Absa Group Limited

Integrated Annual Report

31 December 2011

ABSA

Member of the BARCLAYS Group

This page is intentionally left blank

Forward looking statements

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

Report navigation aid

- ***Further reading*** within this report.
- ***Web link*** provides reference to online disclosures.
- ***Sustainable*** growth in targeted markets.
- ***Balance*** sheet optimisation and proactive risk management.
- ***Simple,*** streamlined Group for customer delivery.
- ***Customer***- and people-centred organisation.
- A ***Assured*** performance indicator.
- | ***Audited*** as part of the Group's annual financial statements.

Our integrated reporting journey

We are pleased to introduce Absa Group's 2011 Integrated Annual Report (IAR). Over the past two years, our reporting has progressed steadily in line with the need for a more holistic view of our performance and prospects. This is our first comprehensive report to Absa stakeholders, within the framework of an integrated report as described by King III and the guidelines published by the International Integrated Reporting Committee.

We recognise that we must effectively manage our resources and relationships to ensure we continue earning attractive returns on our investments over the long term.

We believe this report is structured with the three cardinal principles of reporting as described by the AA1000 standard in mind, namely inclusivity, materiality and responsiveness. Above all, we strive to provide a clear report, uncluttered by jargon and lengthy sections of standard disclosures.

While elements of this report are required by regulation and disclosure standards, we have tried to present the Absa story of 2011, and discuss the matters that are uppermost in our mind as we enter 2012.

In this report we show how our One Absa Strategy drives our performance relating to the most important issues raised by our stakeholders. From this, we trust that our stakeholders will see the progress we have made over the year and how Absa is positioned to meet the challenges we face.

This IAR is our primary reporting vehicle. It references our reporting website for detailed reports on our five key material issues, stakeholder engagement, governance, compliance, risk, remuneration, and our full annual financial statements.

Traditionally, non-financial issues would collectively be referred to as the sustainability report. While we have moved away from this concept, sustainability information can still be accessed online via the Global Reporting Initiative (GRI) index.

We see this process as a journey, with each year bringing new insight on how to improve our reporting to stakeholders. We have tried to design this report to make it informative and accessible, and we welcome feedback on its design and content. Comments and questions can be directed to: investorrelations@absa.co.za.

Garth Griffin
Group Chairman

Maria Ramos
Group Chief Executive

Contents

Scope and boundary

This report covers Absa Group's South African operations and our other African entities (Botswana, Mozambique and Tanzania, and representative offices in Namibia and Nigeria) in the majority of the disclosures. As Absa's South African operations constitute the majority of the Group's earnings, the report has a bias towards these. The report covers the period from 1 January to 31 December 2011. Where applicable and appropriate, it includes information post 31 December 2011.

Since the release of Absa's annual report for the year ended 31 December 2010, there has been no material change to the Group's legal structure, ownership or products and services. Therefore, the scope of the 2011 report is largely unchanged. The Directors' report notes changes to the Group's structure during the year. The report covers the Group's activities, comprising retail, business banking, corporate and investment banking, financial services and the Group centre.

Governance and assurance

In this report, we aim to provide stakeholders with meaningful, accurate, transparent and balanced information. During 2011, we formed the Disclosure Committee as a subcommittee of the Group Audit and Compliance Committee (GACC) to oversee the integrated annual reporting process and its content.

In applying King III, we developed a combined assurance model to co-ordinate all assurance activities. The GACC has determined that this model is appropriate to address significant risks facing Absa for each principal risk and business area. However we will strengthen and enhance the model and its activities as we mature our integrated reporting approach, particularly on non-financial issues. Group Risk manages and owns our combined assurance process, while Absa Internal Audit is an integral part of the process. The GACC also monitors our relationship with external assurance providers.

Selected disclosures in this report and our online report have been independently assured by PricewaterhouseCoopers Incorporated (PwC) and Ernst & Young Incorporated (E&Y). The financial audit opinion can be found in the summarised financial statements and a full assurance statement including the scope of work and conclusions of our non-financial disclosures can be found online. Where available, we used external sources to provide information and viewpoints that are independent of our own. Examples of these include the Ask Afrika Orange Index® (customers), our BBBEE verification and the CFR Best Employer survey (employees).

This IAR was prepared in accordance with principle 9 (Integrated reporting and disclosures) of King III, the GRI, the JSE Limited's statutory reporting requirements and the Companies Act, 2008. The board has applied its collective mind to the report and is of the opinion that it adequately addresses the material issues Absa faces, and presents the Group's integrated performance, risks and impact fairly.

The board approved the report for release on 28 March 2012.

Colin Beggs
Chairman, Group Audit and Compliance Committee and Disclosure Committee

The story of Absa at a glance

Introducing Absa...

Absa Group

Listed on the JSE

A subsidiary of Barclays Bank PLC which owns 55,5 % of the Group.

Four major businesses

- Retail Markets
- Business Markets
- Financial Services
- Corporate and Investment Banking and Wealth

Operates primarily in South Africa, and has majority stakes in banks in Mozambique and Tanzania, representative offices in Namibia and Nigeria; and bancassurance operations in Botswana and Mozambique.

Purpose

To be partners in growing prosperity for all our stakeholders

Vision

To be the best provider of financial services in South Africa and selected African markets.

market capitalisation **R101,3** billion

customers **12,1** million

total employees **39 659**

staffed outlets **990**

self-service terminals **9 541**

Group profile
Operating structure
Board and leadership

Legal structure
Full governance report

...and the values that govern our behaviour.

Our values

- Strive to exceed the needs of our customers
- Demonstrate integrity in all our actions
- Display leadership in all that we do
- Value our people and treat them with fairness
- Take responsibility for the quality of our work

Good governance

- Implemented King III
- Established sustainability framework
- JSE SRI Best Performer for five consecutive years
- Board evaluation facilitated by the Institute of Directors Southern Africa
- Reviewed non-executive directors' fees
- New board appointments
- IT oversight substantially improved
- Working to improve stakeholder engagement
- Concern with regulatory change overload

Group Chairman's statement
Governance summary
Regulatory summary
Remuneration summary

Full governance review
Full regulatory review
Full remuneration review
GRI index

Our One Absa strategy...

Sustainable growth in targeted markets

- Business banking transactional revenue up
- Financial services strong premium growth
- Strong retail earnings growth
- One Bank in Africa strategy
- Appointed Africa Executive Committee
- Established a Corporate Bank
- Bancassurance entered Botswana and Mozambique
- Opened 100 entry-level outlets ('1234')
- Lower market share in some areas

Balance sheet optimisation and proactive risk management

- Improved strong Core Tier 1 capital ratio
- Increased our surplus liquid assets
- Improved proportion of long-term funding
- Continued to optimise RWAs
- Reduced equity exposures
- Improved our credit loss ratio
- Reduced non-performing loans
- Low trading DVaR
- Improved our loans-to-deposits ratio

Simple, streamlined Group for customer delivery

- Integrated our Retail and Business Banking operating models
- Re-engineered key transaction processes including account opening and home loans
- Launched Learning@Absa

Customer- and people-centred organisation

- Implemented needs analysis tool to better advise customers
- Continued product innovation in card and electronic banking
- Developed an integrated talent management framework

Group Chief Executive's review
Summary of material issues performance
Group Financial Director's report
Segmental review

Full review of material issues performance
Full financial statements
Full segmental review

...drives our performance on material issues...

Sustainable financial viability

Headline earnings per share	↑ 21%
Dividend per share	↑ 684 cents
Return on average equity	↑ 16,4%
Net asset value per share	↑ 8 690 cents
Core Tier 1 capital adequacy ratio	↑ 13%

Process and systems effectiveness

Cost-to-income ratio	↓ 55,5%
Severity 1 incidents	↓ 6
Carbon emissions per employee	↓ 9,6 tonnes CO_2

Customer experience

Customer satisfaction index	↓ 44
Percentage of complaints resolved at first point of contact	↑ 83%

Our people

Employee turnover	↑ 11,9%
Internal promotion and transfers	↑ 55%

Economic equity

Entry-level customers	↑ 7,4 million
DTI BBBEE status	→ Level 3
Affordable housing loan book	↑ R7,4 billion
Enterprise development	↑ R900 million
CSI and financial education	↑ R96,4 million

Group Chief Executive's review
Summary of material issues performance
Group Financial Director's report
Summarised financial statements

Full review of material issues performance
GRI index

...raised by stakeholders

Customers
- Service levels need to improve
- Cost of banking services

Employees
- Reward and recognition
- Job security
- Compliance-driven culture

Shareholders
- Lower loan market shares
- Call to return surplus capital
- Cautious optimism for Africa expansion
- Uncertainty about economic recovery

Government and regulators
- Twin peaks model to be introduced in SA
- Basel III proposes higher liquidity requirements

Community
- Support socio-economic priorities

Group Chairman's statement
Stakeholder engagement summary

Full stakeholder engagement review

Introducing Absa

Absa Group Limited (Absa or the Group), listed on the JSE Limited is one of South Africa's largest financial services groups. Absa is a subsidiary of Barclays Bank PLC (Barclays), which owns 55,5%.

We offer a complete range of retail, business, corporate and investment banking, insurance and wealth management products and services. The Group's business is conducted primarily in South Africa. It also has equity holdings in banks in Mozambique and Tanzania, representative offices in Namibia and Nigeria and bancassurance operations in Botswana and Mozambique.

- **R101,3 billion** market capitalisation
- Total assets of **R786,7 billion**
- **12,1 million** customers
- **1,1 million** internet banking customers
- **3,2 million** cellphone banking customers
- **39 659** employees
- **990** outlets
- **9 541** self-service terminals

Our values

Absa employees are expected to focus not only on performance but also their behaviour in executing their roles. Our values are critical to guiding our employees in their engagements:

- Strive to exceed the needs of our customers.
- Demonstrate integrity in all our actions.
- Display leadership in all that we do.
- Value our people and treat them with fairness.
- Take responsibility for the quality of our work.

Our strategy

We know that the choices we make today will affect the world we live in tomorrow. Sustainability encompasses not only environmental issues, but also broader issues of a social, economic and financial nature. At Absa we have a balanced approach and focus on all areas to ensure the sustainability of our business.

Our One Absa strategy changes the way we do business and how we collaborate internally. It aims to achieve sustainable growth in targeted markets, standardise and streamline the Group, create a customer- and people-centred organisation, optimise our balance sheet and strengthen our risk management.

Sustainable growth in targeted markets

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

Simple and streamlined Group for customer delivery

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

Balance sheet optimisation and proactive risk management

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

Customer- and people-centred organisation

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

Our operating structure

Absa aims to be a simple, streamlined Group focused on customer delivery through four main business segments. In October 2011, we announced structural changes to our business segments, namely, integrating Retail Banking and Absa Business Bank into a consolidated Retail and Business Banking (RBB) cluster and the grouping of Corporate Bank, Investment Banking and Wealth (CIBW). Although the previous financial reporting structure was effective until 31 December 2011, in the narrative of this report we refer to Retail Markets and Business Markets (the segments under RBB) and to CIBW.

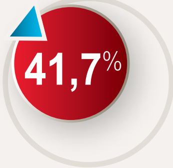
Business segment | **Scope of business** | **Contribution to Group**

Retail Banking

No 1
market share of deposits, customers, branches and ATMs

Offers individuals a comprehensive suite of retail banking products and services via an integrated multichannel approach. Customers are provided with a differentiated sales and service according to their needs. Our distribution includes an extensive face-to-face and self-service terminal network (internal and third-party intermediaries), relationship managers, call centre agents and electronic and cellphone channels. From 1 January 2012, Retail Markets will be reported within the RBB cluster.

Headline earnings
R4 179 million



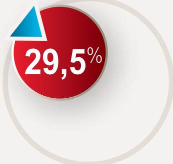
See page 42

Absa Business Bank

Leading
Agri and Public Sector Bank

Offers a comprehensive range of commercial banking products and specialised services to customers in the business market segment. We aim to meet a full spectrum of commercial customers' needs, ranging from providing off-the-shelf transactional products to complex financial solutions. Our objective is to make banking, whether local or international, convenient for our customers and to partner with them in growing their businesses. From 1 January 2012, Business Markets will be reported within the RBB cluster.

Headline earnings
R2 948 million



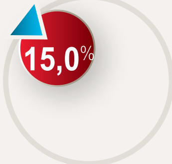
See page 44

Absa Capital

Overall
Best Fixed Income House, JSE Spire Awards

Offers corporate, investment banking and wealth management services. Our primary business is to act as an intermediary between, and advisor to, suppliers and users of various forms of capital. Our business model centres on delivering specialist corporate, investment banking, financing, risk management and advisory solutions across asset classes to corporates, financial institutions, government clients and high net worth individuals. Through our affiliation with Barclays Capital, we are able to deliver comprehensive international and local solutions.

Headline earnings
R1 495 million



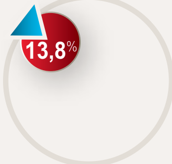
See page 46

Financial Services

Winner
of two 2011 Raging Bull Awards

Offers insurance, fiduciary and non-banking related investment products and services. We provide these through a well-established and unique financial services operating model, which combines the strengths of a traditional financial services model with that of a pure distribution model. This integrated model enables us to efficiently provide financial services to all market segments in sub-Saharan Africa.

Headline earnings
R1 375 million



See page 47

Experience and expertise

Non-executive directors

1. **C** (Colin) **Beggs** (63)
BCom (Hons); CA(SA)
Appointed to the board: **2010**
Colin holds a BCom (Hons) from the Nelson Mandela University in Port Elizabeth and qualified as a chartered accountant in 1971. He is the former senior partner and Chief Executive Officer of Pricewaterhouse Coopers (PwC) in Southern Africa, having retired from this position in June 2009. Throughout his career, he served on several boards and councils of PwC`s global firm. He was also the chairman of the SAICA board in 2002/03 and is a member of the Accounting Practices Board.

2. **B P** (Brian) **Connellan** (71)
CA(SA)
Appointed to the board: **1994**
Brian joined the Barlows Group in 1964. He managed several subsidiaries and was appointed as a director of Barlow Rand Limited in 1985. He served as Executive Chairman of the building materials, steel and paint division until 1990. He was then appointed as Executive Chairman of Nampak Limited, a position he held until his retirement in 2000.

3. **Y Z** (Yolanda) **Cuba** (34)
BCom (Statistics); BCom (Hons); CA(SA)
Appointed to the board: **2006**
Yolanda began her career in marketing with Robertsons Foods in 1999. She moved to Fisher Hoffman, an auditing firm, where she completed her articles in 2002. In January 2003, she joined the corporate finance division of Mvelaphanda Group Limited. Yolanda was appointed as Deputy Chief Executive Officer and, in July 2007, as Chief Executive Officer of Mvelaphanda Group Limited. Yolanda Cuba joined South African Breweries Limited as Executive Director: Development and Decision Support in September 2011.

4. **S A** (Shauket) **Fakie** (58)
BCom; CA(SA)
Appointed to the board: **2008**
Shauket was the Auditor-General of South Africa for seven years and served as Chairman of the UN Panel of External Auditors, Secretary General for the Auditors-General Association on the African continent, and as External Auditor to both the World Health Organisation and the United Nations. He was also a member of the Audit Advisory Committee to the World Bank in Washington DC. He currently holds an executive position at MTN, responsible for Internal Audit and Business Risk Management.

5. **G** (Garth) **Griffin** (62)
Group Chairman
BSc; FIA; FASSA
Appointed to the board: **2001**
Garth worked for Old Mutual from 1970 to 1999, and was the Managing Director responsible for Old Mutual's worldwide asset management and unit trust businesses, as well as all activities outside South Africa. He served as a non-executive director on several boards in the South African financial services sector and is currently a non-executive board member of Suiderland Development Corporation Limited and Swiss Re Life and Health Africa Limited. He was President of the Actuarial Society of South Africa for 2008 and 2009.

6. **M J** (Mohamed) **Husain** (51)
BProc
Appointed to the board: **2008**
Mohamed has been an attorney for approximately 27 years, during which time he has represented a diverse range of clients in commercial and corporate litigation, insolvency law and administrative law. He is a former president and current member of the executive committee of the Commonwealth Lawyers Association. Mohamed was one of the advisors to the Constitution Assembly on the drafting of the final Constitution and has also acted as a Judge of the High Court. He is also a past president of the Law Society of the Northern Provinces.

7. **A P** (Antony) **Jenkins** (50)
Masters in Philosophy, Politics and Economics; MBA
Appointed to the board: **2009**
Antony was appointed Chief Executive of Retail and Business Banking and joined the Barclays Executive Committee in November 2009. Prior to that he had been Chief Executive of Barclaycard since January 2006. Antony served as a non-executive director on the boards of Visa Europe Limited and Mobility Operations Group plc until the end of 2011.

