loans and advances to customers | 498 635 | 10 145 | 508 780 |
| Collateralised loans (2) | | 658 | |
| Offsetting (3) | | 9 487 | |
| Investment securities(1) | 23 826 | 620 | 24 446 |
| Total assets (3) | 716 470 | 9 487 | 725 957 |
| Deposits due to customers(3) | 378 111 | 9 487 | 387 598 |
| Total liabilities(3) | 654 321 | 9 487 | 663 808 |
| Total liabilities and equity(3) | 716 470 | 9 487 | 725 957 |
| | | | |
| | 2009 | | |
| | (Audited) | | |
| | As previously reported | Reclassification | Reclassified |
| | Rm | Rm | Rm |
| Cash, cash balances and balances with central banks (1) | 20 597 | (391) | 20 206 |
| Loans and advances to banks (2) | 36 032 | 7 191 | 43 223 |
| Other assets (2) | 17 777 | (7 191) | 10 586 |
| Loans and advances to customers (3) | 506 163 | 10 845 | 517 008 |
| Investment securities (1) | 29 564 | 391 | 29 955 |
| Total assets (3) | 710 796 | 10 845 | 721 641 |
| Deposits due to customers (3) | 356 365 | 10 845 | 367 210 |
| Total liabilities (3) | 654 306 | 10 845 | 665 151 |
| Total liabilities and equity (3) | 710 796 | 10 845 | 721 641 |

Notes

(1) Money market instruments

During the year under review, the Group has reclassified certain money market instruments linked to investment contracts, with longer-term maturities, from 'Cash, cash balances with central bank' to 'Investment securities', to reflect the true nature of these instruments. 'Cash, cash balances and balances with central banks' should comprise cash on hand and demand deposits which the Group expects to be realised within 12 months after the reporting date. This has resulted in comparatives being reclassified for 31 December 2010 and 31 December 2009 as reflected in the table above.

(2) Collateralised loans

During the year under review, the Group has reclassified certain collateralised loans previously disclosed as 'Other assets' to 'Loans and advances to banks' and 'Loans and advances to customers' in 2010 and to 'Loans and advances to banks' in 2009 to reflect the true nature of these trades as collateralised loans. This has resulted in comparatives being reclassified for 31 December 2010 and 31 December 2009 as reflected in the table above.

(3) Offsetting

Certain customers within the Group have agreements in place whereby interest receivable or payable is calculated on the net balances of the cheque deposits and cheque advances. During the year under review, the Group identified that the related cheque account balances owed or receivable were also being offset. Given that there is no agreement in place that allows these balances to be offset, the Group is expected to have reflected the gross balances in terms of IAS 32.

As a result, the assets and liabilities relating to these cheque accounts were reclassified so that these are presented on a gross basis. This has resulted in the comparatives being reclassified for 31 December 2010 and 31 December 2009 as reflected in the table above.

20.2 Comparatives have been reclassified for the following structure changes made during the year:

- Absa Technology Finance Solutions Proprietary Limited was moved from Vehicle and Asset Finance within Retail Banking to Absa Business Bank.
- Debit Card was moved within Retail Banking from Retail Bank to Card.
- Personal loan centres were moved within Retail Banking from Personal Loans to Retail Bank.
- Absa Development Company division and Absa Development Company Holdings Proprietary Limited were moved from Absa Business Bank to Retail Bank within Retail Banking.
- The Group's corporate client base was transferred from Absa Business Bank to Absa Capital following an initiative to optimise product delivery to its corporate clients.

Profit and dividend announcement

Salient features

- Diluted headline earnings per share (HEPS) grew 21% to 1350,0 cents.
- Total dividend of 684 cents per share, up 50%.
- Net interest margin on average interest-bearing assets widened to 4,11% from 3,94%.
- Non-interest revenue grew 10% and accounted for 46,7% of total revenue (2010: 45,5%).
- Operating expenses growth contained to 6%, improving Absa’s cost-to-income ratio to 55,5% (2010: 56,2%).
- Loans and advances to customers declined 1% to R504 billion.
- Credit losses decreased 15% to R5 081 million, resulting in a 1,01% credit loss ratio (2010: 1,18%).
- Return on average equity (RoE) improved to 16,4% (2010: 15,1%).
- Return on average risk-weighted assets increased to 2,35% and return on average assets (RoA) to 1,32% (2010: 1,99% and 1,10% respectively).
- Net asset value (NAV) per share grew 11% to 8 690 cents (2010: 7 838).
- Absa Group’s Core Tier 1 capital adequacy ratio improved to 13,0% (2010: 11,7%), well above regulatory requirements.

