



Absa Group annual results presentation for the year ended 31 December 2012

12 February 2013

Slide - Maria Ramos - Introduction

Good morning ladies and gentlemen, and a warm welcome to Absa's 2012 year end results. Thank you for joining us, whether in person, over the phone, on Summit TV or the web.

David Hodnett, our Financial Director, joins me on stage. Our Executive Committee is with us, sitting in the front row. They will be joining David and I in answering your questions after our presentation. It also gives me great pleasure to welcome Wendy Lucas-Bull, our incoming Chairperson. Wendy joins the team from the 1st of April. A number of our board members are also present.

I will begin by giving you an overview of our results for 2012 then David will provide you with a detailed breakdown of the numbers and the performance of each of our business units. I will conclude by setting out our goal of becoming the 'Go To' bank in Africa and our plan for getting us there. We'll be happy to answer your questions after that.

Slide - 2012 in review

We are reporting disappointing results at a time of significant strategic advancement and operational change. Our numbers reflect a difficult year. Headline earnings were short of our expectations, declining 9% to R8.8bn. This was mainly due to a 63% increase in credit impairments to R8.3bn. In addition, our top line growth was moderate, growing 2% to R47bn. I recognise that stakeholders, and shareholders in particular, are disappointed with our financial results. I am disappointed too and, consequently, I have informed the Board that I will not take a cash incentive for 2012

Despite the challenges we faced last year, we executed in the areas we said we would focus on our One Absa strategy that we set out in 2009 recognised that the global economy and, thus, the South African economy faced a prolonged period of subdued growth and structural changes. It also recognised that financial services, and banking in particular, faced a changing regulatory environment and more demanding customers and clients who expect their needs to be met more conveniently and cheaper.

Recognising the potential for growth and the fact that we are ideally placed to service our customers and clients across Africa because we are part of the Barclays group, our One Absa strategy evolved into our One Africa strategy. We announced two major transactions with a combined value of over R27 billion, which highlight our focus on growth in our chosen areas:

- Our partnership with Edcon is a strategic transaction designed to expand our footprint and grow our customer base
- Our proposed acquisition of 8 Barclays businesses in Africa is a transformational deal which I will discuss in more detail later

We concluded a major review of our businesses, including a substantial clean-up of our home loans and commercial property finance books, the result is that we are well provisioned, with group non-performing loan cover increasing from 28% to 37%. We successfully completed the integration of our Corporate with our Investment Bank to form Corporate and Investment Banking. Our focus is on serving the needs of our largest domestic clients as well as international corporate and financial institution clients across Africa and globally. Barclays brings with it a long and proud heritage, presence and scale in Africa as well as a global banking franchise which puts us at a distinct advantage over our competitors.

Importantly, last year we acquired new clients and wrote good quality business. We combined Retail and Business Banking, a restructuring exercise that removed inefficiencies and layers of duplication. Our focus continues to be on serving our customers and improving the quality of each person's experience with our bank every time they interact with us, whatever that point of contact is. We have made significant improvements to our home loans turnaround time, from 12 days to around 4 days. We have rolled out a new customer on-boarding process that resulted in general customer on boarding being reduced to around 10 minutes. While Personal Loans remains an important part of our business, we have been prudent in our approach, which puts us in a good position for the next few years.

We also made significant changes in our operating model as we combined Absa and Barclays Africa operations in Johannesburg, allowing us to begin the process of running core functions in a more integrated and cost efficient way. In Absa Financial Services we gained access to an entirely new market by expanding our presence in Zambia. We also exited non-core operations, such as Business Markets equities and closed some short term insurance activities. Finally, we have a great team of people, all of them exceedingly capable, committed and passionate.

As I said earlier, we have incoming Chair starting in April, Wendy Lucas-Bull. At the end of last year, Louis von Zeuner retired to join the Board; we are grateful for his long and loyal service to the bank. We have been joined by a number of senior Executives including

Kennedy Bungane, Craig Bond, Zweli Manyathi, Sizakele Marutlulle, and Sarah Louw who is joining us in March.

As a result of these and other changes, we are regaining momentum across the business. The diversification of our business has helped cushion the impact of some of the difficulties we faced. We re-entered the mortgage originator channel, re-energising our home loans business. Our card business continued to perform well and being part of the Barclaycard franchise provided us with a solid platform for innovation and growth. Vehicle finance gained substantial momentum, as we focused on building our motor dealer relationships and improving customer processes. Our Investment Bank did very well, increasing earnings by 40% and our Wealth business made significant progress. Headline earnings grew 65% and non-interest income increased 16% due to good sales of investment and advisory products. The re-alignment of our business has improved our cost base, with costs increasing by just 2% and our cost to income ratio improving to 55.2%

Slide - Platform for sustainable growth

The work we did last year created a foundation that we can build on to grow our business. The momentum we evidenced in the fourth quarter reflects this. Our objective is to sustain this momentum and deliver acceptable returns. The bedrock of our business continues to be a relentless focus on customers and clients. We recognise that we have some way to go. However, our concerted efforts have been acknowledged by our clients and customers. To cite a few examples:

- Our retail customers voted us best for service in the Ask Afrika survey
- In the Spire Awards, customers voted us first in Fixed Income and Currency for the fourth consecutive year and best Bond house
- So that we can continue to deliver to our customers, we continue to invest heavily in IT, for example, we rolled out Absa Online and refreshed our ATM network

We also continued to innovate, launching new products and capabilities throughout 2012. These included:

- The Transact and Value Bundles for our retail customers
- A new Absa Online platform for personalised financial management
- The “Pebble” mobile merchant acquiring device
- We introduced Tap’n’Go MyCiti cards in Cape Town, pioneering near field communication on cards

In addition, we can build on an expanded customer base:

- We were able to grow our customer base by 3.8 million through the Edcon transaction
- and have potential access to 2.2 million through the Barclays deal.

Our strong capital base and liquidity ratios placed us in a position where we were able to fund Edcon from internal resources and implement Basel 2.5 while still maintaining a steady core tier 1 ratio of 13.0%, well above our Board target and regulatory requirements.

Slide - Continued to create value

Although it has been a challenging year, we have continued to create value for our shareholders over time. Our strong capital position allowed us to maintain our dividend at record 2011 levels. This takes the compound growth in our dividend per share to 18% and our net asset value per share to 14% over the past 10 years.

Let me hand over to David

Thank you Maria and good morning.

Our results are clearly disappointing. However, with lower earnings it is easy to ignore the positives. My key messages have not changed from interims, namely:

- Top line growth was below expectation, but our revenue remains high quality, with a significant proportion of annuity income.
- As we went through all our operating model changes, we did a thorough review of our various businesses, with large credit impairments and the write down of CPF equity positions dominating our results.
- Positively, our costs remain well contained, as we continue to streamline the group.
- As Maria mentioned, our earnings are well diversified, which partly offset our lower RBB earnings.
- Our balance sheet is stronger, after increasing our provisions, writing down investments, improving our funding mix and liquidity and maintaining high capital ratios.

Slide - Earnings decline due to substantial credit impairments

Looking at our summary income statement, we cautioned last year that 2011's lower loan book would constrain our ability to grow net interest income. The decline in our net interest income is due to margin compression in CIBW, which had a corresponding offset in non-interest revenue. Our overall revenue growth remained muted, increasing 2% to R47 billion. Our credit impairments increased 63% to R8.3 billion, which was significantly higher than expected. However, our operating expenses were well contained, growing just 2%, comfortably below inflation, resulting in positive JAWS and 3% higher pre-provision profit. Our underlying costs declined slightly.

The large decline in 'other' reflects lower minorities and indirect tax and a change in the fair value of investment properties. Our effective tax rate decreased to 27.9% from

28.3%, largely due to replacing STC with dividend withholding tax. We expect this to decline to about 26% to 27% medium-term. Because of our large credit losses, headline earnings decreased 9% to R8.8 billion, resulting in a 2% RoRWA.

Slide - Underlying margin broadly stable

Our net interest margin narrowed to 3.87% from 4.11%. However, our underlying margin was far more resilient than it seems. Two-thirds or 16 basis points of the total decline was due to CIBW's lower margin. It largely stems from higher average foreign currency loans and reverse repos with banks with narrow and negative margins, which was offset by related foreign currency hedging gains in non-interest revenue.

Our underlying margin decreased 8 basis points to 403 basis points. The negative 5 basis points in 'other' reflects higher liquidity premiums and an increase in our funding term. Despite July's rate cut, slightly lower average interest rates had a negligible impact on our deposit and capital endowment margin, as it was offset by higher volumes. Although we released R2.1bn from our cash flow hedge reserve into the income statement, this contributed slightly less than 2011, due to hedging at lower rates. Our cash flow hedge reserve increased to R2.4 billion post tax from R2.0 billion, which should flow into the income statement over its remaining life, if rates remain at current levels.

In the current economic environment, where rates look like staying lower for longer, our structural hedging should continue to be effective. With swap rates at record lows, we will optimise replacing our hedges within strict DVaR limits. The delta in our loan pricing margin was slightly negative, as lower Vehicle Finance and Business Markets margins outweighed improved mortgage pricing.

Our loan mix benefited from a higher proportion of Card and Personal Loans, in line with our strategy to increase unsecured to 20% of Retail's loans. Our deposit margin narrowed slightly due to competition and composition changes.

Slide - Reasonable non-interest revenue growth

Non-interest revenue grew 6% to R22.7 billion, 49% of our top line, as we grew in target areas that we invested in during recent years. We have flagged pressure on retail fees and commissions for some time. Customers continue to migrate away from traditional channels like branches and ATMs, where we are the largest, to electronic ones with lower fees. For example, our ATM fees declined 5%, while telephone and cellphone banking fees grew 8%. Moving from 'pay as you transact' to packaged offerings, losing AllPay's government contract from April, increased competition and low credit growth, particularly in personal loans, also impacted our retail fee income. Our card merchant income grew 11% to R2 billion, after good 14% growth in our merchant base.