8. **R** (Robert) **Le Blanc** (55)
MSc; MBA
Appointed to the board: **2007**
Robert worked for many years at J.P. Morgan in the capital markets, fixed income, emerging markets and credit areas and later in the risk management function. He joined Barclays in 2002 as the Head of Risk Management at Barclays Capital. Robert was appointed Chief Risk Officer at Barclays in 2004 and holds this position to date.

View our directors' full details online

9. **P B** (Peter) **Matlare** (51)

BSc (Hons) (Political Science); MA (South African Studies)
Appointed to the board: **2011**

Peter is the Chief Executive Officer of Tiger Brands Limited. He is the previous Executive Director of Commercial at Vodacom SA Proprietary Limited, Chief Strategy and Business Development Officer of Vodacom Group Limited and Chief Executive Officer of the South African Broadcasting Corporation (SABC). He began his career with the Urban Foundation and Citibank, and gained international experience in the USA and Europe.

10. **T M** (Thoko) **Mokgosi-Mwantembe** (50)

BSc; MSc (Medical Chemistry); Dip (Ed)
Appointed to the board: **2009**

Thoko started her career as the Product Manager for Glaxo (1989 to 1994), then Merck, Sharp and Dohme (1994 to 1996) and Telkom (1996 to 2001). She served as Divisional Managing Director of Siemens Telecommunications from 2001 to 2004. Thoko has subsequently served as Chief Executive Officer of Alcatel South Africa (2004) and Hewlett-Packard (2004 to 2008), and is currently the Chief Executive Officer of Kutana Investment Group.

11. **E C** (Eduardo) **Mondlane, Jr** (54)

Political Science Extention Student (UCLA)
Appointed to the board: **2007**

Eduardo established and operated an Africa-focused trading company based in New York. He also established the Mozambique Business Council in Washington DC. Thereafter, Eduardo worked in the aerospace industry for a number of years with Boeing Commercial Airplanes, United Technologies and Guiness Peat Aviation. In 1994, he moved to the infrastructure development industry where he advised various multinational contractors in the development of strategically important infrastructure projects in Southern Africa.

12. **T S** (Trevor) **Munday** (62)

BCom
Appointed to the board: **2007**

In the late 1980s, Trevor was appointed Finance and Commercial Director of AECI Explosives Chemicals Limited. He then served as Managing Director of Dulux Paints (early 1990s) followed by Polifin Limited (1996 to 2000). Trevor was appointed as an executive director of Sasol Limited, with global responsibility for finance and accounting, risk management, internal audit, corporate affairs and planning. In 2003, he assumed responsibility for Sasol Group's global chemical businesses. Trevor was appointed as Deputy Chief Executive of Sasol Limited on 1 July 2005. He retired from his executive responsibilities at Sasol on 31 December 2006.

13. **S G** (Brand) **Pretorius** (63)

MCom (Business Economics)
Appointed to the board: **2009**

Brand started his career at Toyota South Africa in 1973. In 1988, he was appointed as Managing Director of Toyota South Africa Marketing. Brand was appointed Chief Executive Officer of McCarthy Motor Holdings in 1995. In 2011 he retired as Chief Executive of McCarthy Limited and as an executive director of Bidvest Group Limited.

14. **I R** (Ivan) **Ritossa** (50)

BCom (Hons)
Appointed to the board: **2011**

Ivan is a Managing Director and Head of Latin America, Central and Eastern Europe, Middle East and Africa at Barclays Capital (appointed in June 2011), and is also a member of Barclays Capital Executive Committee. He joined Barclays in February 2002 as Managing Director and Global Head of Foreign Exchange. Before his current appointment, Ivan headed Global Markets Asia Pacific (2007) and Prime Services in 2008, before serving as Deputy Head of Fixed Income, Currencies and Commodities (FICC) from September 2010.

15. **B J** (Johan) **Willemse** (57)

BCom (Hons) (Economics); MCom (Economics); PhD (Agricultural Economics)
Appointed to the board: **2008**

Working in various capacities in the agricultural sector, Johan has in-depth experience in agricultural marketing and strategy. He currently consults to major agricultural businesses in South Africa on agricultural business strategy, economics and markets.

Group directors and management

Executive directors

16. **D W P** (David) **Hodnett** (42)
BCom; CA(SA); MBA
Joined Absa in 2008; appointed to board and Exco in 2010

David completed his articles with KPMG where he became a partner in the financial services team. He then joined Standard Bank Group, where, for seven years, he was involved in group risk and retail credit. David joined Absa in 2008 as the Chief Risk Officer. He was appointed as Absa's Group Financial Director on 1 March 2010.

17. **M** (Maria) **Ramos** (52)
Institute of Bankers' Diploma (CAIB), BCom (Hons), MSc (Economics)
Joined Absa in 2009; appointed to board and Exco in 2009

Maria was previously the Director-General of the National Treasury and in January 2004 she was appointed as the Group Chief Executive of Transnet Limited. Maria joined Absa as Group Chief Executive in March 2009, and is a member of the Barclays PLC Executive Committee.

18. **L L** (Louis) **von Zeuner** (50)
BEcon
Joined Absa in 1981; appointed to board and Exco in 2004

Louis has worked in Absa's retail and commercial banking operations since 1981, where he held various branch, regional and provincial leadership positions. Louis was appointed Operating Executive of Absa Commercial Bank in 2000, following which he was appointed as an executive director of Absa Group in 2004, and Deputy Group Chief Executive in 2009.

Other Group Exco members

19. **W T** (Willie) **Lategan** (43)
BCom (Hons); FFA
Joined Absa in 1995; appointed to Exco in 2007

Willie is the Chief Executive of Absa Financial Services. He joined Absa Consultants and Actuaries as an actuary in 1995. He subsequently served as General Manager: Operations, Managing Director: Absa Life and Managing Executive: Absa Financial Services Corporate division. Willie participates in the Association for Savings and Investments SA and the Actuarial Society of South Africa. He also serves as a trustee of Bankmed.

20. **J** (Jan) **Lubbe** (40)
CA(SA), MBA, MCom
Joined Absa in 2010; appointed to Exco in 2010

Jan is Absa's Chief Risk Officer. He initially worked at KPMG both in South Africa and England, where he held the position of senior manager. In 2000, Jan moved to Goldman Sachs where he was appointed as an executive director. In 2003, Jan joined FirstRand where he was later appointed as Chief Risk Officer.

21. **B A** (Bobby) **Malabie** (51)
BCom (Accounting), MBA, MDP (Harvard)
Joined Absa in 2010; appointed to Exco in 2010

Bobby is the Chief Executive of Retail and Business Banking. He has held senior roles within Charter Life, Nedbank Group and South African Breweries. He then joined Liberty Group, where he held the position of Chief Executive Officer: Marketing and Distribution. Bobby moved from Liberty Group to Absa in 2010.

22. **F C S** (Fergus) **Marupen** (47)

BA (Hons) Psychology, BEd, HDip HRM, MBA
Joined Absa in 2010; appointed to Exco in 2010

Fergus is the Chief Human Resources Executive. He was General Manager: Human Resources for Kumba Iron Ore Limited and Vice President: Human Resources for the energy and coal division at BHP Billiton. Fergus joined Absa in 2010.

23. **D** (Daphne) **Motsepe** (54)

Bachelor of Accounting Science, MBA
Joined Absa in 2005; appointed to Exco in 2010

Daphne is the Chief Executive of Unsecured Lending. She was the Managing Director of PostBank and has held leadership positions at the South African Post Office, Women's Development Banking, Engen Petroleum Limited and National Sorghum Breweries. Daphne has held a number of non-executive directorship positions, including Investec Bank and the Land Bank. Daphne joined Absa in 2005 as Managing Executive: Small Business and Flexi Banking. She will retire from Absa at the end of April 2012.

24. **V** (Alfie) **Naidoo** (43)

BSc; Dipl (Investment Management)
Joined Absa in 2001; appointed to Exco in 2005

Alfie is the Chief Operating Officer. He joined Absa in September 2001 as Managing Executive: Electronic Channels. He has since worked in a variety of leadership roles in Retail Banking. He was appointed as Chief Operating Officer in July 2009. Alfie resigned from Absa effective end of March 2012.

25. **N** (Nomkhita) **Nqweni** (37)

BSc, Postgraduate Diploma (Investment Management)
Joined Absa in 2010; appointed to Exco in 2011

Nomkhita is the Chief Executive of Absa Wealth. She spent the better part of her career at Alexander Forbes performing different functions from when she joined in 1997. Prior to joining Absa, she was the Managing Director of Alexander Forbes Financial Services Holdings Limited. Nomkhita also serves as a board member of the SA Mint and SA Bank Notes companies.

26. **H** (Happy) **Ntshingila** (51)

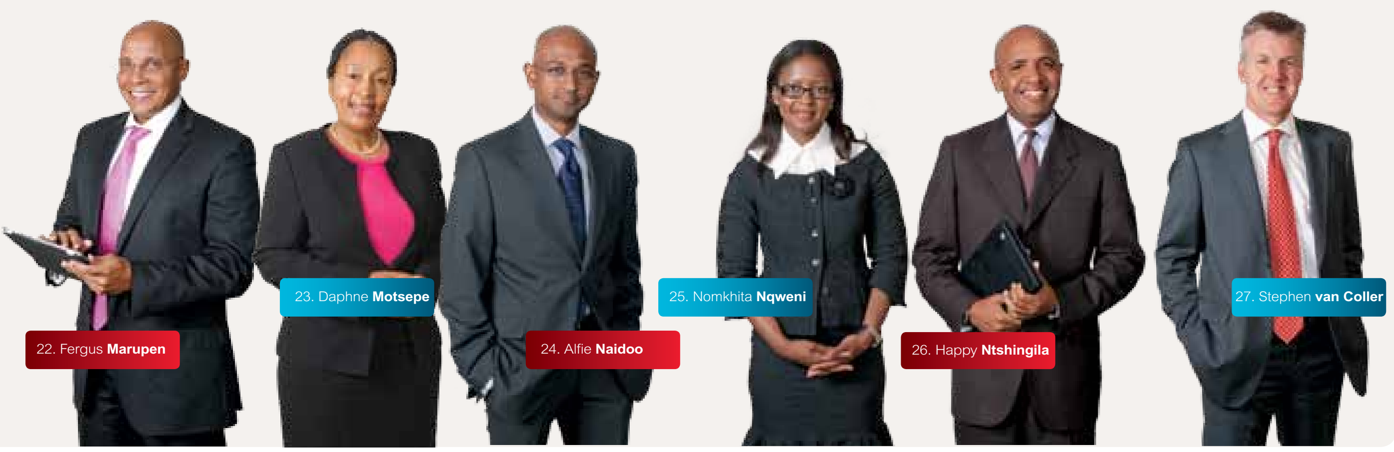
BA (Communications)
Joined Absa in 2006; appointed to Exco in 2008

Happy is responsible for Group Marketing and Communications. He initially worked at Unilever, after which he held marketing and communications positions at IBM and Tiger Oats before joining Ogilvy and Mather as an account manager. In 1991, he co-founded HerdBuoys Advertising. Happy joined Absa as Group Executive: Group Marketing in 2006. He sits on various Absa boards, is a trustee of the Absa Foundation and holds directorships of a number of companies in his personal capacity. Happy resigned from Absa effective end of February 2012.

27. **S** (Stephen) **van Coller** (45)

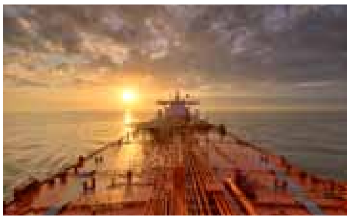
BCom (Hons), HDip Acc, CA(SA), CMA(UK)
Joined Absa in 2006; appointed to Exco in 2009

Stephen is the Chief Executive of Absa Capital and Wealth. He initially worked at Ernst & Young Inc. In 1991, he moved to the United Kingdom as a senior auditor at Knox Cropper and then as Finance Manager of the Richmond Fellowship Housing Association. Returning to South Africa, Stephen worked at Deutsche Bank where his last role was Head: Coverage and Corporate Advisory. After joining Absa in 2006, Stephen held the positions of Deputy Chief Executive and Head: Investment Banking at Absa Capital.


22. Fergus **Marupen**
23. Daphne **Motsepe**
24. Alfie **Naidoo**
25. Nomkhita **Nqweni**
26. Happy **Ntshingila**
27. Stephen **van Coller**



Reflecting on . . .
a strong performance

Commentary by our leadership on the operating environment, strategy execution, managing material issues, and our financial and segmental performance.

Reflecting on issues affecting us

Introduction

Absa's success depends on how well we respond to the needs of society in general and the communities we serve. The foundations of our long-term sustainability are the strength of our relationships, the quality of our resources and how effectively we are able to leverage them to the best advantage of all our stakeholders, and in particular our customers and shareholders.

In considering the issue of sustainability in more detail, we have distilled a high-level list of five (previously 12) material issues that serve as a framework to develop our strategy. These are sustainable financial viability, process and systems effectiveness, customer experience, our people and economic equity. Maria discusses in her review the progress relative to our One Absa strategy and our performance against each of these issues.

In our 2011 integrated annual report, we have set out the story of Absa for the year, noting key positives and negatives. I hope you will find it useful in better understanding our performance, opportunities and challenges. I will touch on a few key issues in my introduction. Further detail can be found in later chapters and online.

As Absa's Chairman, I am particularly concerned with how we respond to the material issues we have identified. In this regard, the governance of our decision-making process and our behaviour is critical, and I will refer to the principles that underpin our leadership's remuneration and the values that guide our behaviour.

Operating environment

Turmoil in international markets

We are experiencing uncertain times. Concerns about the future of Europe and the Euro and the debt impasse in the US, are fuelled by subdued growth in local consumer spending as the world works off the excesses of the past 25 years in both the public and private sectors. Stresses are also to be found in China and India, ensuring that uncertainty is not limited to the developed world. While we are naturally concerned about the effects of this uncertainty on international and domestic economic growth, our direct exposure to international markets is limited. We carefully monitor developments both directly and through Barclays, which provides our risk management processes with timely and pertinent insights.

South Africa in an African context

In the aftermath of the global slowdown, Africa has emerged as an attractive growth opportunity. Some of the poorest economies are now showing the fastest growth – basic infrastructure such as roads and cellular networks are being developed and citizens now have the opportunity to benefit from the advantages of the modern information-based economy.

South Africa looks northwards with some expectation, and rightly so, as we have much to offer and the opportunities are significant. These opportunities are not without their challenges, however, and we are very mindful of how different countries present their own political, regulatory, cultural and competitive environments.

South African environment

Although the supply side of economy lagged the demand side, South Africa recorded ten successive quarters of growth since the

We have paid careful attention to underlying principles of how we operate, from strengthening our governance and ethics management, reviewing our remuneration practices, to how we engage and respond to our stakeholders. These are critical foundations for our sustainability and future growth.

Garth Griffin Group Chairman

recession of 2009. The slowdown in the supply side of economy during 2011 was reflective of industrial action and a general slowdown of economic activity and a resultant reduction in GDP growth. The consumption-side of the economy remains the backbone of GDP growth, with robust vehicle sales and positive retail sales momentum continuing to reflect high wage settlements, manageable inflation and low interest rates. While household debt to disposable income has receded in the past year, the consumer remains highly indebted and the fear of job losses in a tough economic environment reduces confidence. As a result, consumers remain cautious about taking up new debt as evidenced by the subdued growth in credit extension to households. Growth in credit extension to the corporate sector was also subdued, and banking industry statistics reflect muted demand for credit at an aggregate level, notwithstanding the period of low and stable interest rate levels we have enjoyed. Fortunately, investment by the public sector continues to contribute to overall fixed investment growth, and we welcome the commitment to continued infrastructure development in the President's recent State of the Nation address and in this year's budget statement.

Critically, we need some certainty on the policy framework within which government operates. There is much to be said for vibrant and robust debate about policy options, especially when so much of economic orthodoxy has been found wanting in the recent past, as evidenced by the many issues faced by much of the so called 'developed world'. The challenges raised by 'job free' growth, rapidly rising youth unemployment and growing income inequalities – issues that are not limited to South Africa – demand creative and bold thinking. However, neither can we afford endless debates nor yet another proposed plan. It is incumbent on government to establish a framework, supported by coherent policies and legislation, within which the talents of 50 million South Africans can be harnessed for the benefit of all. Clarity will bring focus and, in turn, positive momentum so crucial to long-term growth.

To this end, we view the National Development Plan (NDP) as a major opportunity to both forge a common vision about what the country can become and to establish a set of key initiatives that can guide policy and decision-making as we pursue the fundamental goal of reducing both poverty and inequality.