Overview

The Group’s headline earnings increased 21% to R9 719 million (2010: R8 041 million). Diluted HEPS rose 21% to 1 350,0 cents (2010: 1 115,7 cents). Absa’s RoE improved to 16,4%, reflecting a higher RoA of 1,32% (2010: 1,10%), offset by reduced leverage. The Group declared a final dividend of 392 cents per share, 70% above the corresponding period, after considering regulatory changes, its strong Core Tier 1 ratio, its strategy and growth plans, and near-term business objectives.

Absa delivered on its key commitments for 2011, including growing revenue faster than operating expenses. The Group’s pre-provision profit increased 9% to R20 374 million. Improved non-interest revenue growth, lower credit losses, better cost containment and a wider net interest margin were the primary reasons for Absa’s headline earnings growth. These drivers outweighed the impact of lower loans and advances, and a higher effective tax rate.

Retail Banking’s 33% headline earnings growth was the principal driver of the Group’s 21% increase. Financial Services and Absa Business Bank (ABB) increased earnings 7% and 5% respectively. Absa Capital’s headline earnings decreased 10% after a difficult second half.

Operating environment

South Africa’s economic growth slowed considerably in recent quarters to an annualised 1,4% in the third quarter of 2011. Household expenditure growth has remained one bright point, rising 3,7% on an annualised basis in the third quarter. This is underpinned by evidence that the worst of the labour market weakness has passed and consumers are benefiting from low interest rates and increased real household income growth. Despite the prime rate being at the lowest level since the 1970s, private sector credit extension remains moderate. Household credit rose at an average of 5,7% from June through November 2011 and corporate credit 3,6%. This modest new borrowing and income growth has reduced household debt to disposable income from a 2008 peak of 82,7% to 75,0%, although consumers remain vulnerable to any monetary policy tightening.

Inflation pressures mounted through 2011, as headline CPI increased from the cyclical low of 3,2% in September 2010 to 6,1% in November 2011, which is above the SARB target range. Growth in core inflation has been more moderate, increasing to 3,9% despite rising food and fuel costs. Given concerns about economic growth, the Reserve Bank has kept its policy rate at 5,5%.

Group performance

Statement of financial position

The Group's total assets rose 8% to R787 billion at 31 December 2011, reflecting strong second half growth in its trading portfolio assets and loans and advances to banks. Absa's statutory liquid asset portfolio increased 19% to R57 billion.

Loans and advances to customers

Absa's loans and advances to customers declined by 1% to R504 billion (2010: R509 billion). Retail Banking's loans and advances decreased 1%, reflecting sustained focus on risk appetite and pricing. Retail mortgages (including Commercial Property Finance), which constitute 47% of total Group gross loans and advances to customers, decreased 4%. Given Retail Banking's strategy to grow its proportion of unsecured loans, credit cards grew 4% and personal loans 7%. Muted client demand also dampened ABB's loans and advances, which declined 4% due to lower Commercial Property Finance, instalment credit agreements and wholesale overdrafts. Absa Capital's loans and advances increased 6%, reflecting strong growth in foreign currency loans and overnight finance.

Deposits due to customers

Absa continued to improve its liquidity, growing customer deposits 14% to R441 billion and increasing its proportion of long-term funding to 24,5%. With solid growth in most key categories, Retail Banking's deposits increased 9%, to maintain its leading market share. Its proportion of high margin deposits improved further. ABB's deposits increased 13%, given strong growth in cheque account and call deposits. Absa Capital's deposits rose 18%, after solid growth in fixed deposits and notice deposits. Deposits due to customers accounted for 72% of funding compared to 64% in 2009, while the proportion from debt securities in issue dropped to 21% from 30%. The Group's loans-to-deposits ratio declined to 88% from 92%.