Business Markets continued to grow its fee income in double digits, by reducing revenue leakage and launching new products. Corporate Banking fee income increased 6% to R1 billion, with electronic banking up 9% after rolling out new products and acquiring new mandates. Financial Services' net revenue was flat. Net insurance premiums increased 8%, despite muted loan volumes and far higher claims in the fourth quarter.

Markets' underlying net trading revenue increased 19%, rather than the 64% you see here, since the other side of the lower net interest income I mentioned earlier sits here. Fixed income and Africa trading grew 35% and 36% respectively, while FX increased 11%. Private equity revaluations increased 33% to R318 million due to improved earnings in underlying investments. However, negative Business Markets equities revaluations offset this. We consider these equity portfolios non-core and we manage them together. Our private equity portfolio increased 6% to R5.7 billion from a high of over R7 billion in 2010, while Business Markets equities was a third lower at R1 billion.

'Other income' decreased 3% due to 4% lower rental income and lower service fees on sundry non-core businesses. Our non-interest revenue is high quality, as it remains predominantly annuity in nature. Note that Personal Loans constitutes a relatively low proportion of our total Group revenue at 4%.

Slide - Material rise in NPL cover and credit impairments

Our R8.3 billion charge increased our credit loss ratio to 1.59%, the same as in the first half.

Retail Market's credit impairment grew 53% to R6.1 billion and its credit loss ratio was 1.89%, slightly below the first half's 2.03. Our retail NPLs improved to 7.1% of loans from 9.2%. Although Personal Loans' credit loss ratio increased, it remains at low levels and improved notably from 1H's 5.9%. We have not increased their term or size in the past year and over 95% of loans are to existing clients. VAF's credit loss ratio more than halved, due to lower new NPL formation and improvements in our vehicle recovery and management of our legal portfolio. We expect its credit loss ratio to increase, as we grow this book. Our card charge remains very low, due to our strong analytics and lending predominantly to our own customers. Adding Edcon to our existing book's 1.4% credit loss ratio increased our charge to 1.65%, well within our acceptable limits for this product.

Business Markets' credit loss ratio increased to 2.3% from 1.55% in the first half, largely due to additional CPF impairments. Our Group NPL cover increased to 37% from 28%, with mortgages and Business Markets cover rising significantly. Following the thorough review of the various books, we believe this cover is appropriate. Our unidentified impairments increased 18% to R972 million, which increased our total portfolio

impairments 5% to R2.4 billion. This amounts to 0.73% of our credit risk RWAs, slightly up on 2011.

Slide - Significant Home Loans credit impairments ...

Our Home Loans charge more than doubled to R4.5 billion, well above 2009's high of R3.9 billion. At interims we described how, when we tried to accelerate the work out of our legal book, it led to high write offs in the second quarter. We then did a thorough review of our mortgage provisioning and collections processes. In reviewing our models, we improved their granularity and adjusted for more recent data where appropriate. This resulted in a loss given default on our legal portfolio of just over 43%. In particular, we increased our total cover on insolvencies to 67%, to reflect the increased time and cost to recover these. We restructured our collections last year, introducing new operational strategies to reduce recovery time and collection costs and enhance voluntary sales. This included a specific strategy for insolvencies, on which we have had early successes and improved controls on our deceased portfolio.

We also focussed on our pre-legal book in the second half, which is evident in the graph. Our pre-legal buckets all improved notably last year, declining 47% in total. This resulted in a significant shift in the composition of our non-performing loans. We moved a substantial portion of our pre-legal mortgage portfolio into legal, although it did not increase our legal portfolio, which declined 5%. This decrease was not at the expense of writing off accounts unnecessarily, as our impairment charge relating to write offs has only increased by 20%, but rather through on-balance sheet recoveries of outstanding balances.

Our improved collections process managed to slow the ageing of our legal portfolio in the second half, although the average still increased to 22 months from 21, which is well above the 9 month average in 2007 and 2008. It is crucial we prevent this book from ageing. The benefits and effectiveness of these changes will take some time to manifest themselves as improvements in our overall loss expectation. Finally, we revised our restructuring policy to improve the sustainability of rehabilitated accounts and reduce the potential for re-default. We made a R145 million portfolio provision against performing accounts here. Our Home Loans NPL cover increased to 28.5%, from 17% in 2011 and 23% last June. Including interest in suspense, it was 36%.

Slide - ... and Business Markets charge

Our Business Markets credit impairments more than doubled to R2.1 billion, after a substantial second half charge. Our CPF credit impairments increased materially to almost R1 billion. A single exposure was around a third of this. As valuations on distressed land dropped in 2012, we adjusted our property valuation methodology to use lower forced sale values and impaired some exposures earlier. These lower CPF

valuations increased our impairments by about R300m. Valuations for vacant land in particular are under pressure. However, we have a diverse portfolio and our average CPF loan to value is 47%. We also saw more voluntary liquidations and failed business rescues in our medium segment, particularly in mining and construction, although the transport sector improved.