Key points

- Uncertainty in international markets
- Local economy remains subdued as Africa gathers momentum
- Technology drives innovation and access
- Regulatory environment remains complex and demanding
- Sound ethical behaviour and robust governance are key to sustainability

Outlook

- Well positioned for emerging opportunities, including Africa
- Strong capital foundation provides base for growth
- Continued focus on our corporate citizen agenda
- Ongoing regulatory developments unlikely to abate
- The National Development Plan promises a credible framework for future policy

Strategic pillars discussed

Competitive environment

South Africa has a vibrant and competitive banking industry. Consumers have the choice of both service provider and the type of service they seek. We welcome this, underpinned as it is by access to technology. Technology is revolutionising the way in which consumers can access banking services and enabling products and services that would otherwise not have been affordable. Absa has embraced this development and seeks to remain at the forefront of technological developments – a number of our successes are noted elsewhere in our report.

However, these developments also introduce new risks into the system. At the macro level, we remain concerned by the opportunity for regulatory arbitrage, while at the micro level, we remain vigilant in defending Absa and our customers from electronic fraud. Overall, these challenges keep us focused on improving our service offering and ensuring a solid foundation for careful expansion.

Competitively, the information economy places high demands on our business. Continuous innovation is required to meet rapidly developing consumer preferences, a trend not limited to banking, while at the same time it is essential to provide robust and resilient operational capabilities. So we continue to invest in IT. Clearly our business survives because of the quality of our people, in terms of their technical ability and their willingness to serve customers, irrespective of their role. Two of our biggest focus areas therefore remain the quality of our IT systems and the war for talent.

See pages 26 and 32

Regulatory environment

The regulatory environment in which we function is a complex and rapidly changing one, as regulators respond to challenges at both the prudential and consumer level. The task facing regulators is not an easy one, as they have to balance the need for financial stability against the fundamental role played by financial institutions in general, and banks in particular, within the global and national financial systems. As we have seen, overemphasis on capital requirements can lead to undesirable impacts on the extension of credit. At the same time, regulators have also to ensure that the financial sector deals fairly with its customers. To further complicate matters, the financial services sector plays an important role in combating money-laundering and other illegal activities. This all leads to a complex array of regulatory requirements and new developments. The investment required to respond appropriately is significant.

The regulatory structure in South Africa is also undergoing change. National Treasury proposed the twin peaks model (also used in Australia, Canada and the Netherlands with similarities to the direction being taken in the UK) in a document released in February 2011. The model separates the regulation of market conduct by all financial institutions, including banks and insurers, from their prudential supervision. Under the "twin peaks" model, market conduct will be regulated by the Financial Services Board (FSB), while the Reserve Bank will provide prudential oversight. The Treasury believes the new system will result in tighter regulation, better consumer protection and a safer financial sector, and there is much to commend this view. A number of bills are planned to be submitted to Parliament in 2012 to give effect to this change, all of which will demand careful scrutiny.

With regard to prudential supervision, Basel III is the key development for banks, while insurers are dealing with the development and imminent introduction of the local version of the EU Solvency II prudential framework, called Solvency Assessment and Management (SAM). The local banking industry in general and Absa in particular, are well positioned to accommodate the higher capital levels required, and the improved mix of available capital. We do not have the issues faced by many overseas banks with regard to both the quantity and the quality of their capital base. However, the liquidity demands of Basel III are a challenge in the context of the South African and other emerging markets and we look forward to guidance from the Reserve Bank in this regard. Elsewhere in our report, you will note the pleasing progress made by Absa in growing our surplus liquid assets and lengthening the maturity profile of our deposits.

New developments on the consumer front include the Consumer Protection Act, which came into effect on 1 April 2011, and the Treating Customers Fairly (TCF) discussion paper, published by the FSB in 2010 aimed specifically at the financial services industry. As a member of the Barclays Group, Absa has already adopted a set of TCF principles similar to those applicable in the United Kingdom and is therefore well placed to respond quickly to local requirements. Following the inquiry by the Competition Commission into banking fees in 2006, we have fully endorsed and implemented the banking industry commitments to, amongst other measures, improve customer education, introduce a switching code, reducing certain penalty fees and participate in revising the Code of Banking Practice. Customer education has been a particular focus for Absa, and we are convinced that this is to the benefit of the country as a whole.

While one has a measure of sympathy for the regulatory authorities, as they have to respond to both international developments and local emerging imperatives, care needs to be taken with the volume and complexity of regulatory change. Unintended consequences may emerge, including opportunities for regulatory arbitrage. What is certain is that there is evidence of overload and fatigue in this domain, and a period of stability and consolidation would be welcomed.

See page 61

The risk environment

Depending on one's perspective, one could describe the current risk environment as either benign, with signs of improved consumer confidence and ability to meet debt obligations, or uncertain, with dark clouds remaining on the horizon due, mainly, to uncertain economic growth prospects. As we would be ill advised to claim any certainty about future events, it seems sensible to remain cautious, responding to the green shoots as appropriate, but at the same time, ensuring a resilience that provides protection should conditions deteriorate.

With this in mind, we placed a strong focus on developing our stress scenarios in conjunction with our Barclays colleagues. Not only do these scenarios attempt to assess the potential impact of various sets of events, but they also provide some early warning indicators and help us to identify management actions that can mitigate the impacts as events unfold. Given our inability to predict with certainty, being prepared and sufficiently flexible to take early action is our preferred response.

Looking back, 2011 was a year in which we:

- consolidated and enhanced our internal risk management processes, including our stress testing;
- further improved our liquidity position;
- experienced an improvement in our credit risk exposure and experience;
- advanced our internal operational risk management processes and environment; and
- limited our market and equity risk exposures.

This helped to enable a thorough evaluation of the amount of capital deemed necessary to retain and informed the sharp increase in the dividend announced for the year. In line with the principle of retaining flexibility to respond to emerging circumstances, our approach to dividend levels will continue to be driven by a careful assessment of appropriate capital levels and other business metrics, from time to time, rather than a fixation with a particular dividend cover ratio.

The environment in 2011 proved relatively benign from a South African perspective, as we are largely shielded from the turmoil of international markets. I think the key challenge for 2012 will be to sustain this favourable position and to take advantage of the foundation this provides for specific, value-adding opportunities.

See page 64

Stakeholder engagement

In the year under review, we gave particular attention to formalising our stakeholder engagement. It is, after all, through interacting with our stakeholders that we become aware of concerns, risks and opportunities. By mapping this engagement, we have been able to consolidate this vital feedback and identify areas where we are possibly not deriving the best business intelligence from our stakeholders.

See page 18 for a review of our stakeholder engagement and key matters identified.

I would like to dwell for a moment on two key stakeholder groups – our customers and our people.

Customers

We recognise that our customers are emerging painfully from the economic crisis of 2008. In aggregate, consumers are paying off debt and the corporate market is loath to commit to invest in growth opportunities, given the uncertainty prevalent in the environment.

With wealth gaps in all our markets continuing to widen, we recognise that the economic system is not catering sufficiently for the economically disenfranchised. In this regard, we align ourselves with the National Development Plan vision document that states that "it is possible to eliminate poverty and to sharply reduce inequality by 2030".

We hope to play a constructive role in enabling this outcome. Key roles that we can and will play include introducing affordable basic financial services to the largely unbanked sector, consumer education, supporting small enterprises in their emerging business ventures, and assisting to restore the financial health of those in distress.

Within the corporate sector, too, customer needs are changing. Ongoing margin pressures, heightened competition and growing degrees of multinational expansion demand more sophisticated banking services that add value to customers. Responding effectively to these needs is a key focus of ours.

See page 28

Our people

I am acutely aware of the challenges that our employees face as we serve our customers in today's environment. Regulatory requirements demand intensive training; cost and margin pressures demand more accountability and greater productivity; system and process changes – due to product and service adaptations or innovation – require learning new information and often require changes to work routines. Throughout the year, our people have responded admirably to the various challenges that have come their way.

We have to continue nurturing and retaining talent. Developing our people takes the form of both training and providing career opportunities. We carefully monitor our mix of promotions, performance ratings and salary adjustments, by both gender and race. The challenge to meet transformation targets is real, but we remain committed to our targets and playing our role in transforming South Africa's workforce.

See pages 32 and 34

How we respond – values and ethics, governance, and remuneration

The sustainability of the financial results we achieve in meeting the goals of our One Absa strategy depends on how we behave and the way we conduct ourselves in our business dealings – our corporate climate or culture. Our five core values of leadership underpin how we behave at every level, and much was done over the year to reinforce these values. Dealing as we do with customers' money, ethical behaviour is critical, as is sensitivity towards the needs of the underprivileged within the communities we serve.

An important aim of this report is to show the direct link between society's concerns (encapsulated in our material issues) and the quality of our stewardship in the decisions we make. Governance and remuneration are key aspects determining how effectively we fulfil these duties.

Ethics

As a financial institution, ethical behaviour underpins the trust placed in us by our customers and is thus a non-negotiable element of the way in which we behave and conduct ourselves. We have in place a formal framework and sets of policies that are regularly reviewed, but it is actual behaviour that is ultimately important. Significant progress was made in embedding awareness and appreciation of ethical behaviour within Absa via specific educational and communication programmes. The board leads in this regard, and a regular review of behaviour and attitudes is a key item on the agenda of the new Social and Ethics Committee.

See page 59

Governance

We have a formalised structure for governing the business – how we make decisions and how we hold ourselves accountable for our actions. Absa's board of directors is the foundation of corporate governance in the Group and oversees processes that ensure sound ethics in all our dealings with stakeholders. The Directors' Affairs Committee is the appointed board subcommittee advising the board on governance matters.

Both the new Companies Act of 2008 and King III became formally applicable in 2011, and various teams have worked to ensure that we comply with the new Act and King III recommendations. As a subsidiary of Barclays Bank PLC, we also take cognisance of its governance requirements as set out in the UK Corporate Governance Code. Other key governance developments over the year included:

- establishing an appropriate governance process for information technology (IT), including board-level oversight;
- establishing a Group Social and Ethics Committee, in compliance with the Companies Act;
- conducting a review of board effectiveness, facilitated by an independent external party. The review found that the board functions well and key aspects of the findings are in the corporate governance section of this report; and
- developing a framework for reporting key sustainability issues more effectively; work still needs to be done, on a broad-based, integrated stakeholder engagement process.

Absa has been recognised for its governance, social and environmental activities through its inclusion in the 'Best Performer' category of the JSE's Social Responsibility Index for the fifth consecutive year, one of only six JSE-listed companies to receive this recognition.

I believe that, over the year, we have succeeded in further improving our corporate governance framework, and our relationship with Barclays has been of great value in this regard. This is, of course, an ongoing journey, but one that is vital to our success.

See page 52

Executive remuneration

Executive remuneration is an important and very emotive issue. Articles on this topic frequently refer to the lack of effective governance and the unwillingness (or worse) of non-executive directors to stem the tide of perceived excesses in this regard. The banking sector is usually singled out for particular criticism. Against this backdrop, remuneration governance received specific attention. Over the year, we refined our remuneration policy, with assistance from Barclays, and developed a policy embedding the following key principles:

- There must be a clear framework for assessing the share of value to employees relative to shareholder earnings.
- Incentive payments must be determined based on clear performance objectives; these are not always captured in metrics and some degree of subjectivity will always be necessary in assessing executive performance.
- Deferrals, with claw back provisions and linked to share price performance, should be an important element of incentive awards. While not perfect, this mitigates against undue focus on short-term performance.
- Overall packages must be competitive; talent is mobile, both within local markets and globally.
- Reporting on remuneration must be transparent and provide clear insight into the decisions made in this regard.

Our remuneration report elaborates on this and, I trust, illustrates these principles in action. It is going to be very difficult, if not impossible, to satisfy all the critics, but our objective remains to remunerate and incentivise our employees in a manner that is fair and competitive, and disclosed with appropriate transparency.

See page 74

Strategy development and delivery

As mentioned, our business strategies are developed on the foundation of our values and governance structures and within the framework of our material issues. Strategy development and implementation is driven and managed by the executive team, under the guidance of the Group Chief Executive. Her review, as well as the other sections of the IAR, provide further detail on our progress against our strategy to date. Our results bear testimony to the effective implementation of our One Absa strategy.

Relationship with Barclays

The past year saw the further development of our beneficial working relationship with our majority shareholder, Barclays. We will continue to draw on Barclays expertise to strengthen the business. Fortunately, the transfer of knowledge is not just a one-way process; Absa has also contributed some of its know-how and developments to Barclays. We thank our colleagues in Barclays for their support and look forward to growing this mutually beneficial relationship.

Board changes

On 21 September 2011, Ivan Ritossa replaced Benoît de Vitry as a Barclays representative non-executive director. Peter Matlare was appointed to the board as an independent director on 5 December 2011.

Des Arnold and Monhla Hlahla retired at the annual general meeting on 21 April 2011. Brian Connellan will retire at the 2012 AGM after serving 18 years on the board of Absa. In every respect, Brian was an outstanding non-executive director with a deep understanding of the business and his contribution will be missed. We wish Brian and Merle, his wife, well.

As advised in our announcement on 14 March, I intend standing down from the board as soon as a successor is in place. It has been a privilege to serve on the Absa board for the past 11 years and I am confident that the Group is well positioned to further develop the benefits of its relationship with Barclays and to grow its contribution to the communities it serves.

Acknowledgements

I would firstly like to thank my colleagues on the board for their contribution over the past year. The role of a bank non-executive director is demanding, but their commitment and application has been exemplary.

Secondly, I would like to acknowledge the leadership provided by our Group Chief Executive, Maria Ramos. She has managed the myriad of demands and the challenges of the role in an exceptional fashion, and sets an impressive example for the leadership group. She is ably supported by Louis von Zeuner, David Hodnett and other members of the Group Exco. Thank you all for your leadership and dedication.

Thank you also to the broader group of employees for your contribution to a successful year. I trust that you will continue to be motivated by the satisfaction of serving the communities where we operate in such a meaningful fashion, whether directly or indirectly, and the opportunities for the personal development that the Group offers.

Finally, I would like to thank our various regulators for their constructive engagement over the year. In particular, I would like to congratulate Mr Rene van Wyk on his appointment as Registrar of Banks at the South African Reserve Bank. He succeeds Mr Errol Kruger, who made a major contribution to the South African banking sector during his tenure. We wish him well as he settles in to a demanding role and look forward to working with him and his team.

In conclusion

2011 was a challenging year – we've done well, all things considered. 2012 is unlikely to be any less challenging. We will continue to invest in capacity and our people to better serve our customers, develop the communities we serve and expand our reach in a responsible and sustainable manner. Ultimately we trust this will lead to satisfied stakeholders and, in particular, superior rewards for our shareholders.

Garth Griffin

Group Chairman

28 March 2012

Absa's stakeholders and their concerns

Introduction

We create value through our relationships with stakeholders. The broad diversity of stakeholders and interest groups results in diverse expectations of Absa, ranging from earnings growth and returns to empowering of the unbanked. It is therefore critical that we identify our stakeholders and engage with them so that we hear and document their valid concerns. From these concerns we determine those issues that are important to our long-term success and our stakeholders.

In defining our stakeholders, we have been guided by the nature of their expectations and have grouped stakeholders with similar interests. Our board has defined our stakeholder groups as:

- customers, without whom Absa would have no business purpose;
- shareholders, to whom financial performance is important;
- employees, who make it all possible;
- governments and regulators, who create the environment in which we operate; and
- the communities and the environment in which we operate.

Stakeholder engagement approach and governance

Absa has a formal, decentralised stakeholder engagement model with a practical framework designed around our main stakeholder groups. We use various policies and methodologies to govern communication and conduct with stakeholders to cater for their diverse and sometimes conflicting interests and concerns. This is a continuous process and our policies and methodologies are widely informed by best practice, corporate governance and legislative requirements, as well as risk and reputation management principles.

We employ diverse mechanisms at various levels to secure feedback, from small group discussions such as analyst meetings with management, to formalised quantitative research such as customer perception audits and employee opinion surveys. The frequency and blend of mechanisms are informed by both the stakeholder and the matter under consideration.

In engaging with stakeholders, we aim to provide a consistent message based on our strategy, ethics and values. The table below lists our primary stakeholders, how we engage with them, the issues they raised, and links to our responses. These concerns form the basis for our material issues.