Net asset value

The Group's NAV increased 11% to R62 billion, as it generated retained earnings of R5,9 billion during the year. Absa's NAV per share grew 11% to 8 690 cents (2010: 7 838 cents).

Capital to risk-weighted assets

The Group's risk-weighted assets increased 0,4% to R424 billion (2010: R423 billion). Absa maintained its strong capital levels, which remain above board targets and regulatory requirements. At 31 December 2011, Absa Group's Core Tier 1 and Tier 1 capital adequacy ratios were 13,0% (2010: 11,7%) and 14,1% (2010: 12,8%) respectively. The Group's total capital ratio improved to 16,7% (2010: 15,5%). Absa Bank's Core Tier 1 ratio increased to 12,1% (2010: 10,7%) and its total ratio was 16,2% (2010: 14,8%). Factoring in its strong capital position and medium-term plans, the Group was able to increase its total dividend per share by 50%.

Statement of comprehensive income

Net interest income

Net interest income increased 5% to R24 429 million (2010: R23 340 million), despite loans declining slightly and a 0,87% lower average prime rate during the year. The growth stems from the Group's improved net interest margin (4,11% from 3,94%) due to its hedging strategy, better new business pricing and lower reliance on wholesale funding. These outweighed the negative endowment effect on capital and deposits, competitive pricing pressure on deposits and the cost of lengthening funding and increasing surplus liquid assets.

Credit losses

Absa's credit impairments improved 15% to R5 081 million (2010: R6 005 million). Retail Banking, where credit losses decreased 17% to R3 965 million, was responsible for most of the reduction. Early cycle delinquencies improved as lower interest rates helped consumers to recover, and the benefits of effective collections and sound credit policy became evident. ABB's credit losses dropped 24% to R873 million.

The Group's credit loss ratio improved to 1,01% (2010: 1,18%). This is noticeably below 2009's high charge of 1,70%. Retail Banking's credit loss ratio declined to 1,23% (2010: 1,48%), as every category improved, particularly Absa Card and Personal Loans. ABB's credit loss ratio fell to 0,72% from 0,93%. Absa's non-performing loan coverage declined to 27,8% (2010: 29,8%), in part due to 24% higher write-offs of impaired advances.

Non-performing loans as a percentage of loans and advances improved to 6,9% (2010: 7,6%), due to reduced new NPLs, greater write-offs and rehabilitating more accounts. Absa's loans subject to debt counselling reduced to R3,4 billion from R7,0 billion the previous year, reflecting strong collection efforts.

## Non-interest income

Despite muted trading and retail client activity, Absa's non-interest income grew 10% to R21 403 million (2010: R19 474 million), owing to growth in targeted areas. Net fee and commission income constituted 71% of non-interest income. It grew 6% to R15 293 million (2010: R14 391 million), due to volume growth and price increases. Retail Banking's net fee and commission income rose 6%, while ABB's demonstrated improving momentum growing 8%. Net revenue from Financial Services, excluding investment returns on shareholder funds, grew 14%. Absa Capital's net trading increased 1% to R2 166 million, despite difficult second half conditions in fixed income. The Group sold its stake in Visa Incorporated in 2011, recording a R30 million gain compared to a R128 million loss the prior year. Private equity and commercial property finance revaluations accounted for less than 1% of total non-interest revenue.

## Operating expenses

The Group's operating expenses increased 6% to R25 458 million (2010: R24 070 million), reflecting cost containment while continuing to invest in target growth areas. Staff costs constituted 54% of the total, increasing 9% to R13 642 million. This reflected salary increases, higher bonuses and share-based payments due to significant incentive deferrals from previous years and improved operating performance. Non-staff costs grew just 2%, as containing discretionary spend was a priority. Total IT-related spend grew 5% to R5,3 billion, which represents 21% of Group costs. Absa's cost-to-income ratio improved to 55,5% from 56,2%.

## Taxation

The Group's taxation charge grew 23% to R4 026 million, as its effective tax rate rose to 28,3% from 27,5%. The higher rate was mainly due to a lower proportion of exempt income and secondary tax on companies. Absa continued to contribute significantly to the fiscus, making cash payments of R5,7 billion in 2011.