In summary, we focussed on our monitoring and collections processes and took a more rigorous and earlier approach to managing distressed assets. This included revised valuation assumptions and various policy and process changes. The impact can be seen in the 43% increase in our NPLs to R6.5 billion, as around R1.6 billion was moved from performing loans. However, increased provisioning improved the cover on our NPLs to 40% from 35.

Positively, the risk distribution and probability of default across our Business Markets book improved last year. Similar to home loans we are seeing improvements in the early cycle delinquencies where we have seen decreases in our early watchlist exposures.

Slide - Lower inflows improve NPLs

To assess the outlook for our credit impairments after last year's significant charge, we move to the formation of new NPLs. The graph on the left is a vintage chart, showing the percent of our Home Loans book that became either an NPL or was written off up to 3 years after being written. It is clear that a higher percent of mortgages written between 2006 and 2008 went bad. Over 93% of our current mortgage legal book was originated before 2009.

However, since 2009, we have written better quality and priced loans. The later vintages clearly demonstrate this. Importantly, we improved our new business volumes materially in the second half without increasing our risk appetite in any categories besides VAF, where our approvals were too low. New NPL formation has decreased across most retail categories, which bodes well for our future impairments. Our total NPLs declined 11% or by R4.2 billion to R29.3 billion, as mortgages improved by 20%. NPLs declined to 5.8% of our book, from 6.9% in December 2011 and 6.4% last June. There is still a lot of room to improve this, as we are well above historical averages.

Slide - Sustainable cost containment

Our operating expenses increased 2% to R26 billion, reflecting our continuing efficiency efforts. Excluding costs for our proposed Africa transaction and our R408 million fair value adjustment on investment properties, total costs declined 0.4% and we achieved 3% JAWS. The largest component, staff costs, decreased 4% to R13.1 billion, due to the operating model changes Maria spoke about and 23% lower bonuses. Non-staff costs increased 8%, as property, accommodation and equipment-related expenses rose, given

higher administered costs like rates and taxes and electricity. We reduced discretionary spend such as professional fees by 20%.

Our IT spend decreased 5% R2.1 billion. In our booklet, we also disclose our total IT-related costs, including staff and depreciation, which declined 7% to R5.1 billion, but still accounted for 20% of group costs. Amortisation of intangible assets declined 12% to a relatively low R255 million, so we are not postponing these costs into future periods. We continue to invest in growth initiatives. For example, about 20% or R1 billion of our total IT spend was investments, such as refreshing our ATMs and our new Absa Online platform. We have invested over R4.5bn over the past five years. 'Other costs' increased materially, reflecting R150m in Africa deal costs, large fair value adjustments, Edcon integration expenses and increased fraud losses. Our cost to income ratio declined further to 55.2% and our burden improved to 88% from 84%.

Looking forward, while we will continue to optimise our property and IT running costs, we expect higher cost growth in some areas, such as specific product marketing and investment spend, while staff costs should remain well contained.

Slide - Strengthened our balance sheet

Turning to our balance sheet, R37 billion growth in customer deposits was our main source of new funding. We also added R4.4 billion of equity and R3.9bn in borrowed funds. Other funding declined, as debt securities in issue fell by R21 billion. We deployed these funds into R5.5 billion higher liquid assets and R23 billion of loans to customers. Our interbank loans declined 23% in the second half, reducing other assets. This picture is very different from June, when interbank loans grew 87% and trading assets 68%, while customer loans were flat.

Slide - Maintained strong capital ratios

Our Group core tier 1 ratio was flat at 13.0%, despite implementing Basel 2.5 and acquiring Edcon's book, which reduced our ratio by 67 and 24 basis points respectively. Dividends also took 116 basis points off our ratio during the year. Moving our wholesale book to the advanced internal rating-based approach added 89 basis points to our ratio, slightly more than we expected. And despite lower earnings, we remain very cash generative, adding 177 basis points to our ratio. We also issued R5 billion of old style tier 2 capital, which will be phased out over 10 years. So our total Group capital increased to 17.4%, well above our board target.

Slide - Limited Basel 3 impact

After the SARB's capital guidance last October, Basel 3 should reduce our Group core tier 1 ratio by around 70 basis points. Our resulting 12.3% is almost R6 billion above the 11% top end of our board guidance. Our flat total 2012 dividend is well considered, based on our strong capital position, internal capital generation, strategy and growth plans and regulatory requirements. We have increased our surplus liquid assets significantly to R38 billion in anticipation of Basel 3.

Let me spend some time on the changes to the liquidity cover ratio requirements Basel announced last month. The first was to phase in LCR, starting with 60% in 2015, increasing by 10% a year to 2019, which is a material benefit. Reducing outflow assumptions for non-operational accounts [to 40% from 75%] is also a large potential benefit. Basel also broadened the definition of high quality liquid assets to include corporate debt rated A+ to triple B minus and highly rated residential mortgage backed securities, with haircuts. We can also include assets used in hedging, which may allow us to use more of Absa Capital's balance sheet. Including central bank reserves as liquid assets has limited benefit in SA, where the SARB allows us to count these. We estimate the changes will improve our LCR by roughly 10%.