How we engage with them	Key issues raised	Link to our response
Customers		
→ Customer experience programme including surveys and focus groups → Complaints management process → Face to face interaction → Customer forums → Relationship managers → Marketing and advertising	→ Cost of banking services → Level of customer service → Access to credit → Financial inclusion	***See pages*** → *12* Group Chairman's statement → *20* Group Chief Executive's review → Our material issues — *26* Systems and process effectiveness — *28* Customer experience → *59* Ethics and fraud management
Shareholders (and analysts)		
→ JSE News Services → Financial results releases → Roadshows and conferences → Management meetings → Investor days → AGM → Annual report	→ Calls to return surplus capital → Potential bubble in personal loans across the building sector → Lower customer loans → Sustainable cost containment → Low growth in fee income relative to peers → Extent of management changes → Cautious optimism for African expansion	***See pages*** → *12* Group Chairman's statement → *20* Group Chief Executive's review → *38* Group Financial Directors' report → Our material issues — *24* Sustainable financial viability

How we engage with them	Key issues raised	Link to our response
Employees (and trade unions)		
→ Interactions through human resource business partners → Employee opinion survey every two years → Leadership blogs and newsletters → Intranet site → Employee contact centre → Television broadcasts → Email communiqués → Monthly employee magazine *Abacus* → Corporate specific and other training interventions including Learning@Absa	→ Reward and recognition → Streamlining threatens job security → Compliance-driven culture → Modern job and society stresses → Transformation	***See pages*** → ***12*** Group Chairman's statement → ***20*** Group Chief Executive's review → Our material issues — ***32*** Our people
Government, regulators and industry bodies		
→ Management meetings → Written responses in consultation processes → Presentations and feedback sessions → Conferences → Participation in working groups and forums → Democracy support programme → Regulator surveillance and interaction	→ Maintaining the stability of the financial system → Executing employment equity and wider BBBEE objectives → Compliance with laws and regulations → Remuneration disparities	***See pages*** → ***12*** Group Chairman's statement → ***20*** Group Chief Executive's review → ***38*** Group Financial Director's report → Our material issues — ***32*** Our people — ***34*** Economic equity → ***52*** Governance → ***59*** Fraud → ***64*** Risk management → ***74*** Remuneration
Community (civil society, suppliers and media)		
→ Community forums and events → CSI research and investments → Financial literacy programmes → Specialised publications → Supplier internet site → Dedicated supplier sharecall number → Business conferences → Round table discussions → Employee involvement in community initiatives → Media interviews and releases	→ Support employment, education, medical, infrastructural and other socio-economic priorities → Access to procurement opportunities → Response to media queries → Clearer position on climate change	***See pages*** → ***12*** Group Chairman's statement → Our material issues — ***24*** Sustainable financial viability — ***26*** Systems and process effectiveness — ***34*** Economic equity

Group Chief Executive's review

In an uncertain environment we achieved our targets and delivered good results, created value for shareholders and further strengthened our balance sheet while positioning Absa to continue growing.

Maria Ramos Group Chief Executive

Highlights

- Our record **dividend** takes the nine-year compound annual growth for distributions to 22%

684 cents

- Increased our **surplus liquid assets** by 58% to

R27 billion

Outlook

- On track to improve return on risk weighted assets to over 2,5% in 2012.
- Africa Exco ready to drive opportunities across Africa with Barclays.
- Efficiency remains a priority as we strive to make customers' lives easier.

Strategic pillars discussed

Introduction

As Chief Executive of the Group, I am mindful of my responsibility to lead the Group with a clear strategy to achieve our vision, to be the best provider of financial services in South Africa and selected African markets. Our Chairman, Garth, has described the challenges in our environment and reflected on the concerns raised by our stakeholders – these form the basis of our five material issues: sustainable financial viability, process and systems effectiveness, customer experience, our people and economic equity.

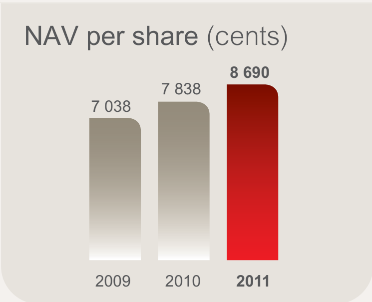
I am confident that this report shows that our One Absa strategy addresses the challenges and opportunities facing us and that we are firmly on track with implementation. We delivered on all our key commitments to stakeholders in 2011, despite a challenging operating environment. We grew headline earnings per share 21%, and our earnings remain of a high quality as we focus on our customers and core activities.

Sustainable growth in targeted markets

We increased our revenue 7%, despite a slow economic recovery, and it is pleasing that much of this growth came in targeted areas. Growing non-interest revenue is an important component of our strategy and we increased this 10%, including 15% growth in our business markets' transactional banking, 14% higher net bancassurance revenue, and solid gains in foreign exchange trading. Absa Wealth's gross revenue increased by 14% last year and our total deposits due to customers grew by the same amount.

We also further reduced the volatility of our revenue, by de-risking shareholders' funds in Absa Financial Services and decreasing our private equity and commercial property investments. We also continued to benefit from our margin hedging strategy in a low interest rate environment, which protected our net interest income to produce a more stable margin through the interest rate cycle.

See pages 24 and 38



View further information online

Performance against our strategy

Balance sheet optimisation and proactive risk management

Besides producing strong numbers in 2011, we also enhanced Absa's long-term sustainability by further strengthening our balance sheet in several areas.

Our loans and advances declined 1% as consumers remained under pressure. Nonetheless, our hedging supported 5% net interest income growth, which exceeded market expectations. We will continue to focus on the quality of our new lending and concentrate our lending to existing customers who we know well.

Garth highlighted the ongoing changes surrounding capital requirements in our regulatory environment. We continued to improve our capital position, as our Group's Core Tier 1 ratio increased to 13%. Our capital ratios are well above current regulatory requirements and our board targets, positioning us well to implement Basel III and support our growth plans.

During the year we also improved our liquidity, growing our surplus liquid assets 58% to R27 billion, in anticipation of regulatory changes. We also further lengthened the term of our funding. While these changes cost us over R160 million last year, our improved liquidity enhances our long-term sustainability.

As a member of the Barclays Group, our risk management benefits from a global perspective. Aided by a recovering economy and writing high quality new business, our credit impairments improved. We continue to optimise our risk-weighted assets, which grew just 0,4% last year. We retain a healthy risk appetite in targeted areas and believe that our strong balance sheet and risk management of the past year will allow us to take advantage of an improving global economy.

See page 64

Simple, streamlined Group for customer delivery

In this pillar of the strategy we have focused on two main themes: structural change, and re-engineering many of our important processes to better serve our customers.

On the former, I reported last year that we established a corporate bank alongside Absa Capital. During 2011 we migrated 800 of our largest corporate customers into the corporate bank where they will be better served, in a more holistic way and at a lower cost. From 2012 we will report the results of the combined Corporate and Investment Banking and Wealth (CIBW). We also combined our retail, unsecured, and business operations into Retail and Business Banking (RBB). This combined operating model provides the opportunity to eliminate duplication, improve our overall sales and service capabilities and increase our share of wallet across our large customer base.

In terms of re-engineering processes, we increased our cash management capacity by 30%; we installed teller cash recyclers at 133 branches with a resultant 30% reduction in queuing times and a 97% reduction in time taken for end-of-day balancing. Our active capacity management initiatives were implemented across 4 500 employees with an average productivity improvement of 19% (against a target of 15%). Absa was the first bank to go live with online fingerprint verification with the Department of Home Affairs. We will continue to look for efficiencies and to leverage off Barclays infrastructure and technology wherever possible.

Our improved processes contributed to our success in managing costs throughout 2011. With our continued focus on efficiency, we managed to contain operating expense growth to 6%, which was lower than our revenue growth and a significant improvement from 2010. We believe that our cost containment initiatives are sustainable.

See page 26

Group Chief Executive's review

Customer- and people-centred organisation

Customers are at the centre of all that we do. We are committed to making our customers' lives much easier by offering them innovative, value for money products, whether they are large corporate customers or individuals entering banking for the first time. We continue to respond to their needs by adapting our value propositions.

We have over 12,1 million customers and of these more than 3,2 million use mobile banking solutions. In mobile banking we managed 22 million transactions per month to the value of more than R10 billion, over 40% above 2010 levels. Education was built into the sales process to teach customers how to bank efficiently by using digital channels, particularly ATMs, cash-accepting devices and mobile phone banking.

Our focus on entry-level customers continues and we have the leading market share with 7,4 million customers in this segment. By year-end we had opened 100 entry-level ('1234') outlets across the country, focussed on giving our entry-level customers the right advice and products at an affordable price. We launched In-Store Banking and rolled out a new remote account opening capability which is online and paperless, using a smart phone to open accounts in less than 10 minutes and issue a card immediately.

Small and medium businesses remain a focus area. We grew our number of customers to 426 359 small and 75 974 medium business customers, with total loan books of R4 800 million and R27 875 million respectively. Products such as our hawker loan ensured more micro-enterprises could grow through access to credit and sound business advice.

It is of particular concern to me that customer complaints increased during the year. This illustrates that, although we continue to focus on our customer service, we have not yet done enough. Our product development and business improvements aim to better serve our customers and we will increase our efforts to turn complaints into compliments in 2012.

Turning to our 39 659 people. In 2011 we focused on talent management, transformation and skills development. We spent significant time ensuring adequate depth of talent from developing a clear picture of our key and strategic roles, filling gaps to a focus on succession plans. At the senior levels, 63% of advertised vacancies were filled through internal promotions increasing from 31%. We made overall progress on our transformation targets at all levels, but we still do not have our desired demographic balance at senior management level. We spent in excess of R526 million on skills development, covering technical, selling, and managerial skills and compliance training. The online Learning@Absa solution enhanced the learning experience for employees. Opportunities for young talent included learnerships and the graduate programme which had 1 889 learners and 107 graduates participating respectively. We invest in our people for several reasons: to make them more effective operationally; to manage our risk through ensuring knowledge of and compliance with our policies and procedures; and to provide them with the opportunity to grow and realise their potential.

See pages 28 and 32

Our One Africa strategy

Africa represents an important growth opportunity. It has an estimated population of one billion people which is expected to double by 2050 and its collective GDP is similar in size to each of Brazil, Russia and India. It is the second fastest growing region in the world and sub-Saharan Africa is expected to remain resilient growing at around 5,5% per annum for the next two years. The opportunity for financial services is significant: 80% of adults are unbanked, product penetration is low, and capital markets are underdeveloped.

Together with Barclays, we are well positioned to serve our customers across the continent. Combined, we operate in 12 countries covering three-fifths of Africa's total banking revenue pool. We are one of the top three banks by revenue in nine of these markets, serving over 14 million customers. Our franchise is well established – we have been in these markets for 85 years, on average.

In response to the opportunity and challenges, we launched the One Africa strategy with Barclays to enhance our customer value proposition across the continent. It involves a geographic and product approach to optimise local relationship management and service with global best practice in product offerings.

We established a combined Africa Exco and moved the Barclays Africa head office to Johannesburg, which have already saved costs and improved collaboration. We also established committees for customers and community investment in Africa to lead our agendas on both.

With the benefit of the integrated approach for the Barclays and Absa Africa operations (especially with scalability), I believe that our Absa operations in Tanzania and Mozambique are now far better positioned to grow sustainably.

Management changes

During the year the Absa Exco portfolios were transitioned towards a more customer-focused leadership structure.

I am pleased that Nomkhita Nqweni, our Managing Executive of Absa Wealth, joined our Exco in October 2011. She is also responsible for Wealth across the continent. Our Wealth business is growing in reputation and prominence and increased its net revenues in 2011 by 33%.

From October 2011 Bobby Malabie assumed responsibility for RBB.

After careers spanning many years at Absa in various roles, the following Exco members have left the Group:

- Gavin Opperman, Chief Executive of Retail Banking (November 2011);
- Happy Ntshingila, Chief Marketing and Communication Officer (February 2012);
- Alfie Naidoo, Group Chief Operating Officer (March 2012); and
- Daphne Motsepe, Chief Executive of Unsecured Lending (retires 30 April 2012).

I wish to pay special tribute to these four colleagues for their contribution to Absa's success over many years and thank them for their hard work and dedication.

After 32 years of distinguished service, Louis von Zeuner, our Deputy Group Chief Executive, will become a non-executive director and will devote 60% of his time to Absa and Barclays from January 2013. As a non-executive, he will serve on the boards of Absa Group, Absa Bank and certain subsidiaries. He will also spend his time mentoring our young talent. Louis has assumed additional duties as chair of our Africa customer committee and Africa community investment committee to drive our customer and citizenship agendas in South Africa and across the continent. We look forward to benefiting from his valuable contribution in this new role.

Looking forward

Absa is now well-placed to grow sustainably in South Africa and Africa as we drive our One Absa and One Africa strategies. We do, however, need to increase our resolve in certain areas, including:

- improving customer service making Absa the primary bank for more of our customers, and deepening our share of wallet with our customers;
- continuing to streamline our Group as we bed down our new target operating model, including the combined RBB and the positioning of corporate bank alongside investment banking and wealth;
- rolling out Corporate banking across Africa to serve both multinational and local corporates;
- growing revenue in targeted areas;
- further expanding bancassurance into Africa with a near-term focus on Kenya and Zambia; and
- continuing to increase access to financial services through technological innovations.

Acknowledgements

Our Chairman announced his retirement on 13 March 2012. On behalf of all members of the board, I wish to take this opportunity to thank Garth for his immense contribution over the years to the Group's success. We will miss his valuable input, especially his extensive knowledge of the financial services industry and willingness to make time available to engage on all matters.

I would like to extend my sincere thanks to our board for their counsel, our Exco for their leadership and all of our employees who put our customers first, every day.

Maria Ramos

Maria Ramos
Group Chief Executive

28 March 2012

View further information on our material issues online.

Our response to material issues

Introduction

This section provides an overview of our most important issues distilled from our stakeholder engagements and how we respond as we seek to build relationships with our stakeholders and apply our resources for the long-term benefit of our customers, shareholders and broader society.

The five broad issues were identified by looking at:

- what stakeholders consider important;
- core issues and future challenges;
- relevant laws and regulations;
- key organisational values, policies, strategies, goals and targets;
- significant risks;
- critical factors for enabling organisational success; and
- core competencies of the organisation.

Within this section the following performance indicators have been assured on a limited assurance basis by PwC and E&Y. For easy identification, this selected information is marked with either an [A] or [Q], depending on the outcome of the assurance process. A full assurance statement including the scope of work and conclusions can be found online.

1. Sustainable financial viability – generating sustainable growth for all stakeholders

Sub-issues

Growth
- Business environment
- Legislative and political environment

Cost management
- Business environment
- Cost of compliance

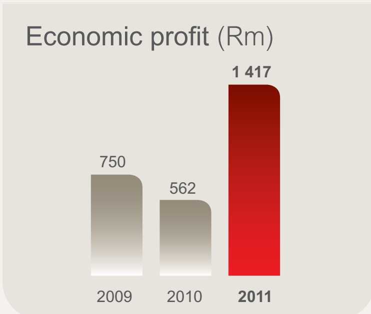
Return on investment
- Return on equity
- Return on risk weighted assets

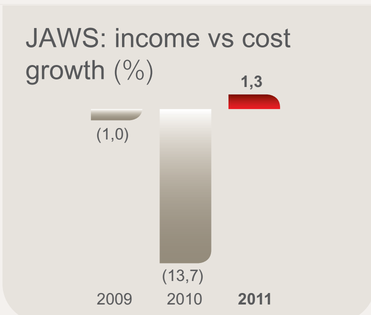
Balance sheet strength
- Credit quality
- Liquidity
- Adequate capital to sustain the business

Responsible lending
- Social and environmental

Performance

Indicators	2011	2010	2009[1]
HEPS growth (%)	21	2	(25)
Dividends per share (cents)	684	455	445
Economic profit (Rm)	1 417	562	750
JAWS income vs cost growth (%)	1,3	(13,7)	(1,0)
Return on risk-weighted assets (%)	2,35	1,99	1,97
Return on equity (%)	16,4	15,1	15,5
Core Tier 1 capital adequacy ratio (%)	13,0	11,7	11,5
Surplus liquid assets (Rbn)	27	17	4
Credit loss ratio (%)	1,01	1,18	1,70
Non-performing advances as a percentage of loans and advances (%)	6,9	7,6	6,8
Total transactions reviewed in accordance with the Equator Principles (number)[2]	21[A]	7[A]	12





Notes
[1]Comparatives have been reclassified.
[2]Total number of project finance transactions that have been reviewed for environmental and social risks as per the Equator Principles.
[A]Assured performance indicator.

Our Group Financial Director's analysis of our financial results covers Absa's progress towards sustainable financial viability in the areas of revenue growth, cost management, profitability and balance sheet optimisation. Here we focus on responsible lending and our indirect impact on the environment. The former is key to the sustainable health of a financial system which depends on the economy's confidence to borrow and invest to stimulate growth. Our responsibility to stakeholders is to ensure that we engage in lending that contributes to the long-term health of individuals, companies and the overall economy.