## Segmental performance

### Retail Banking

Retail Banking produced strong results, growing headline earnings 33% to R4 179 million (2010: R3 137 million). This reflects solid net interest income growth, lower credit losses and a focus on costs. Containing cost growth to 5%, which was less than revenue growth, reduced its cost-to-income ratio to 56,7% (2010: 57,6%). Retail Banking's credit loss ratio improved to 1,23% from 1,48%, as a result of lower early stage delinquencies and successful collection strategies. All business segments increased their headline earnings. While a material recovery in secured lending drove earnings growth, superior unsecured lending returns underpinned the division's 27,0% returns on regulatory capital. Card's strong performance was a standout, growing its headline earnings 19% to R1 757 million. The Group maintained its leading share of retail deposits, customers, branches and ATMs.

Absa Business Bank

ABB had a solid year, growing headline earnings 5% to R2 948 million (2010: R2 811 million), as it managed costs and reduced credit impairments. Operating expenses grew 5%. Enhanced transactional capabilities, new products and reduced revenue leakage increased fee income 8%. ABB grew its deposits 13%, contributing materially to the Group’s improved loans-to-deposits ratio. However, competition and lower interest rates reduced ABB’s net interest margin noticeably to 4,44% (2010: 4,75%). Book run-off, muted client credit demand and Absa’s targeted commercial property finance growth saw its loans and advances decrease 4%. ABB’s credit impairments dropped 24%, improving its credit loss ratio to 0,72% from 0,93%. ABB’s return on regulatory capital declined slightly to 19,5%.

Absa Capital

Absa Capital experienced a challenging year, particularly in the second half. Its headline earnings decreased 10% to R 1 495 million (2010: R 1 659 million) on flat revenues. Markets revenue declined 3% due to reduced market liquidity and a flat interest rate environment. Fixed Income and Credit the largest components of this, fell 7%. Foreign Exchange and Commodities, a key focus area, partially offset this by growing 11%. Investment Banking revenue decreased 20%. Growth of 44% in its fee business was offset by a decline in the margin business due to the unwind of highly structured on balance sheet financing. Private Equity earnings continued to improve, benefiting from profitable realisations and positive valuations. Wealth’s net revenue increased 33%, reflecting lower credit losses and higher transactional activities. Absa Capital’s return on regulatory capital decreased to 17,1% (2010: 18,1%).

Financial Services

Net operating income increased 21% to R1 686 million (2010: R1 390 million). The drivers of the strong operational performance included 18% gross revenue growth, a modest 5% increase in claims paid and an improved cost efficiency ratio. Gross and net insurance premiums grew 18% and 13% respectively, while non-insurance income increased 16%. Assets under management increased 3% to R168 billion, in spite of a reduction in assets invested in the dividend income fund. Operating expenditure increased 12%, as AFS established African operations in Botswana and Mozambique and continued to invest heavily in core scalable operating platforms in anticipation of further growth. Investment income on shareholder funds decreased 40% in a low interest rate environment, as a result of de-risking its shareholder funds and poor performance of equity markets. This resulted in 7% headline earnings growth. Its RoE declined to 32,0% from 34,8%, reflecting additional capital retained to expand into Africa. Meanwhile its return on embedded value was 37,1% (2010: 39,8%).

## Prospects

Global economic conditions remain challenging. Key structural weaknesses in the Eurozone still need to be addressed, the US economy faces the uncertainty of an election year and emerging markets look to navigate the downside risks created in developed countries. However, Sub-Saharan Africa's GDP is expected to grow 5,5% this year.

For South Africa, the external environment is unlikely to support stronger growth and we expect the economy to grow just 2,8%. Slightly higher inflation will place some pressure on real household income and the labour market is expected to remain weak, which suggests consumers will remain vulnerable and corporates cautious in their business decisions. We expect the Reserve Bank to increase interest rates in the fourth quarter, albeit at a slow pace.

Against this fragile macro backdrop, sector asset and revenue growth is likely to remain muted. However, Absa should continue to benefit from its hedging strategy. Containing costs remains a priority and management is committed to keeping cost growth below revenue growth again this year. Together with an expected credit loss ratio of below 1%, the Group's returns should improve further. Absa will continue to work closely with Barclays to capture the opportunities the combined franchises offer in the rest of Africa. Absa remains well positioned for expected regulatory changes with a strong capital position and will continue to improve its liquidity.