Slide - Solid deposit growth

Our deposits increased 8% to R477 billion, after solid growth in cheque accounts across all divisions. Retail fixed deposits grew 7%, although demand was lower among business clients, who wanted more liquidity. 'Other deposits' grew considerably, due to R27 billion growth, after launching new structured notice products in CIBW. Our funding mix has improved materially since 2009, with deposits now 77% of funding from 64%, and debt securities in issue 17% from 30%.

At the end of December, 29% of our funding was long-term, from 25% the previous year. We are benefiting from new rules allowing money market funds to invest for longer terms than they were previously. The weighted average life of wholesale funding at 31 December was 17.6 months from 15.3 a year before. We also issued R6.7bn of senior unsecured debt last March and subordinated debt of R5 billion in November, which strengthened our funding profile. We were able to comfortably fund our acquisition of Edcon's R9 billion book via internal resources.

Slide - Lower property loans a drag

Our gross loans to customers increased 5% to R542 billion, with almost all the growth in the second half. Comparing to 2011, although we wrote 27% more Home Loans new business in the second half, from 3% less in the first, substantial run off meant our gross mortgage book declined 2% or by R6 billion last year. And our approach to reducing our

concentration risk to CPF resulted in a 9% decline. So our gross property-based loans, 55% of our total book in 2011, fell R10 billion. Our conservative personal loans strategy meant we did not participate in the substantial industry growth here either. Outside these 3 areas, our loan growth was solid, with 9% growth in retail vehicle finance, 10% higher Business Markets term loans and strong 54% growth in Card, after buying Edcon's book. The substantial growth in CIBW's loans was largely in overnight finance. We continue to see scope to increase its loan book, where we are under-represented.

Slide - Substantial scope to improve returns

Moving onto an RoE decomposition, our underlying returns fell less than our RoE. Unpacking these returns, revenue generation improved marginally last year, but we still see scope to increase it, through growing non-interest revenue and exiting less attractive non-core activities. While our cost to income ratio improved slightly, we aim to reduce this further to around 52% medium-term, as we consistently achieve positive JAWS. Our level of credit losses should improve materially after last year's sizeable charge. Achieving our through-the-cycle credit loss ratio last year would have reduced our impairments to about 11% of revenue and increased our RoE to 17%.

These three drivers should improve our operating margin from 2012's low level and our RoRWA to our 2.5% through the cycle target. At 6.7 times, our financial leverage is too low. Increasing this by just 1 times would have improved our RoE by over 2% last year. Lastly, it is worth noting that our 2012 RoRWA was in line with our average since 2000, although our credit loss ratio is considerably higher than the 1.1% average over the period.

Slide - Diversified earnings by business ...

Our diversified portfolio of businesses helped us to absorb Retail and Business Banking's 29% lower earnings somewhat, given CIBW's strong 26% growth. Despite its significant Home Loans loss, Retail Markets still accounted for 39% of group earnings, ahead of CIBW's 32%, which benefits from the inclusion of Corporate. Business Market's contribution fell to just 10% of earnings, after its earnings halved.

Slide - ... and within business units

This diversity is also evident within business units. In Retail Markets, strong growth from vehicle and asset finance, Card and transactional banking offset Home Loans' substantial R1.5 billion decline, Allpay's R185 million lower earnings and lower earnings from Personal Loans. In CIBW, Investment Bank and Wealth's 40% and 65% respective growth outweighed Corporate's 1 growth. While in Financial Services, Investments' growth offset lower insurance earnings.

Slide - Retail Markets - Diversified portfolio

Moving onto our business units, you can see the divergent performances in Retail Markets. Retail Markets' revenue increased 2%, reflecting our more affordable banking offers, including Value Bundles, coupled with transaction shifts towards lower fee digital banking channels and the loss of AllPay.

Despite this low revenue growth the cost to income ratio improved to 54% due to significant head and back office restructuring to create a leaner and more efficient operation. Retail Markets' costs declined 1%, increasing its pre-provision profit 6% to over R11 billion. Our focus remains to improve efficiencies in customer processes with resultant reductions in turnaround times. We saw an 18% decline in the contribution from our Personal Loans business, which was a direct consequence of our strategic focus on our existing customer base. We believe our prudent approach will stand us in good stead over the next couple of years. The Edcon acquisition ensures that we are adequately represented in unsecured lending, with a market share of around 20%.

Vehicle finance performed well, growing advances 13% and its credit loss ratio improved materially. Its growth reflects increased focus on our motor dealer relationships and improved customer processes, such as turnaround times and contract fulfillment.

Card is a substantial business that contributed 24% to group earnings and produced high returns. Its 19% growth was achieved through our retail partnerships, including Woolworths Financial Services, Edcon and our Mr Price e-commerce offering, plus 14% growth in our merchant numbers. Earnings increased 11% excluding Edcon.