See page 38

Responsible lending

A combination of bad lending practices and loose regulation was a principal cause of the global financial crisis. While South Africa did not suffer to the same extent, due in part to strong regulation, economic recovery remains slow and unemployment and household debt levels are high. This, coupled with the high number of impaired credit records (46,2% of credit active consumers in Q3 2011), makes it hard for consumers to take on additional credit. It is imperative that in an uncertain financial environment we assist customers to make prudent debt choices, and it is encouraging to see that consumers' financial vulnerability is reducing steadily across all categories.

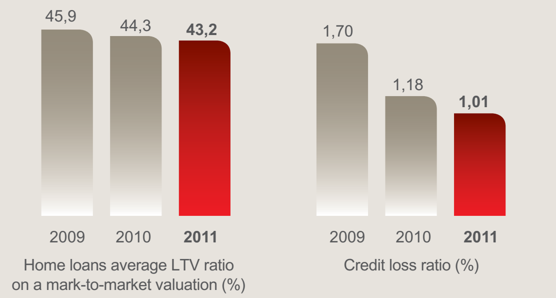
Loan-to-value LTV ratios for existing and new home loans are within expected boundaries, and decreasing steadily against property values. The number of our customers under debt review decreased by 65%. Unfortunately, a large portion of these customers were not rehabilitated, and moved along in our debt management process.

In line with the National Credit Act, No 34 of 2005, Absa aims to ensure that any loans we grant are carefully matched with the customer's ability to repay the debt. We believe that credit is bad only if it is not properly managed, and from this viewpoint, we try to educate customers so that they take responsibility for their financial choices.

As a responsible lender, it is our policy to assist customers through financial hardship where possible. We implemented our Debt Solutions Helpline in 2009 to examine customers' financial circumstances and indebtedness across multiple products, and we only take the route of legal foreclosure as a last resort.

An important indicator of responsible lending is our ability to uphold the level of service provided to customers regardless of their financial circumstances. We received a second place rating (and the top bank) for the service provided to debt counsellors during the debt counselling process this year, a significant improvement on the prior year.

Responsible lending

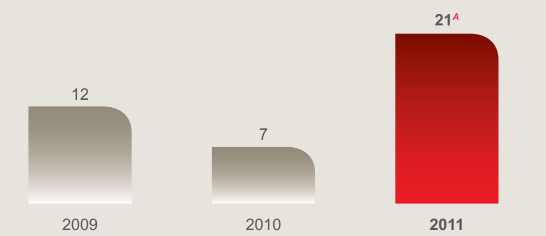


Loan-to-value ratio of outstanding home loans stock, based on a mark-to-market valuation (total outstanding amount, excluding accounts in the legal process, as a percent of the most recent property value).

Indirect environmental impact

We are committed to managing our environmental and social risks by mitigating negative direct and indirect impacts on the environment. Primarily, we provide assistance and guidance to our business and risk managers on environmental and social risks in lending. We use the Environmental and Social Impact Assessment (ESIA) policy, which provides guidance on what is considered to be an appropriate environmental impact assessment, to manage our relationship with customers and it underpins our commitment to the Equator Principles. In 2011 we reviewed 21 Equator Principle transactions in various sections including infrastructure mining and metals, oil and gas, power (including renewable energy) and telecommunications.

Number of Equator Principle transactions screened



Looking forward

We will continue to manage our credit risk in a responsible manner. We are committed to further entrenching a Treating Customers Fairly culture within Absa and will evolve with best practices in responsible lending to reduce our indirect environmental impact.

2. Process and systems effectiveness – for simple streamlined customer service delivery

Sub-issues

Quality of our IT infrastructure
- Maintenance
- Drive to innovate and build

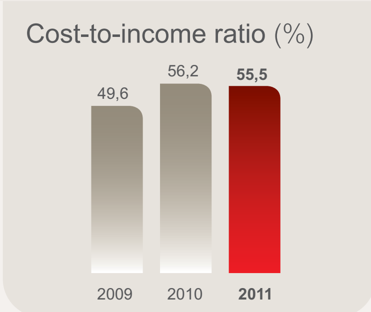
Streamline customer processes
- Improve internal processes and controls
- Simplify and enhance products

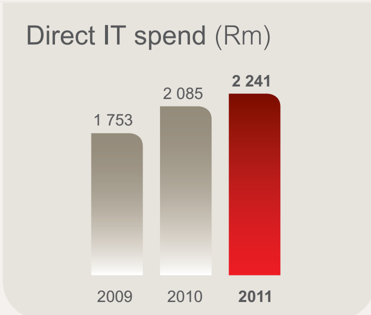
Treatment of suppliers
- Governance of service level agreements
- Timeous payment

Absa's direct impact on the environment
- Carbon emissions

Performance

Indicators	2011	2010	2009
Cost-to-income ratio (%)	55,5	56,2	49,6
Direct IT spend (Rm)	2 241	2 085	1 753
Total IT spend	5 283	5 045	4 419
Core network availability (%)	99,9	99,8	99,8
Severity 1 incidents (number)[1]	6	10	20
Total carbon footprint (tonnes CO_2)[2]	359 038[A]	409 444[A]	401 412
Carbon footprint per employee (tonnes CO_2)[3]	9,6	10,3	10,2





Notes

[1]Severity 1 is defined as when a production server or other critical system(s) are down and no work around is immediately available.

[2]Total of Scope 1, 2 and 3 carbon dioxide emissions, limited to South African operations, covering:
- Scope 1 direct combustion of fuels and company owned vehicles including functional/fleet vehicles and electricity from gas combustion;
- Scope 2 purchased electricity from Eskom; and
- Scope 3 business travel including local and International flights; car hire and employee kilometre claims.

[3]Based on total headcount.

Our ongoing investment in processes and systems contributed to the sustainable improvement in our cost-to-income ratio to 55,5% from 56,2%. Our direct IT spend in 2011 reached R2 241 million, a 28% increase on 2009. Over the same period, our number of severity 1 incidents has dropped from 20 to 6. Our core network availability improved further to 99,9% from 99,8% in 2010.

We focus on two main themes: changing the way we are organised to serve our customers better, and re-engineering important processes through end-to-end (E2E) programmes.

Structural changes

Our organisational restructuring is taking shape and we have made significant progress in rolling out our target operating model in functional areas. We combined our retail, unsecured and business segments into RBB and have created a CIBW cluster. We have transferred all required infrastructure capability and the designated customers from Business Markets to Corporate, allowing us to focus on building this franchise in 2012. Integrating RBB and establishing Corporate will ensure we serve our customers better, not only in South Africa, but across Africa.

Re-engineering processes

Our E2E programmes have made enormous progress in simplifying our processes and improving the speed and effectiveness of our service, particularly our turnaround times. Absa Capital's forex system now offers online transactions in ten African currencies; turnaround times improved to 15 minutes from 45 and processing capacity increased 42%, while reducing transactions costs 23%.

In Business Markets, our new sales product operating model re-segments and streamlines our front and middle office to enable relationship managers to spend more quality time with customers. Sales capacity has improved, as our simplified credit review process means credit approvals take approximately 10% of the original time. In Retail Markets, four successful proof of concepts, looking at product and service, were completed to guide us to

A holistically designed space for Absa

Through innovative design initiatives and sound environmental practices, our new head office, Absa Towers West (ATW), has been recognised as a market leader in the South African Built environment. ATW has achieved South African Excellence by becoming the first 5 Star Green Star SA 'As Built' certified building taking greening initiatives in the city centre to new levels. The environmental attributes include energy, water and other resource efficiency through the use of cutting edge technology, to lower carbon emissions.

ATW incorporates the largest grey water recycling system installed in a building in South Africa. Our system can recycle and purify up to 45 000 litres of water per day and has been further enhanced by the installation of a metering system, which significantly reduces our consumption of potable water.

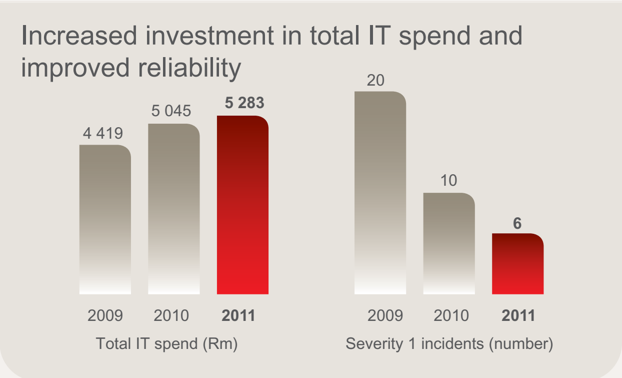
A key element of the building is the gas-powered energy centre. This, combined with other green elements, such as the largest grey water system in South Africa and a digital addressable lighting interface system, reduces our carbon emissions by approximately 19 000 tonnes a year. In addition, a new way of working is being promoted – ATW encourages collaboration and teamwork amongst colleagues, embodying our One Absa strategy.

ATW won a Halala Joburg Award in the Sustaining Joburg category in 2011, in recognition of its public space management and for meeting the South African Green Building Council five-star rating.

improve customer experience, cost to serve and delivery.

Our new core pricing and billing engine will integrate the billing and pricing of all Retail Markets products into a single platform to enable customer-centric pricing, improve internal efficiency and reduce revenue leakage. Phase 1 delivered the base platform and cheque system interfaces and is complete. This represents a significant step as we move from volume to value-based customer relationships.

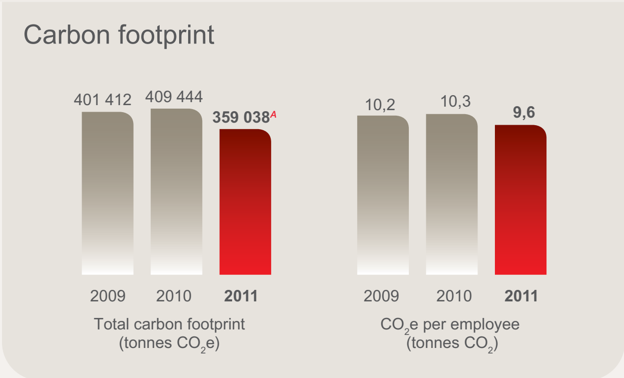
We have defined our Wealth target operating model and implemented our investment and product office. The customer segmentation and distinct value propositions are clearly differentiated from our Private Bank offering. We are making good progress on customer reporting and aligning our advice framework and solutions architecture.



Direct impact on the environment

Our direct environmental impact is measured by our carbon footprint (largely energy in the form of electricity procured from Eskom) and water usage. In 2011, we completed our second submission to the Carbon Disclosure Project, resulting in an improved score of 74 from 64 in 2010. Our intensity measured against total employees decreased 6,5% to 9,6 tonnes CO_2e per employee from 10,3 in 2010.

Despite our low water consumption, we have installed a grey water recycling system in ATW. Our system can recycle and purify up to 45 000 litres of water per day and has been further enhanced by installing of a metering system, which significantly reduces our consumption of potable water.



Looking forward

While we have made progress on a number of processes, we recognise that there is a significant amount of work left. In piloting a variety of new technologies, we will continue to develop and roll-out those that make our customers' lives easier. We will seek further efficiencies, aiming to improve our cost-to-income ratio and reduce the direct environmental impact of our operations.

3. Customer experience – ensuring that customers stay at the centre of everything we do

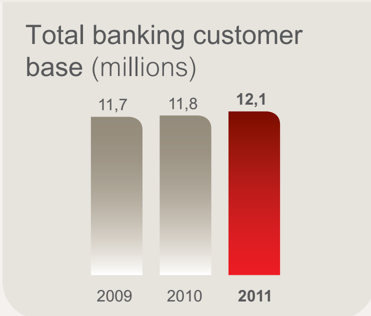
Sub-issues

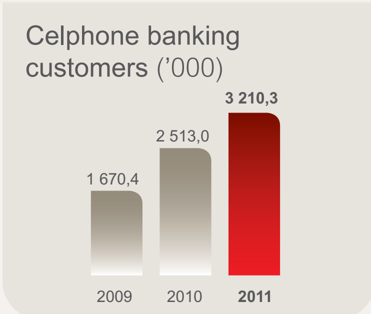
Treating customers fairly
- Responsible lending
- Fulfilling promises to customers
- Supporting financial literacy

Value proposition
- Service – turnaround and employee ability to serve
- Transaction costs
- Competitive products
- Trust and safety
- Reach and accessibility

Performance

Indicators	2011	2010	2009
Total banking customer base (millions)	**12,1**	11,8	11,7
Total number of South African banking customers (millions)[1]	**11,3[A]**	11,1[A]	11,0
Outlets[2]	**990**	1 007	1 062
Self-service terminals including ATMs[2]	**9 541**	8 963	8 055
Internet banking customers ('000)	**1 148,1**	1 094,5	1 005,2
Cellphone banking customers ('000)	**3 210,3**	2 513,0	1 670,4
Percentage of complaints resolved at first point of contact (%)	**83,0**	81,0	54,0
Number of complaints as a percentage of our South African banking customers (%)[3]	**2,29[A]**	1,74[A]	1,19
Customer satisfaction index	**44**	46	45
Net promoter score (%)	**17,0**	19,0	20,0





Notes

[1] Total number of customers with active Absa core banking products such as cheque accounts, savings accounts, secured and unsecured loans. Excludes wills, life policies, Barclays Bank Mozambique, National Bank of Commerce, Woolworths Financial Services and Virgin Money South Africa.

[2] Includes Africa operations.

[3] Number of customer complaints in South Africa logged by touch points on the Absa complaint management system as a percentage of the number of South African customers as at 31 December.

We aim for Absa to be the preferred banking partner for all our customers. Achieving positive customer experiences is a top priority for us. Legislation such as the Consumer Protection Act (CPA) and Treating Customers Fairly (TCF) programme prescribe how we should deal with our customers.

Proposed reforms, expected to be legislated in 2012, are likely to be based on the National Treasury's shift to a twin peaks regulation model. A macro regulator will oversee the stability of the financial system, while a retail market conduct regulator, within the Financial Services Board (FSB), will oversee market conduct.

Our customer charter, established in December 2006, sets out our commitment to providing the highest standard of service. This, along with providing affordability, choice, convenience and security are the five cornerstones of our customer charter.

Our One Absa strategy specifically aims to enhance our capabilities as a customer- and people-centred organisation. We continuously innovate to provide solutions that aim to surpass our customers' needs and expectations and to make banking easier, while also improving access to financial services, increasing choice and supporting financial education.

We have identified two issues we believe are of most concern to our customers, namely fair treatment and a competitive value proposition.

Treating customers fairly

A combination of complex products, processes and unclear selling can lead to customers being unintentionally treated unfairly. To prevent this from happening, the FSB published a TCF initiative in 2010 (similar to the programme of the same name in the UK). This initiative encourages firms to consider carefully how they treat customers at all stages of the product lifecycle, including design, marketing, advice, point-of-sale and after-sales activities. TCF aligns well with the new CPA, which empowers consumers and strengthens their rights.

As a subsidiary of Barclays, we already apply the ten principles of TCF. More than 60 service managers and service champions involved in customer fairness issues have been trained to manage the programme. Our strong customer education focus through our consumer education team supports the process by ensuring that customers are empowered to control their financial matters.

To further embed a TCF culture in our business, we participated in the FSB's self-assessment of TCF readiness in the South African insurance, advisory and investment industry during 2011. After submission, we engaged further with the FSB to exchange ideas for improving TCF and managing its impact. This self-assessment piloted the tool that the FSB will roll out as part of the TCF roadmap and provided us with the opportunity to make suggestions to improve this tool.

We have also focused on aligning the compliance requirements of the new CPA with the TCF principles to ensure our behaviour is consistent and complies with both.

Value proposition

We define the components of value as choice, convenience, security and affordability. Ensuring customers receive excellent value for money is our top priority. This is even more important with rising consumerism (and the associated increase in policy reforms such as the CPA) and increasing customer expectations, given rapid technological advances.

Transaction costs

Bank charges and transaction fees have long been in the news. The Banking Inquiry established by the Competition Commission in 2006 examined certain aspects of competition in retail banking in South Africa. A key concern raised by consumers was that penalty fees and 'off-us' ATM transactions (for using another bank's ATM) were too high, set arbitrarily and not always adequately disclosed. Issues contributing to high transaction costs include the complexity of products and pricing, the cost and difficulty for consumers to switch banks. The inquiry concluded that the shared network sheltered ATM services from effective competition and encouraged banks to change this situation.

On the issue of competition, which the inquiry highlighted as a concern, recent trends within the industry show increased competition from smaller banks and non-banks including retailers and telecommunication companies. We support this increasing competition as it is good for the industry as a whole and, consequently, for us and our stakeholders. Absa also subscribes to the Banking Council's Code of Banking Practice (CoBP), whose role is to "establish and maintain the best possible platform on which banks can do responsible, competitive and profitable banking".