## Basis of presentation and changes in accounting policies

The Group's condensed results have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRS). The disclosures comply with International Accounting Standard (IAS) 34.

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

## Changes in accounting policies

The accounting policies applied in preparing the financial results for the year under review are the same as the accounting policies in place for the year ended 31 December 2010 except for the following:

- The Group adopted the predecessor accounting method as its accounting policy for common control transactions. The Group previously accounted for common control transactions in terms of IFRS 3 Business Combinations where these transactions had economic substance. This change in accounting policy will align the Group's accounting policy with its ultimate parent company, Barclays PLC. The change in accounting policy does not impact the Group's consolidated results and had no impact on basic and diluted earnings per share as previously reported.
- Adoption of amendments and changes to IFRS mandatory for the 31 December 2011 financial year. These amendments, specified in the consolidated annual financial statements, resulted in some additional disclosures being presented but otherwise had a minimal impact on the financial results for the year under review.

Reclassifications

- The Group has reclassified certain collateral previously disclosed as 'Other assets' to 'Loans and advances to banks' and 'Loans and advances to customers' in December 2010 and to 'Loans and advances in Banks' in December 2009 to reflect the true nature of these trades as collateralised loans. This has resulted in comparatives being reclassified for 31 December 2010 (loans and advances to banks R2 618 million, other assets (R3 276 million) and loans and advances to customers R658 million) and 31 December 2009 (loans and advances to banks R7 191 million, other assets (R7 191 million)).
- Certain customers within the Group have agreements in place whereby interest receivable or payable is calculated on the net balances of the cheque deposits and cheque advances. During the year under review, the Group identified that the related cheque account balances owed or receivable were also being reported on a net basis. All balances within this portfolio were reassessed for appropriate presentation in terms of IAS 32 and the Group's stated accounting policies, taking into account contractual arrangements and current business practice applied to these accounts. As a result, certain assets and liabilities relating to these cheque accounts were reclassified so that these are presented on a gross basis. This has resulted in the comparatives being reclassified for 31 December 2010 (loans and advances to customers R9 487 million, deposits due to customers (R9 487 million)) and 31 December 2009 (loans and advances to customers R10 845 million, deposits due to customers (R10 845 million)).
- The Group has reclassified certain money market assets linked to investment contracts with longer-term maturities from 'Cash, cash balances with central banks' to 'Investment securities' to reflect the true nature of these assets, as 'Cash, cash balances and balances with central banks' should comprise cash on hand and demand deposits which the Group expects to be realised within 12 months after the reporting date. This has resulted in comparatives being reclassified for 31 December 2010 (cash, cash balances and balances with central banks (R620 million) and investment securities R620 million) and 31 December 2009 (cash, cash balances

and balances with central banks (R391 million) and investment securities R391 million).

## Going concern

The directors assess the Group's future performance and financial position on an ongoing basis and have no reason to believe that the Group will not be a going concern in the year ahead. For this reason these condensed annual consolidated financial statements are prepared on a going concern basis.

## Events after the reporting period

The directors are not aware of any events after the reporting period of 31 December 2011 and the date of authorisation of these summarised annual consolidated financial statements as defined in IAS 10.

## Auditors' report

Ernst & Young Inc. and PricewaterhouseCoopers Inc., Absa Group Limited's independent auditors, have audited the consolidated annual financial statements of Absa Group Limited from which the condensed consolidated financial results have been derived. The auditors have expressed an unqualified audit opinion on the consolidated annual financial statements. The condensed consolidated financial results comprise the condensed consolidated statement of financial position at 31 December 2011, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the year then ended, and selected explanatory notes, excluding items indicated as unaudited. The audit report of the consolidated annual financial statements is available for inspection at Absa Group Limited's registered office.

On behalf of the board

| | |
|---|---|
| G Griffin | M Ramos |
| Group Chairman | Group Chief Executive |

Johannesburg

10 February 2012

## Declaration of final ordinary dividend number 51

Shareholders are advised that a final ordinary dividend of 392 cents per ordinary share was declared today, Friday, 10 February 2012, for the six-month period ended 31 December 2011. This brings the total dividend for the year ended 31 December 2011 to 684 cents per share. The final ordinary dividend is payable to shareholders recorded in the register of members of the Company at the close of business on Friday, 30 March 2012.