Retail Bank grew strongly. Non-interest income increased 3% despite a lower number of transactional accounts, transactions migrating to lower revenue generating channels and the deliberate migration to packaged fee offers. Costs decreased 1% to drive 47% earnings growth.

Slide - Increased customer focus delivering results

We have 14.1 million customers, after bulk closures to clean up dormant accounts and adding the 2.4m new to Absa customers from our Edcon acquisition. This gives us a market leading 32% of primary customers.

Our strategy is to improve service, provide integrated multi-channel access and deliver customer value as part of our lives made much easier vision. We have focused on making our products and fees simpler, easier to use and more transparent and were complimented on this in the recent Finweek and Solidarity pricing surveys. Integrated multi-channel access is key to delivering a seamless customer experience, offering

customers cheaper and more convenient banking, through digital channel migration, reducing our cost-to-serve and freeing up capacity to enhance sales and service.

Absa Rewards is growing rapidly, reaching 1 million members in just 3 years. Our Rewards members have higher balances, higher card spend and lower dormancy. As Maria mentioned, we delivered a number of significant innovations to the market over the past year, ranging from Value Bundles to card and mobile payments. The momentum in our new business flows improved in the second half, with strong growth across all loans. New business grew 20% year on year in the second half. This was achieved by increased focus on origination channels and reducing application and processing times.

Slide - Business Markets - Equities losses and impairments drove fall

Large losses in our equity portfolio, rest of Africa operations and commercial property finance reduced Business Markets' attributable profit 72% to R514 million. I will discuss the losses in our non-core investment portfolio on the next slide and I covered our CPF impairments and declining book earlier.

Our operations in Mozambique and Tanzania had some large impairments and interest in suspense adjustments that caused losses. These three drags made a combined loss of R1.4 billion, which masks 8% higher earnings from the remainder of our SA operations, where cost growth was well contained to 2% and we had solid growth in term loans and commercial asset finance. We remain strong in agri, where we have about 35% market share, and the public sector where our deposits grew 18%.

Slide - Reducing our equity portfolio

Business Markets built its property investment portfolio during the peak years of 2007 to 2009. We indicated last year that this portfolio is non-core and we would exit it in an orderly way.

We started 2012 with a portfolio of R5.2 billion, including R2.8 billion in investment properties. After disposals of R240 million and investments of R200 and negative fair value adjustments of R1 billion, our portfolio declined 20% to R4.2 billion.

Slide - Focus on transactional income

Our enhanced electronic banking platform grew revenues 11%. Improved solutions and registration campaigns ensured 77% of our cheque base uses our digital offering. Enhanced electronic banking security, improved systems stability and product innovations such as Bulk Cash Send are producing positive results.

Cash income grew 7%, largely due to client behavioural re-pricing and reducing pricing leakages. Our end to end cash solution provides same day value and mitigates risk for

clients. With our branch and cash centre network, we are the industry leader. Despite lower volumes, in line the industry, we grew cheque revenue 9% by reducing revenue leakage. Collaboration with Absa Financial Services and Card assisted in further fee income growth. Selling insurance products with our core lending products is starting to reap rewards.

Slide - CIBW - Strong performance from integrated CIB

CIBW performed well, increasing headline earnings 26%. Net revenues grew 9%, well above prudently managed costs, which increased just 2%. We were able to keep cost growth well below inflation, by leveraging staff and resources across the increased scale of our CIBW business. We also continued to invest materially in our key growth opportunities. Our Investment Bank did very well, increasing earnings 40%. Three years ago we refocused it to be a client-centric flow business. This resulted in scaling down our proprietary trading activities, exiting highly structured on-balance sheet lending and our strategy to reduce our private equity exposure.

CIBW's returns improved to 20% from 18.0% after accounting for Basel 2.5's additional stress VAR capital requirement. This demonstrates our more efficient use of capital. Being part of Barclays provides this business with a competitive advantage, as the only South African investment bank that is fully local and fully global.

Wealth's headline earnings grew 65%. Its non-interest income increased 16% due to good sales of investment and advisory product, rather than pure balance sheet lending. Our wealth strategy has focused on building out our investment product capability. We also sold more investment banking products to our client base.

Corporate was integrated into CIBW last year and performed satisfactorily. I will talk to our opportunity here later.

Slide - Broad-based investment banking growth

Our Investment Bank's revenue increased 16%, with all businesses growing revenues. Markets increased revenues 19%, a strong risk-adjusted performance considering our dVAR trend. The bottom graph shows Markets revenues since 2010 compared to our dVAR. This shows that Markets revenue grew over the period but our dVAR declined. We achieved this by building our client franchise, which increased flow volumes through our Markets business.

Creating an integrated corporate and investment bank has improved our ability to provide seamless customer solutions. Examples of this include a number of material risk management transactions linked to investment banking mandates. We also expect foreign exchange to benefit from improved cross-sell into our corporate clients.