Since the Competition Commission published its recommendations, we have made significant progress on the following:

- *Unpaid debit order fees* – in addition to being the first bank to drop its penalty fee for mass market customers to R5, we also reduced the fee for returned debit orders on current accounts effectively for first-time offenders from R100 to R60 per transaction.
- *Debit orders* – we have undertaken a range of consumer awareness initiatives on 'banking smartly', including managing debit orders effectively. We also implemented system changes to enable customers to place stop payments on debit orders across all channels against the reference number associated with the debit order.
- *ATM transaction fees* – we are launching an SMS service to highlight to customers the benefit of using our ATMs rather than those of competitors.
- *Switching* – we significantly increased our capacity to assist consumers switching their accounts to Absa. For example, we offer new customers free assistance with switching debit orders.
- *Switching code and CoBP* – Absa has actively supported the Banking Association in revising the CoBP and formulating a switching code.

Reinventing our ATMs

We started a large-scale programme to completely refresh every aspect of our ATM and self-service kiosk network. This includes a more intuitive design, new functionality and casings.

The platform will enable us to launch new services, including allowing customers to receive eStamped bank statements for a three-month period and pay bills directly. Scan 'n pay allows Absa and non-Absa customers to scan barcoded invoices and make payment from an account or by depositing cash. This supports our drive to migrate very simple transactions from branches to self-service channels.

The fresh and more ergonomic design, more intuitive navigation along with helpful animations, aims to vastly improve customer experience at ATMs.

- *Pricing calculators* – we recently launched an improved banking fee calculator that is accessible through our call centre that helps customers make the right choice in their banking behaviour.

We are further committed to:

- ensuring the CoBP is of maximum benefit to customers;
- helping customers to switch accounts as easily and seamlessly as possible;
- exploring ways to prevent debit order abuse by originators;
- increasing transparency at ATMs;
- reviewing our cashback policy at point of sale to make it more affordable for customers to withdraw cash at merchants; and
- providing basic, affordable and easy to understand transactional banking solutions such as Transact. Launched in January 2012, Transact allows customers to transact across a number of channels without paying monthly service fees, ATM balance enquiry fees, point of sale purchase fees, airtime top-up fees or penalty fees.

Absa has always been at the forefront of innovation within the SA banking industry. For example, we were the first in South Africa to market cellphone banking and to launch limited internet banking. Furthermore, we are the market leader in ATM service offerings, with the widest footprint of ATMs in the country. To further enhance the convenience of ATMs, we are upgrading our ATM network with new interfaces, hardware and outer casings, as well as other features that will improve the security, reliability and usability for customers.

Service

The range of activities banks typically provide includes taking deposits, extending loans, facilitating transactions, clearing and settlement services and offering a range of financial products and related services. Considering that these transactions do not vary significantly between banks, the level of service we offer customers becomes the most significant differentiator.

Over the course of each year, we conduct research across our segments and channels to measure how satisfied our customers are in terms of value for money, service quality, their relationship with us and our service touch points.

While we have achieved good customer satisfaction, this is short of our goals. Overall, our customer satisfaction score is 44. Our target is 50 and industry best practice is 46. We are implementing business-wide efforts to improve value propositions and delivery.

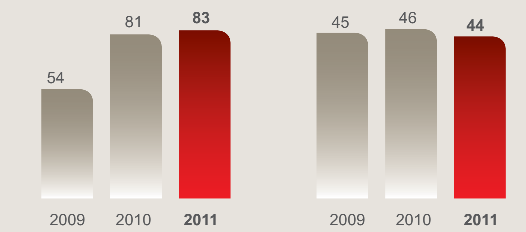
The overall number of complaints we receive is still high at over 221 000, and the average complaint resolution time increased to 6 days from 5 days in 2010, due mainly to increased case complexities. However, complaints resolved at first point of contact improved to 83% from 81%.

In the Ask Afrika Orange Index, we continued to hold our own, achieving second place in banking for the third consecutive year.

We endeavour to continually improve our customer offering and service levels. We undertook a root cause analysis and investigation of customer insights during 2011 to improve our understanding of our customers. This uncovered a number of opportunities to improve processes, systems and functions, through:

- new ways to handle disputed debit orders;
- administration support;
- visual aids for self-service channels (pilot);
- improving cash handling and equipment maintenance of ATMs; and
- new sales and operating models.

Handling of complaints



Percentage of complaints resolved at first point of contact (%)

Customer satisfaction index

We are also reducing our turnaround times. Out of 39 initiatives aimed at reducing branch queues, 20 are well under way and customers are increasingly aware of, and use, self-service channels. E2E initiatives include: e-Fica to targeted attorneys that almost halved the time to process home loan applications; teller cash recyclers, now at 131 branches, reduce queuing times by 30%. Our E2E Cash Management Improvement Programme, successfully piloted in our Kempton Park cash centre, increased throughput capacity by over 25%. Absa was the first bank to go live with online fingerprint verification with the Department of Home Affairs.

Customer councils will also be used as a platform to improve the culture of customer service in our business. In the retail environment, we are focusing on:

- handling complaints fairly;
- embedding our compliance with the CPA;
- taking ownership of service failure; and
- measuring what matters most.

We are also enhancing our employees' commitment to serve customers, ensuring they have an excellent understanding of our products and offerings. For example, our new Learning@Absa initiative is improving compliance training for all existing staff and joiners.

Business Markets customers will benefit from our customer experience promise that creates a customer-centred culture for customer-facing employees.

Trust and safety

Financial crime exposes our customers to financial loss and personal safety risks, and it exposes Absa to losses, penalties and reputational damage. For customers, financial crime risk areas include:

- ATM and branch security (e.g. card skimming, muggings, associated robberies);
- plastic (card) fraud; and
- online security (e.g. spyware, trojans).

We have robust systems in place to prevent financial crime aimed at our customers. However, awareness is the number one tool and we aim to educate our customers about the risks they face when using their cards and banking facilities. A thorough description of the types of crime and how to protect against these is available on our website.

Our fraud risk management area manages the risk of fraud across the Group. The team collaborates with key industry stakeholders such as the South African Bank Risk Intelligence Centre, the South African Fraud Prevention Services and the commercial branch of the South African Police Service to further reduce the risk of fraud.

Absa performs favourably against peers on industry level fraud losses across credit card, debit card, cheque and e-crime.

See page 59

Looking forward

To further improve our turnaround times, we will release eStamp service for bank statements at self-service kiosks in 2012. Our E2E programme aims to reduce home loan application time further to one day, by June 2012. We will roll-out securities eValidation in the first quarter of 2012.

Other initiatives include:

- evolution of our internet banking; and
- piloting near field communication payment technology.

Our newly established Africa customer committee, chaired by Louis von Zeuner, will drive our customer focus and underscores the importance we attach to our customers across the continent.

4. Our people – ensuring a motivated and engaged workforce

Sub-issues	Performance

Employee engagement
- Employee representation
- Quality of engagement
- Commitment to serve customers effectively and take accountability

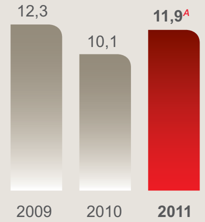
Finding, developing, retaining talent
- Finding and keeping talent
- Appropriate remuneration
- Shift from compliance-driven to skills-driven training

Credible leadership
- Leading with Absa values
- Accessibility of leadership (formal and informal)
- Delivery on key promises

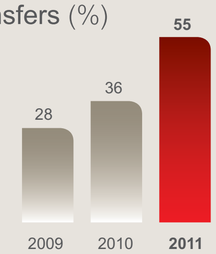
Health and wellness

Indicators	2011	2010	2009
Total permanent and non-permanent employees (number)	**39 659**	43 239	42 796
Total permanent and non-permanent employees (SA) (number)[1]	**37 293**[A]	39 782[A]	39 531
Percentage of employees covered by collective bargaining agreements (%)[2]	**65,8**	56,0	58,0
Permanent employee turnover rate for South Africa (%)[3]	**11,9**[A]	10,1[A]	12,3
Absenteeism rate (%)	**1,7**	1,8	1,8
Grievances as a percentage of the total employee base (%)	**1,2**	0,6	0,9
Total training spend (SA) (Rm)[4]	**526**[A]	372[A]	282
Internal promotions and transfers (%)	**55**	36	28

Permanent employee turnover rate for South Africa (%)



Internal promotions and transfers (%)



Notes

[1]Number of employees includes permanent and temporary employees legally employed and paid by Absa payroll including regular contracts, interns, graduates, specialists and brokers (excluding pension brokers). It covers operational and non-operational full-time, part-time, two-thirds and commission paid employees. It also includes contingency workforce, which is all agency, contractors and self-employed employees paid via a third party for services rendered. The number excludes BBM, NBC and WFS.

[2]Excludes managerial positions.

[3]Number of terminations as a percentage of the average permanent headcount in South Africa (excluding WFS).

[4]Training spend is all verifiable and reportable spend on learning and skills programmes including accredited and non-accredited training, bursaries, learnership allowance, related travel and Learning@Absa.

Absa employs 39 659 (35 300 permanent) people, of which 94% are based in South Africa. Our gender distribution has remained stable with 35% male and 65% female employees at year end. Our human resources strategy focuses on three imperatives – transformation, talent management and learning and development.

Our Group Chief Executive went on a regional road show through all provinces, engaging with a cross-section of employees on our business strategy and the most pressing people issues. Follow-up engagement sessions with employees at business level further addressed specific issues. We introduced an annual People Report that is distributed as an insert in our in-house magazine *(Abacus)*. This gave employees more information on our delivery and offerings from an HR perspective and our people focus areas for 2011. We've introduced a more user-friendly SAP interface for self-service and we embarked on a process to consolidate a range of HR policies into nine simplified policies in 2012.

Operating in a unionised environment (covering 72% of non-managerial employees), engaging with our recognised unions on workplace changes, wage negotiations and grievance procedures is important to ensure a fair balance in our relationship with our employees.

We were certified by the Corporate Research Foundation Institute as a Best Employer for 2011/2012. To arrive as a certified Best Employer we completed a survey about our HR Policies and Practices around 11 key areas: company information, organisational strategy, the HR function, communication, diversity management, corporate social responsibility, knowledge sharing and knowledge management, talent management and staff engagement, employee development, performance management and reward and recognition.

Finding, developing and retaining talent

We prioritise identifying, developing and encouraging upward mobility of emerging talent within the Group. We fast-track the careers of top talent by providing skills development opportunities, stretch assignments and cross-cluster rotation, as well as formal mentoring, coaching and leadership development programmes.

Making access to learning easier

Learning is the cornerstone of personal growth and development. Absa employees are provided with ample opportunity to access relevant learning that will help them perform, grow and progress their careers. To make this even easier, a new on line learning management system – Learning@Absa – was introduced in March 2011.

Learning@Absa includes a personalised homepage which features training requests, bookings and registrations, all mandatory training and a training calendar. The 'Connect' functionality also allows our employees to use networking for interactive knowledge and information sharing. These functions all work together to create a single, user-friendly portal for employees to better manage their own learning.

Our focus is showing results. We increased internal promotions and transfers to 55% from 36% in 2010. At the senior level, internal promotions increased to 63% from 31% in 2010.

We attract top talent by making Absa a great place to work. In 2011 we supplemented recruitment agencies with new channels for recruiting external candidates, such as social networking sites and direct marketing through business schools.

We also introduced a group-wide programme, The One: Chief Executive Recognition Awards that recognises employees who go beyond what is expected of them in the workplace.

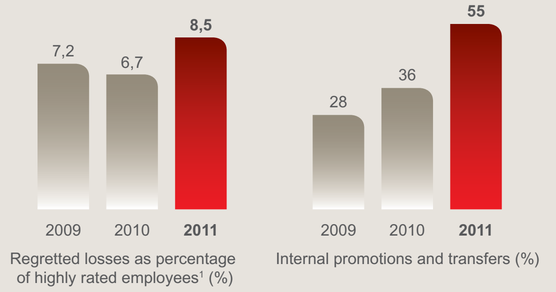
Our total training spend increased 41% to R526 million from R372 million in 2010, which equates to 5% of our leviable payroll spend.

Learning management and support is offered through a new online learning management capability that we introduced in 2011. Learning@Absa provides a single entry point for all employees' learning needs and significant user interactions are recorded daily. The online service has sped up training nationwide and in other countries, including Mozambique and Tanzania. Further learning support enables delivery of specific business priorities. For example, we introduced a FAIS regulatory examination support programme was introduced that provides more than 7 500 employees with the resources and guidance to pass their first-level FAIS regulatory examination.

Over and above employee development, Absa offers bursaries to support employee's dependants. These cover primary, secondary and tertiary education and are awarded where employees' financial needs meet specified criteria.

In our 2010 Personal Survey and Employee Opinion Survey (EOS), employees highlighted that their relationship with their direct line manager impacts their working experience most. This became a focus for 2011, and we provided managers with the necessary tools and support to be more effective in helping employees reach their full potential. We implemented a new leadership framework which defines the way we expect leaders to behave in line with the Absa values.

Talent retention



Note

[1]Employees with good to exceptional performance ratings.

Employee commitment to serve

Disappointing customer satisfaction scores highlighted the need to focus on employee commitment to serve. All employees commit to Absa's Customer Charter and those recruited into customer-facing roles go through our customer service personal aptitude assessment.

During 2011, the need to highlight correct conduct was identified. We introduced protocol online training via e-learning in November to educate employees on effective communication and corporate image. The ultimate goal of this programme is to create a positive banking experience for our customers. Through our Service Heroes awards, we also acknowledge employees who go the extra mile when serving customers.

Health and wellness

We take the health and wellbeing of our employees very seriously. Healthy and well-balanced people are more productive as employees and community members.

All our employees belong to a medical scheme, subsidised by Absa. Our wellness programme, Live Well, Work Well, assists employees to take responsibility for their own wellness by offering assessment services, health education initiatives, employee health and disease management and lifestyle management services, nutrition and physical fitness initiatives, our absenteeism management system and an employee assistance programme.

Employees made extensive use of this programme in 2011. Absenteeism, an important indicator, decreased slightly to 1,7% from 1,8% in 2010.

We view wellness as more than just physical health. We also focus on financial fitness, offering preferential banking solutions and financial services to all employees. This includes a financial literacy and debt rehabilitation programme.

In support of government's programme, we launched an internal HIV counselling and testing (HCT) campaign as part of the 18-month Absa 'I know' health programme. We conducted a health and wellness survey to assess employees' knowledge, attitudes and perceptions of all chronic diseases including HIV/Aids. Our intention is to remove the stigma surrounding these diseases. In support of government's goal of testing 15 million South Africans for HIV/Aids, we tested 4 425 employees in 2011.

Looking forward

Sustainable engagement with employees at all levels across the Group on people management and work-related matters remains a priority. We will further develop and nurture our talent pool by bringing senior leadership into contact with these people and strengthening our senior and middle management development programmes. We will reinforce frontline sales and customer service skills through targeted training. Additional support will be provided to managers and employees during the transition to a more simple, streamlined operations in 2012 with the aim of reducing uncertainty and ensuring adequate adjustment to changes in the business. Employee morale in specific parts of the business may be affected during this period of change which may impact our ability to reach our 2012 EOS targets.

5. Economic equity – ensuring that our shareholders, employees, suppliers and customers are representative of the communities in which we operate

Sub-issues

Economic empowerment of the unbanked and economically disenfranchised

- Financial education of the customer base
- Access to products and services
- Preferential procurement
- Enterprise development
- Socio-economic development

Equity ownership

Accelerate transformation at board and senior management level

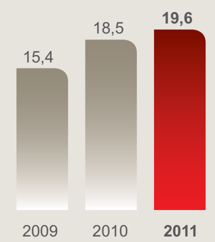
Employment equity including race, gender and diversity

Skills development

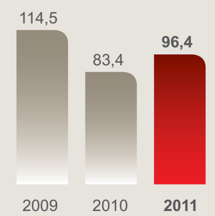
Performance

Indicators	2011	2010	2009
BBBEE status[1]	**Level 3**	Level 3	Level 4
Procurement points	**19,6**	18,5	15,4
Percentage of employees that are disabled (%)	**1,13**	1,04	0,91
Percentage of female employees (%)[2]	**65,1**	65,2	65,5
Percentage of African, Coloured and Indian employees (%)[2]	**65,2**	64,2	61,7
Number of entry-level and inclusive banking customers (millions)	**7,4**	7,2	6,9
Number of new small business loans approved[3]	**5 811**[Q]	6 706[4]	not available
Number of micro-enterprise finance (MEF) loans approved	**6 420**	4 574	2 984
Affordable housing – volume of new home loans extended (Rbn)	**1,5**	1,6	1,0
Total socio-economic development (SED) spend in South Africa (Rm)[1, 5]	**96,4**	83,4[A]	114,5
Financial literacy initiatives – number of consumers reached[6]	**348 400**	356 156	386 803

Procurement points



Total SED spend in South Africa (Rm)



Notes

[1]Independantly confirmed through our BBBEE verification process.