The directors of Absa Group confirm that the Group will satisfy the solvency and liquidity test immediately after completion of the dividend distribution.

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

| | |
|---|---|
| Last day to trade cum dividend | Friday, 23 March 2012 |
| Shares commence trading ex dividend | Monday, 26 March 2012 |
| Record date | Friday, 30 March 2012 |
| Payment date | Monday, 2 April 2012 |

Share certificates may not be dematerialised or rematerialised between Monday, 26 March 2012 and Friday, 30 March 2012, both dates inclusive.

On Monday, 2 April 2012, the dividend will be electronically transferred to the bank accounts of certificated shareholders who use this facility. In respect of those who do not use this facility, cheques dated 2 April 2012 will be posted on or about that date. The accounts of those shareholders who have dematerialised their shares (which are held at their participant or broker) will be credited on Monday, 2 April 2012.

On behalf of the board

D W P Hodnett
Acting Group Secretary
Johannesburg
10 February 2012

Administrative information

These audited condensed annual consolidated financial results are a summary of the audited annual consolidated financial statements of the Group, which were prepared by Absa Group Financial Reporting under the direction and supervision of the Group Financial Director, DWP Hodnett CA(SA). A copy of the audited annual financial statements will be available from 30 March 2012, either on www.absa.co.za or, on request, at the registered address of the Group.

Absa Group Limited
Registration number: 1986/003934/06
Authorised financial services and
registered credit provider (NCRCP7)
Incorporated in the Republic of South Africa
ISIN: XAE000067237

JSE share code: ASA

Issuer code: AMAGB

Registered office

7th Floor Absa Towers West

15 Troye Street

Johannesburg, 2001

Postal address: PO Box 7735

Johannesburg, 2000

Telephone: (+27 11) 350 4000

Telefax: (+27 11) 350 4009

Email: groupsec@absa.co.za

Board of directors

Group independent non-executive directors

C Beggs, BP Connellan, YZ Cuba, SA Fakie,

G Griffin (Group Chairman), MJ Husain,

PB Matlare, TM Mokgosi-Mwantembe,

TS Munday, SG Pretorius, BJ Willemse

Group non-executive directors

AP Jenkins(1), R Le Blanc(1),

EC Mondlane Jr(2) IR Ritossa(3)

Group executive directors

DWP Hodnett (Group Financial Director),

M Ramos (Chief Executive),

LL von Zeuner (Deputy Group Chief Executive)

(1)British (2)Mozambican (3)Australian

Transfer secretary

South Africa

Computershare Investor Services

Proprietary Limited

70 Marshall Street

Johannesburg, 2001

Postal address: PO Box 61051

Marshalltown, 2107

Telephone: (+27 11) 370 5000

Telefax: (+27 11) 370 5271/2

ADR depositary

BNY Mellon

101 Barclay Street, 22W New York NY 10286

Telephone: +1 212 815 2248

Sponsor

J. P. Morgan Equities Limited

No 1 Fricker Road, Cnr. Hurlingham Road

Illovo, Johannesburg, 2196

Postal address: Private Bag X9936

Sandton, 2146

Telephone: (+27 11) 507 0300

Telefax: (+27 11) 507 0503

Auditors

PricewaterhouseCoopers Inc.

Ernst & Young Inc.

Shareholder contact information

Shareholder and investment queries about the

Absa Group should be directed to the following areas:

Group Investor Relations

AM Hartdegen (Head of Investor Relations)

Telephone: (+27 11) 350 5926

Telefax: (+27 11) 350 5924

E-mail: Investorrelations@absa.co.za

Acting Group Secretary

DWP Hodnett

Email: david.hodnett@absa.co.za

Other Contacts

Group Media Relations

J Dludlu (Head of Group Communication)

Telephone: (+27 11) 350 3221

Group Finance

JP Quinn (Group Financial Controller)

Telephone: (+27 11) 350 7565

For more information on our results refer to our website:

www.absa.co.za