The rest of Africa continues to play an increasing role in our trading business, as our Africa desk grew revenues 36%, driven by client interest in the region. We expect further growth from integrating Absa and Barclays activities in these markets.

Investment Banking increased revenue by 8%, driven by 8% higher margin revenue. Our balance sheet grew 35%, partly due to clients' short-term funding needs, but also more sustainable growth in target sectors, such as energy and resources. Our fee revenues grew 12%, a solid performance in a competitive market.

Our M&A and ECM franchise is gaining momentum, which is reflected in a number of key transactions concluded in 2012 and a number of top 5 positions in Sub-Saharan Africa league tables. Private Equity continues to produce modest returns. Improved performance in underlying companies supported higher valuations.

Slide - Corporate a medium-term opportunity

Corporate's gross revenue and headline earnings increased 1%. Net revenue declined 2%, due to increased impairments in trade and working capital. However key products and channels performed as expected. We had good growth in our deposits business with new product launches, and improved margins in the second half due to better pricing. Electronic Banking increased 9% benefiting from new products and acquiring new mandates. And trade products, which are a focus in supporting our clients in Africa and across the globe, grew 13%. Total corporate client revenue across our group increased 14%, mainly due to growth in risk management trades and card acquiring services. The momentum in this client segment is strong, with a number of key client wins.

Corporate is a key medium term opportunity and we aim to maintain this early momentum and increase our market share. We are investing heavily to enhance our client proposition by providing our clients a unique, seamless experience wherever they operate using Absa and Barclays platforms. We expect clients to see the major benefits of these new offerings next year.

Slide - Financial Services: Claims and reserves reduce earnings

Absa Financial Services' net operating income and headline earnings declined 7% and 3% respectively. This was driven by: firstly, relatively low levels of new business in the second half of 2011 and the first 5 months of 2012. Second, we strengthened the economic basis in Absa Life. And lastly, we had an unfavourable claims experience in our crop and commercial portfolios. Although investment returns increased significantly, we did not fully participate in the strong equity market performance, since we de-risked our portfolio.

Financial Services' results reflect a number of positives. For example, business volumes in Life are increasing and net fund flows improved significantly during the second half. Our operations in Botswana, Mozambique and Zambia performed well and made R27 million pre-tax. Zambia went live in August and, as anticipated, posted a loss for the period, but it should make a positive contribution this year. We implemented a new operating model for long-term advisors, put an agency model in place in appropriate segments, and concluded strategic partnerships with selected product providers.

Expenses were flat as our South African operation's costs declined 2% due to sustainable efficiency initiatives. Business returns remain high with a 28% RoE and they generate strong cash flows. AFS paid R1.25 billion in dividends to the group in 2012.

Slide - Strong 2H new business

Net premiums in Absa Life's local operations grew 7%. This is well below our growth in the past few years, having lost some new business momentum in late 2011 and early 2012. However, we reversed this trend in the second half. We believe we can maintain this momentum and increase our growth in premiums.

The transfer to policyholder liabilities, net of investment returns on policyholder funds, reduced our revenue by R177 million. This is mainly due to strengthening reserves to provide for lower real investment returns in future years in the low interest rate environment. Life's return on embedded value was 31.4%, in line with our target.

In Investments, our assets under management increased 14% to R192 billion. R21 billion of the R24 billion growth came in the second half, with positive net fund flows of R4 billion and the remainder reflecting higher markets. Equity and asset allocation mandates grew 52% to exceed our money market fund for the first time. Absa Asset Management was particularly successful in growing institutional mandates and new fund flows amounted to R7 billion.

Slide - Tough year for short term insurance industry

Our underwriting results were impacted by underwriting losses of R12m on our agriculture crop and assets book, compared to a surplus of R31m in 2011. This business remains core to our customer value proposition, but we are re-insuring more due to the growth of this book. We experienced higher fire-related claims in our Commercial portfolio, contributing to the underwriting surplus deteriorating to R43 million from R91 million. Importantly, a hardening of market rates is already evident and this should restore industry underwriting margins. Strong underwriting results on homeowners cover and other personal lines during the first 9 months of the year were impacted by high fire and weather claims in the last quarter.

Lastly, we exited non-core product lines last year and may discontinue more in early 2013. This will impact top-line growth, but is not expected to impact underwriting results significantly and should improve our return on capital. Despite the above, we consider our underwriting margin of 4.3% an acceptable outcome under these circumstances.

I now hand you back to Maria, who will discuss some strategic issues and our prospects for 2013.

Slide - Becoming Africa's Go To Bank

Thank you David

The strategy we have pursued has allowed us to create the foundation on which we can advance our goal of becoming the 'Go To' bank across Africa. Barclays has a clear plan in place to transform its culture and performance. Today, Antony Jenkins will present the results of a strategic review that will outline how we will achieve this goal across all of Barclays. While there will be more detail of this review available later at an investor presentation in London, what it clearly reaffirms is that Africa is one of Barclays core markets

Economic growth in Africa is expected to be higher than in other regions and we are already well advanced in our 'One Africa' strategy, which will enable us to become the 'Go-To' bank across the continent. Becoming the 'Go To' bank means that we want to be the instinctive destination and partner of choice for all our stakeholders – for our customers and clients, colleagues, regulators and the communities in which we work and live.