[2]Excludes non-permanent employees, Woolworths Financial Services, Barclays Bank Mozambique and National Bank of Commerce.

[3]The number of small business loans approved (overdrafts, term loans, mortgages, vehicle and asset finance (including dealers sales), and commercial loans (excluding CAF)) paid out to SME businesses (defined as businesses with a turnover of less than R10 million who are registered via Cipro and have a level of banking exposure (excluding micro-enterprise finance).

[4]Restated based on revised methodology.

[5]Socio-economic spend is the rand value of corporate social investment (CSI) including donations, CSI related sponsorships and associated direct costs, and consumer education spend on financial literacy initiatives including supplier payments, financial literacy/consumer related sponsorships and associated direct costs.

[6]Classroom-based learning interventions.

[Q]The company systems do not currently capture all the required data fields to enable the auditors to evaluate the measurement of the information against the criteria stated.

Partnerships that bring banking to the people

Sibayi Postal Agency is a small but busy general dealer next to the Mseleni Hospital in Northern KwaZulu-Natal. It is also the best performing merchant providing basic financial services to the local community through Absa's In-Store Banking service.

Sibayi was one of the original merchants engaged when we launched our in-store banking proof of concept late in 2010. These merchants play a vital role providing services where we do not have branch infrastructure. They help to decongest existing branches in entry level and inclusive banking areas, providing more convenience for customers, and promoting account use amongst low-income South Africans.

At the end of 2011, 256 merchants were signed up to deliver the following basic financial services: cash in and cash out, balance and mini-statement enquiries and airtime sales.

We will add two more services – bill payments and remittance to further strengthen our offering. We are targeting 2 000 active merchant partners by the end of 2012.

Growing the South African economy sustainably is closely aligned with empowering historically disadvantaged people. Absa's strong commitment to transformation is driven by our understanding that business needs to contribute to economic empowerment for all South Africans. We are also committed, through our One Africa strategy, to creating long-term value for our customers, communities and other stakeholders across Africa. In line with this, we have leveraged our relationship with Barclays to improve our offerings across the continent. Barclays shares Absa's strategic imperative and has significant experience in regional partnerships.

We established an Africa Executive Committee to manage the combined African business, which includes five Absa and two Barclays executives. In December 2011, we officially opened the Barclays Africa Regional Office in Johannesburg.

As we operate beyond South Africa's borders, we will encounter many of the same developmental challenges that we face at home. These will include large disparities in income and financial needs between rich and poor and the potential for further disenfranchisement if business is pursued without applying the lessons learnt locally.

While we are starting to expand into Africa, we are, nonetheless, aware of the responsibilities that accompany these exciting opportunities. Future reports will begin to track indicators of our performance in improving the economic enfranchisement of the people of Africa.

Economic empowerment of the unbanked and economically disenfranchised

As part of our One Absa strategy, we aim to find innovative and cost-effective ways to enhance and develop inclusive offerings that provide real value to the entry-level market. Low cost distribution and efficient service is vital. To this end, we focus on:

- products and services relevant and affordable to these customers;
- innovative delivery channels designed to facilitate easier access to financial services; and
- consumer education that improves financial literacy.

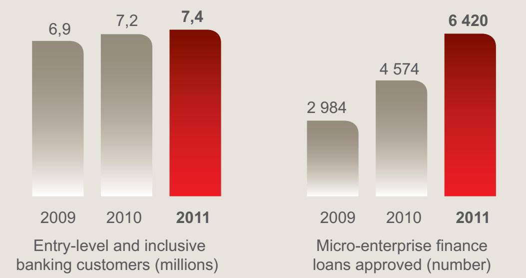
Our efforts to cater for the underserved are successful. Our number of entry-level and inclusive banking (ELIB) customers has increased to 7,4 million from 7,2 million in 2010. Cellphone banking customers now exceed 3,2 million, with transaction volumes exceeding R10 billion per annum. We also continue to expand our entry-level banking presence, with the opening of 100 entry-level outlets ('1234'), 200 remote opening devices and 256 merchants linked to our in-store banking roll-out.

We launched three proof-of-concept projects including refocused branches with a help area to assist customers with the most convenient channels for transactions, a branchless banking approach and a remote account opening service for savings and transmission accounts.

CashSend, which allows customers to send money to anyone in South Africa with a cellphone (even people without a bank account), continues to attract users with over 150 000 transactions every month. Our affordable housing division grew its loan book 10,5% to R7,4 billion, and now has 38 800 customers. During this period the business recorded R1,5 billion in new home loan registrations. We also increased the number of micro-enterprise finance loans approved by 40% to 6 420.

Our consumer education team improves financial literacy through various initiatives, reaching 348 400 largely unbanked consumers.

Increasing access to financial services



Black economic empowerment and the Department of Trade and Industry's (DTI) Code of Good Practice (CoGP)

We maintained our Level 3 BBBEE status (recognition level of 110%), as a significant decrease in equity ownership was offset by improvements in other areas.

We were the first of the four big banks to sell 10% equity to a BEE partner. Batho Bonke was also the first to realise value from our deal. Their shareholding decreased 1,2% to 3,9% last year. Since implementation of the empowerment deal in 2004, Batho Bonke has accrued a pre-tax profit (after the repayment of all debt) of R2,9 billion based on the Absa share price of R141 per share at 31 December 2011.

The representation of black staff in top management positions decreased slightly to 24,1% from 25,8% in 2010 while black board membership increased to 27,8% from 26,3%.

The majority of our new appointments (86%) at various levels were black, while 70% of all resignations were black. The bulk of our promotions were also black (76%).

The permanent employee turnover rate for our employees in South Africa increased to 11,9% from 10,1% in 2010. Turnover of black staff was slightly lower at 11,8% due to abundant job opportunities for specific skills sets.

Our black employment equity demographics reflected promising improvement on an overall basis to 65,2% from 64,2% in 2010. However, our actual BEE score decreased marginally due to employing more males and/or the resignation of more women under the adjusted recognition gender formula contained in the CoGP.

Although 2011 saw accelerated transformation, the need to further deliver on targets set out by the Department of Labour EAP and the CoGP, particularly at middle and senior management levels, remains a priority.

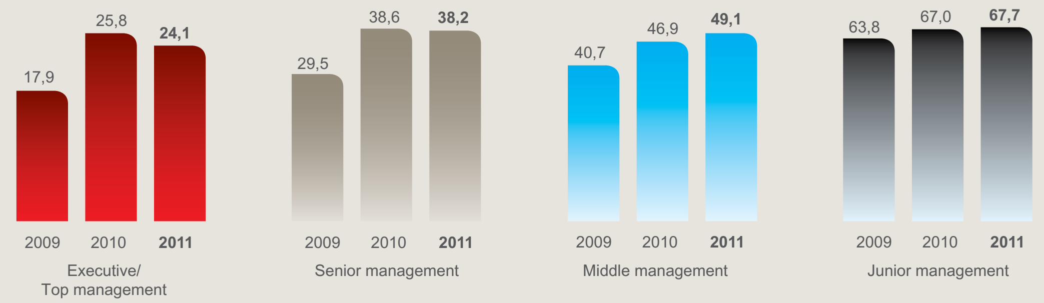
We spent approximately R526 million on learning activities of which R373 million was spent on our black employees. This represents 3,6% of our leviable payroll.

Employees are developed through learnerships, our graduate programme, programmes for lifelong learning, talent exchange programmes and learning management and support. This year we took on 3 117 black learnerships, up from 1 889 in 2010 and 96 black graduates (90% of the total). NBC Tanzania introduced a graduate programme in 2010 with 15 participants.

Preferential procurement, a key pillar of the CoGP, allows Absa to support four categories of suppliers: BEE compliant businesses, small/medium enterprises, black owned, and black women owned, thereby making a significant contribution to the growth and transformation of our economy. We improved our preferential procurement score as per the CoGP to 19,6 from 18,5 in 2010, with R12,5 billion weighted spend on products and services from 2 585 BBBEE-accredited suppliers. Our group sourcing unit is one of the 12 champions of the South African Supplier Diversity Council, a corporate-led initiative to promote sustainable supplier diversity and encourage procurement opportunities for black suppliers.

We have established 12 small business enterprise development centres to offer developing black small- to medium-sized enterprises access to non-financial support. We again achieved the maximum CoGP score of 15, spending in excess of R900 million on enterprise development by funding the centres and advancing loans, in the process spending 9,9% of net profit after tax, more than three times the CoGP target of 3%.

Progress on employment equity (%)



Corporate social investment (CSI)

We are committed to supporting development in South Africa and the rest of Africa by facilitating social upliftment through the Absa Foundation and employee volunteerism. Locally, we are guided by the government's various development plans, such as Jipsa, Asgisa and the DTI's CoGP. The United Nation's Millennium Development Goals also inform the government's social development objectives, and these in turn inform the work we do.

Our CSI spend increased 16% to R96,4 million in 2011, of which R87 million was spent on our key focus areas:

- Banking on Brighter Futures – addressing unemployment and poverty through literacy, entrepreneurship, job creation and skills development.
- Looking after Local Communities – supporting orphaned and vulnerable children, people with disabilities, health and welfare and local education initiatives.
- Charity Begins at Work – more than 28 000 work hours, along with 3 400 personal hours, were spent by employees volunteering.

Key to our CSI strategy are partnering with government and non-profit organisations, whose development goals are viable, innovative and sustainable solutions.

Financial education

We recognise financial literacy as a key life skill. The financial literacy training enables consumers to make better choices about their finances, empowering individuals to improve their financial health and wellbeing. Through our financial literacy initiatives, we target mainly previously disadvantaged communities and unbanked individuals. This not only serves individuals and communities, it also creates an emerging market and potential growth platforms for Absa and South Africa at large.

Absa's flagship programme in classroom education is Bubomi (the Xhosa word for 'it is life'). The programme consists of two parts – a financial education module and a National Credit Act (NCA) module. The design of the programme resembles storytelling and is facilitated in a classroom setting which can vary from two hours (NCA module) to four hours (financial education module). Our financial literacy programmes focus on both classroom-type (face-to-face) and awareness-type training. In 2011, our financial literacy face-to-face initiatives reached 348 000 consumers.

In addition to the Bubomi programme, Absa creates enhanced financial awareness through:

- the implementation of off-the-shelf financial literacy interventions; and
- partnering with the Banking Association South Africa in the Teach Children to Save campaign.

Looking forward

We aim to:

- review and enhance our employment equity plan;
- align resourcing and retention strategies with transformation targets, especially at senior management levels;
- build our talent pipeline through graduate, learnerships and leadership programmes; and
- our Africa community investment committee will drive and co-ordinate our CSI activities across the continent.

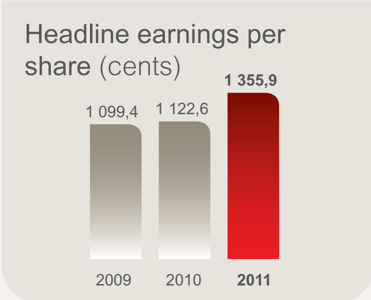
Partnerships sustain jobs and the environment

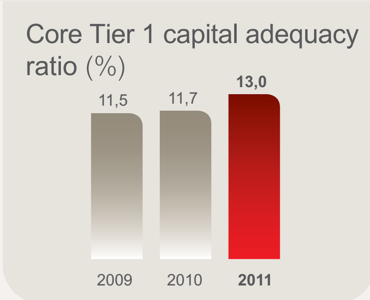
Since 2009, we partnered with the Triple Trust Organisation (TTO), Buffalo City Municipality (BCM), Provincial Department of Economic Development and Environmental Affairs and Unisa in supporting a group of 150 unemployed residents of the BCM area (East London). These men and women make a living from recycling waste products from identified municipal waste sites.

They have worked in silos, but this strategic partnership, will form co-ops and the groups will be trained in waste management and business skills to optimise their efforts and ensure sustainable incomes and job creation while caring for the environment. Through this partnership we aim to facilitate business links and support for the poor to enable them to play a meaningful role in society and encourage their self worth as individuals who can make a difference while supporting themselves, their families and communities.

Referred to as "Mighty Men and Women" by TTO, these individuals sometimes only make enough per day to buy a loaf of bread, while middle men benefited from big profit margins. To eradicate exploitation, the co-ops were formed and the support they receive will ensure that these 150 people increase their profits so they and their families can benefit fully from their daily toil.

We aim to reduce these individuals' dependency on grant incomes to become more sustainably self-employed. An added benefit is that more of the public are being educated on environmental affairs.





View our full financial statements online

Analysing our financial results

Introduction

Absa delivered strong results in 2011, despite a volatile operating environment which was exacerbated by continued economic uncertainty and regulatory change. In this environment, we continue to establish a robust position from which to grow as opportunities present themselves, respond to a fragile economic recovery and implement the numerous regulatory changes being considered.

Given this uncertainty, we enhanced the quality and sustainability of our earnings, emphasising our core franchises and customer-driven flows in our investment banking business, while reducing our equity-related exposure. We also made significant strides in implementing sustainable cost containment measures.

We continued to build a resilient balance sheet by:

- maintaining a very strong capital position;
- improving liquidity by lengthening our funding, and growing our surplus liquid assets and deposit base; and
- reducing our concentration risk in property.

Against this background, we met all our key targets. In particular, we demonstrated good cost containment and grew non-interest income well in targeted areas, a marked improvement from the prior year. This resulted in us growing headline earnings 21% to R9,7 billion. Further, net asset value per share increased 11% and pre-provision profits rose 9%. Our primary objective is to create sustainable value for shareholders. Weighing up our results, balance sheet integrity, capital adequacy position, budgets and business objectives, we increased our dividend by 50% to a record 684 cents per share.

	Target	**Performance**
Cost growth	single digit	6%
Non-interest income	double digit	10%
JAWS	positive	1%

2011 review

			Change
	2011	2010	%
Headline earnings (Rm)	**9 719**	8 041	21
Pre-provision profit (Rm)	**20 374**	18 744	9
Diluted headline earnings per share (cents)	**1 350,0**	1 115,7	21
Dividends per ordinary share (cents)	**684**	455	50
Net interest margin on interest-bearing assets (%)	**4,11**	3,94	
Credit loss ratio (%)	**1,01**	1,18	
Cost-to-income ratio (%)	**55,5**	56,2	
Return on equity (%)	**16,4**	15,1	
Return on risk-weighted assets (%)	**2,35**	1,99	
Return on assets (%)	**1,32**	1,10	
Net asset value per share (cents)	**8 690**	7 838	11
Core Tier 1 capital adequacy ratio (%)	**13,0**	11,7	

In 2011 we successfully implemented sustainable cost containment initiatives, while still investing for future growth. We also continued to focus on improving our quality of earnings by generating an increased proportion non-interest income, most of it recurring in nature.

David Hodnett Group Financial Director

Our performance reflects continued delivery on our One Absa strategy:

Sustainable growth in targeted areas

Non-interest revenue grew a healthy 10% to constitute 46,7% of total revenue, up from 45,5% in 2010. We are pleased with the high quality and recurring nature of this revenue. Net fee and commission income constituted the lion's share, approximately 66%, while Financial Services contributed a further 19% from insurance-related income. Absa Capital's client-driven markets revenue accounted for 10% and equity-related revenue the remainder.

Net interest income increased 5% and our interest margin improved 17 bps to 4,11%, despite muted growth in loans and advances. This can be attributed to our interest rate hedging programme (which produces margin stability through interest rate cycles) and continued re-pricing.

A solid 16,4% RoE maintained our history of exceeding the Group's cost of equity. This was achieved despite our high capital levels and resulting low leverage of 12,4 times, which masks our continued improvement in RoA to 1,32% and RoRWAs to 2,35% from 1,99%.

Balance sheet optimisation and proactive risk management

We continue to optimise our RWA, which increased by just 0,4%. To this end, we recently received approval to move to the Advanced IRB approach for our wholesale credit book. We expect this to reduce our RWA by approximately R26 billion.

We further improved our liquidity by growing deposits 14%, increasing our proportion of long-term funding to 24,5% and growing our surplus liquid assets 58% to R27 billion.

Our strong capital levels position us well to implement the Basel III regulatory changes. Our Core Tier 1 ratio improved to 13%, well above our board target range of 9% – 11% and the regulatory requirement of 5,25%.

Highlights

- **Increased headline earnings** 21% to
  R9,7 billion
- Improved our **return on equity** to
  16,4%

Outlook

- Maintaining a strong balance sheet remains a key focus, positioning Absa to continue growing.
- We will continue to contain costs sustainably to maintain positive JAWS.
- Our focus remains on quality asset growth.