We recognise that this is not always easy, but we believe we are differentiated by being both a local and a global bank in each of the countries where we do business. Our relationship with Barclays has already delivered significant benefits. We have been able to leverage Barclays platforms, adopt innovative products and ideas, as well as realise efficiencies and cost-savings in our business. We are benefitting most notably in the following areas:

- Our investment bank is fully integrated with Barclays and is now a leader in those areas that it targeted, such as fixed income. Our Africa trading grew 36% last year.
- We have implemented a Barclays global forex platform which has received international recognition and awards
- We continue to roll out bancassurance in Barclays Africa, with our premiums growing 140% last year
- Absa Card which is very profitable and has a high quality book, has benefitted from being part of Barclaycard, a world class franchise.

→ Finally, debt investors know that we have an A- credit rating, two notches above our local competitors, because Barclays is our parent

Becoming the 'Go To' bank is also about a lasting change in the way we do business. I am absolutely convinced that our success is not just based on what we do, but importantly how we do it. Our Africa leadership team has participated actively in defining the purpose and the values now being rolled out across Barclays Group

Our common purpose is: helping people achieve their ambitions in the right way by people we mean, of course, our customers and clients who we put at the core of everything we do, but it also refers to our colleagues and all our stakeholders who have a relationship with us. "In the right way" is fundamental to defining how we do business and refers to our values. Respect, integrity, service, excellence and stewardship. These values are underpinned by behaviours that each one of us will have to demonstrate consistently and by which we will be measured.

We will continue to reinforce them and ensure that we demonstrate them in all we do. There will be no trade-off between sustainability, long term shareholder value and short term profits. In fact I am convinced that the way we do business and our values will be instrumental in creating sustainable returns. I feel confident that we have the foundation for future success:

As part of our One Africa strategy we implemented a significant amount of structural and operational change. We have a common purpose, values and behaviours that will ensure that we are focused not just on the what but also on the how.

Our strategy going forward builds on the momentum we have generated. In South Africa, we continue to invest in and strengthen our Retail and Business Banking franchise and we expect to be able to drive the performance of our businesses higher in some of the markets in Africa through leveraging our global product capabilities. We are also very excited about the Corporate Banking opportunity in Africa and we see a clear opportunity to grow this business by expanding our product offering, especially in trade-related services. The proposed combination of the majority of our Barclays Africa operations with Absa will provide a platform to further accelerate this growth and puts us in the enviable position as one of the leading banks in Africa.

Slide - Transformational deal

We are determined to expedite our ambition of becoming a leading pan-African franchise. We have already completed the operational integration of the Africa businesses. The next step is to create a single legal entity, which will allow us to speed up the execution of our One Africa strategy. On the 25th of February, Absa minority

shareholders will vote on a deal that will be transformational for the group. Let me explain why.

Barclays Africa is a well-established, quality franchise with top 4 positions by revenue in 7 of the 8 countries. Absa is a well-capitalised and strong bank with significant scale in South Africa. By combining our operations on the continent, we would create one of the largest banks in Africa by customers (14.4 million) and branch network with over 1 300 branches in 10 countries. The transaction would improve our geographic diversity and our earnings growth prospects. For example, our businesses outside of South Africa would have contributed 17% to our combined revenues and 15% to our combined earnings in 2012.

The 8 operations performed well last year, growing revenue by 17% to over R8 billion and earnings by 18% to R1.8 billion. Their combined RoE was 19%, their RoA was 2.2%. You may have seen that we announced this morning what pro forma impact this deal would have had on our 2012 numbers. Even including transaction costs of R179 million, our diluted headline earnings per share would have increased by 0.3%, while our net asset value per share would have decreased by 2.2%. The deal would create a leading listed Pan African financial services group with a pre-tax profit of over R15 billion in 2012. The combined operations will also leverage an integrated operating model across the continent, while enhancing collaboration

The transaction would accelerate plans to expand corporate and investment banking and bancassurance in Africa. It is also expected to provide benefits to the individual Barclays Africa businesses by leveraging strong product capabilities across our expanded operations and facilitating the sharing of expertise. We would be able to offer a more compelling employee proposition to our colleagues by opening up career opportunities at the global and continental level this, in turn, will help us attract and retain the best talent. Importantly, for our shareholders, it would provide access to the growth we expect outside of South Africa

Slide - Building business momentum

In conclusion, our presentation today set out our growth strategy and provided evidence that we are building momentum in our business. This should become evident in our top line growth this year, which should improve from last year's modest growth. With our continued focus on efficiency, we expect our costs to grow less than our revenue again and reduce our cost to income ratio. We also expect our credit loss ratio to improve significantly from the elevated levels we saw in 2012. All this should underpin a noticeable improvement in our ROE this year.

Thank you for your attention
We are happy to take your questions