Strategic pillars discussed

Our asset and liability committee has actively looked at the preferred future structure of our balance sheet. We aim to further reduce our equity-related exposures and the proportion of long-term secured loans, while growing unsecured and corporate lending, as we maintain our focus on generating non-interest revenue.

Simple, streamlined Group for customer delivery

We limited growth in operating expenses to 6%, allowing us to achieve a positive JAWS of 1,3% – a key 2011 target. We improved our cost-to-income ratio further to 55,5% through implementing sustainable cost containment measures from structural changes, which reduced staff numbers, mainly through natural attrition. We cut discretionary costs such as professional fees, marketing, travel and entertainment materially.

We continue to invest in IT with direct spend of R2,2 billion in 2011. While our amortisation increased significantly, it remains comparatively low.

Segment performance

	Retail Banking	ABB	Absa Capital	AFS
Total revenue (Rm)	24 640	11 839	5 519	4 015
Costs (Rm)	(13 965)	(6 552)	(3 295)	(2 020)
Credit losses (Rm)	(3 965)	(837)	(69)	(4)
Net interest margin on average interest-bearing assets (%)	3,2	4,7	n/a	n/a
Return on risk weighted assets (%)	2,64	1,95	1,62	32,0[1]
Cost-to-income ratio (%)	56,7	55,3	59,7	25,2[2]
Credit loss ratio (%)	1,23	0,72	0,11	n/a

Notes
[1]RoE
[2]Cost-efficiency ratio

Retail Banking

Retail Banking produced strong results, growing headline earnings 33% to R4,2 billion, largely as a result of solid net interest income growth, lower impairments and a focus on costs. Tight cost control resulted in positive JAWS and improved its cost-to-income ratio to 56,7%. While a material recovery in secured lending drove earnings growth, superior unsecured lending returns underpinned the division's creditable 25,1% RoEC. Card's strong performance was a standout. We maintained our leading share of unsecured lending, deposits, customers, branches and ATMs.

Absa Business Bank

Absa Business Bank (ABB) had a solid year, growing headline earnings 5% to R2,9 billion, largely due to cost management and lower credit impairments. While operating expenses grew 5%, renewed focus on customers and core transactional accounts increased fee income 8%. ABB also grew deposits a creditable 13%, contributing strongly to our improved Group loans-to-deposits ratio. However, competition and lower interest rates reduced its net interest margin noticeably. Muted customer credit demand and our selective appetite for commercial property finance reduced our loan book. The division's RoEC remains attractive at 24,1%.

Absa Capital

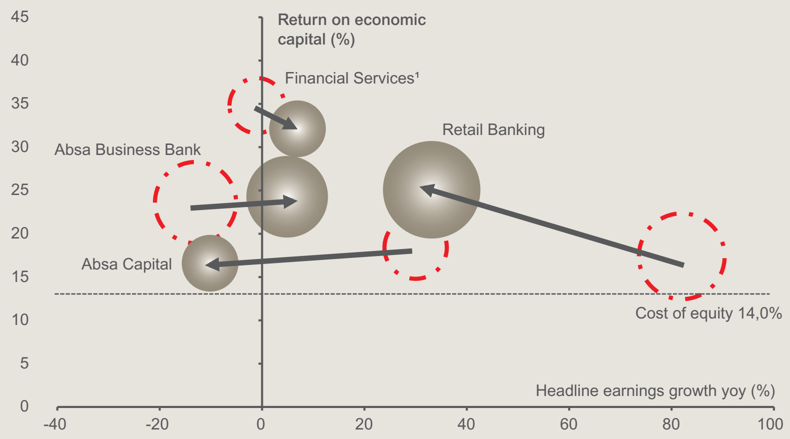
Absa Capital experienced a challenging year, particularly in the second half, and its headline earnings fell 10% to R1,5 billion on flat revenues. Absa Capital's net trading revenue declined 3% due to reduced market liquidity and a flat interest rate environment. Fixed income and credit, the largest components of the trading revenue fell 7%. However, foreign exchange and commodities, a key focus area, partially offset this result by growing a pleasing 11%. Investment banking revenues declined 20%, largely due to lower margin business with the unwinding of highly structured on-balance sheet financing business. Although private equity benefited from some revaluations, these were small. We will continue to reduce our exposure to private equity. Absa Capital's RoEC has declined to 16,5% (2010: 18,4%).

Financial Services

Absa Financial Services (AFS) performed better in 2011 than the 7% increase in headline earnings to R1,4 billion suggests. Net operating income grew 21%, reflecting strong 22% growth in premium income. The uplift stems from its strategy to de-risk by reducing exposure to equity markets with shareholders' funds invested in interest-bearing instruments rather than equities. This approach reduces volatility, but also resulted in investment income reducing by 55%, given the low interest rate environment. Nonetheless, RoE remained an attractive 32%. AFS has returned R6 billion in capital to the Group since 2007. AFS continued to invest heavily in core scaleable operating platforms in anticipation of further growth in revenues. AFS launched its Africa operations in Botswana and Mozambique last year, which made a small loss.

All business clusters remain comfortably above the Group's cost of equity.

Retail Banking drove the Group's growth and improving returns



Note

Bubble size represents headline earnings; dotted bubbles represent 2010 and grey 2011.

[1]RoE; 2009 not restated for structure changes.

Looking forward

We expect the macro backdrop to remain fragile this year, putting pressure on revenue growth. Sector loan growth should improve, but remain mid-single digit despite record low interest rates, while transaction volumes are unlikely to recover materially. Interest rates are likely to remain low for longer to encourage economic growth. Thus, our hedging strategy should continue to protect our net interest margin this year.

With this revenue pressure in mind, we will continue to focus on sustainable cost containment. Moreover, we expect to benefit from restructuring our target operating model, including merging our Retail and Business Banking operations, extracting cost synergies with Barclays in Africa and looking at other areas of deeper collaboration with our parent.

We will focus on growing our high-quality non-interest revenue in targeted areas such as FX trading, core transactional fees and bancassurance. Loan-wise, we will further tilt our mix towards unsecured rather than long-term secured lending. We also see opportunities to grow our corporate lending.

We are positioned to grow well in 2012. Our targets include:

- improved revenue growth;
- mid-single digit cost growth;
- positive JAWS; and
- a lower credit loss ratio.

These will further improve our profitability, increasing our RoRWA to approximately 2,5% and positioning us well to reach our targeted 20% RoE in 2014.

While economic and regulatory uncertainty remains, we will further strengthen our balance sheet, increasing our surplus liquid assets and deposit base, lengthening our funding and maintaining high levels of Core Tier 1 capital, well above our board target.

In managing our capital, we consider our budgets, including RWA growth and capital generation, anticipated increases in regulatory requirements as well as capital needed for acquisitions. We look forward to regulatory guidance and increased certainty on the regulatory proposals in the first half of this year.

Despite the outlook of a prolonged recovery period, we are confident that we have the requisite balance sheet strength, people, innovative products and customer base to continue to create value for our shareholders.

David Hodnett

Group Financial Director

28 March 2012

Retail Banking

In summary

Strategic pillars discussed

Favourable

- Over 90% of loans granted were to existing customers.
- Continued to expand banking services in the entry-level market.
- Unsecured product growth.
- Remained market leader in individual advances and deposits.
- Continued improvement in quality of advances portfolio.
- Improvement in the legal book and non-performing loans.
- Continued to invest in electronic channels.
- Sustainable cost management.
- Won the Asian Banker Awards for the International Excellence in Retail Financial Service Awards 2011 for Best Retail Bank in South Africa and Best Mobile Phone Banking (International). Absa was also recently recognised as the Best Islamic Financial Institution in Non-Gulf Cooperation Council Middle East/Africa 2011 by *Global Finance* magazine.

Unfavourable

- Limited transaction volume growth.
- Declining mortgage advances.
- Muted growth in personal loans and vehicle and asset finance advances.

Business unit scope

Retail Banking offers individuals a comprehensive suite of retail banking products and services. We provide these products and services through an extensive face-to-face and self-service terminal network (internal and third-party intermediaries) via relationship managers, call centre agents and electronic and cellphone channels.

Key business areas

- **Home Loans –** offers residential property-related finance solutions direct to our customers through personalised services, as well as through a range of electronic channels and intermediaries such as estate agents and originators.
- **Vehicle and Asset Finance (VAF) –** offers customised vehicle and asset finance products and services through vehicle dealers as well as directly to customers through face-to-face engagements, call centre agents and digital channels.
- **Card –** provides both credit and debit cards, and merchant acquiring across South Africa. It includes Woolworths Financial Services, offering in-store and credit cards, as well as short-term insurance products.
- **Personal Loans –** offers unsecured instalment loans, including fixed and variable loans through face-to-face, call centre, electronic and mobile channels.
- **Retail Bank –** offers financial solutions to individuals in South Africa and Absa's African operations, ranging from those entering the market with basic banking needs, to affluent individuals who require more sophisticated banking.

Business performance

During 2011, we placed significant focus on improving the understanding of our customers and their environment. This created the need to invest in financial literacy education for targeted segments of our customers. The impact of the slow economic recovery continued to dampen consumer spending with high levels of debt to disposable income as well as high unemployment levels persisting. Consequently more emphasis was directed at assisting customers through financially optimising their banking experience. This was achieved by moving transactions more from physical channels towards electronic channels and raising the importance of paperless banking. In addition, we improved the end-to-end processes of loan applications and also introduced a below inflationary pricing review after not increasing fees for 21 months.

We are re-configuring outlets to best match the customer profile. In this context, three principal branch types have been defined:

- Affordable branches (which includes our 1 234 outlets) for the new to bank and entry-level customers.
- Transactional branches for mainstream customers.
- Exclusive branches for the upper-end market.

Home Loans

Headline earnings improved to R516 million from R125 million in 2010, largely as a result of widening interest margins and sustainable cost management. Our home loans book declined by 3% during the year due to our declining market share of new business and subdued credit appetite. We lost market share mainly as a result of focusing on growing the business by transacting with existing customers at reduced origination costs and a value-based channel strategy where estate agents submit home loan applications directly. This strategy was implemented in December 2010 and results show that the quality of applicants improved and acquisition costs reduced significantly. However, there was a decline in advances as a portion of customers prefer utilising originators. The approach has been revisited.

Our main focus areas included:

- value-based asset growth;
- collections in the legal book;
- cost management through process efficiency;
- risk-based pricing on new business; and
- targeted acquisition and retention.

Vehicle and Asset Finance

Headline earnings increased by 71% to R403 million from R236 million in 2010 due to lower credit losses and solid revenue growth, driven by a focus on quality of returns on new business flow. Our book increased by a modest 2%, as high levels of early settlements from customers were seen. The value of new vehicle and finance production grew by 7%.

Our main focus areas included:

- value-based asset growth;
- sustainable cost management through process efficiencies;
- improving collection of the legal book;
- improving customer service and turnaround times;
- improved risk-based pricing; and
- reviewing and implementing an updated dealer incentive commission model.

Card

Headline earnings increased by 19% to R1 757 million from R1 481 million in 2010, mainly due to growth in merchants and a decline in credit losses. Account balances increased by 9%, as new business levels increased. The implementation of our debit card portfolio optimisation strategy, the general shift of consumers towards debit card facilities and the deployment of LVP (low value payment/contactless cards) had a positive impact on the volume growth. Our credit loss ratio improved significantly to 1,05% from 2,57% in 2010, mainly due to the improving construct of the advances portfolio as well as high customer payments and effective collections strategies. Operating expenses were well contained during the year despite the continued roll-out of Europay, MasterCard and Visa chips, higher fraud activities and the replenishment of point-of-sale terminals. We also experienced double-digit growth in merchants on the back of successful collaboration with Absa Business Bank.

Our main focus areas included:

- new account acquisition;
- optimisation of the Absa Rewards programme;
- revitalisation of commercial cards business;
- optimisation of payment acceptance;
- improved fraud detection capability; and
- commercialisation of prepaid card business.

Personal Loans

Headline earnings increased by 40% to R720 million from R515 million in 2010, largely due to revenue growth in line with the book growth and the introduction of efficiencies leading to a 17% decline in operating expenses. Credit losses also improved by 6%, due to the improving book construct. Loans and advances to our customers grew by 5%, as a result of higher volumes of new loans and average loan values.

Our main focus areas included:

- product innovation;
- managing costs and credit losses;
- the ongoing drive to embed the mobile channel within the customer base; and
- further expansion into the short-term loan market to serve entry-level banking customers.

Retail Bank

Headline earnings increased marginally to R783 million from R780 million in 2010. Our continued investment in infrastructure negatively impacted the benefit of lower credit losses. Our strong growth in management fee volumes indicates that there is a shift in the current account book from pay-as-you-transact to package-type offerings. This is one of the contributors to the negative growth in pay as you transact branch and ATM volumes. Our main focus areas included:

- sustainable deposits growth;
- growing non-interest revenue; and
- optimisation of the Absa Rewards programme.

Looking forward

- We intend to further develop our capabilities to:
  - provide broader, more inclusive banking services;
  - enhance our ability to compete on value for customer wallet share; and
  - introduce unique and differentiated services in an increasingly competitive market.
- In 2012 we will increase our focus on providing a consistently superior experience across each of our channels, matched closely to the needs and expectations of each customer segment.
- We continue to strive for profitable leadership across all key product markets. Working across both our retail and business banking markets, we are looking to offer our customers product and pricing excellence and an even better reason to consolidate their banking requirements with us.
- Prudent risk management remains a key focus – this includes both operational risk management and responsible lending.
- We will continue to invest in the core capabilities that have made us a leading retail bank as well as investing in new capabilities aligned to new customer and competitive requirements.

Business Banking

In summary

Strategic pillars discussed

Favourable

- New transactional banking products launched.
- Deposits grew by 13%.
- Good growth in transactional fees and volumes.
- Large decline in impairment losses on loans and advances.
- Single-digit cost growth.

Unfavourable

- Advances declined by 4%, driven by economic conditions, managing concentration risk and client demand.
- Losses were incurred within the equity portfolio.
- Lower deposit margins, due to lower interest rates and increased competition for liquidity.

Business unit scope

Absa Business Bank offers a comprehensive range of commercial banking products and specialised services to customers in the enterprise and commercial market segments. We aim to meet a full spectrum of commercial customers needs, ranging from providing off-the-shelf transactional products to complex financial solutions. Our objective is to make banking, whether local or international, convenient for our customers and to partner them in growing their businesses.

Key business areas

- **Debt products –** commercial debt, structured loans, cheques and trade and working capital short-term debt products. Fees earned from debt products include upfront, structuring and restructuring fees.
- **Investment products –** operational term and cheque deposits, and call and foreign exchange deposits.

- **Transactional and other fee income –** transactional accounts, cash, cheques, domestic and international payments, electronic banking, foreign exchange and trade solutions.
- **Equity portfolio –** investment portfolio in listed and unlisted property equities.

Business performance

Debt income and credit-related fees

Advances declined by 4%, largely due to declining commercial property and commercial asset books. Our Commercial Asset Finance (CAF) advances book declined by 1% as a portion of the book was moved to Retail Banking. Our production levels, however, increased to R8 billion from R6 billion in 2010. Impairments decreased, which together with effective pricing and cost management, improved product profitability. Cheque advances grew moderately during the year with term loans declining slightly. Structured Trade and Commodity Finance grew moderately, due to an increased number of deals and higher commodity prices. Working Capital Solutions advances increased due to the strong customer base we established in the second half of 2010. Our new production system was introduced, which slowed the sign-on of new customers in the year. We expect that benefits will flow in 2012.

Investment products

During the year, we used pricing differentiation to both attract new funds and aggressively protect existing funds. Our approach assisted in delivering strong volume growth in our book and maintaining margins, even through periods of high liquidity needs and margin pressure in the market. We increased term deposits in line with overall market growth in funds. The uncertainty on future interest rate movements resulted in customers keeping funds predominantly on the short side and cheque and call deposits were the reason for volume growth. We used call deposits extensively to obtain new funds and customers. By adopting a portfolio approach on deposit volume and pricing across the various business segments, we maintained the balance between volume drive and margin income throughout the year.

Transactional and other fee income

Net fee and commission income increased by 8%, along with an increase in volumes. Pricing initiatives were introduced to reduce revenue leakage. Cheque payment volumes continued to decline in line with industry trends, but volumes in electronic payments and cash grew strongly. Our electronic banking improved both online security and systems stability compared to 2010. Our product innovations included Bulk CashSend and Business Integrator Online Card solutions as well as the launch of a new prepaid card solution which showed positive early results during the last quarter of 2011.

Equity portfolio

Our focus was on reducing equity investment exposure to the listed and unlisted property market. Our listed portfolio reduced by R535 million from 2010 to 2011, which resulted in lower dividend income of R42 million compared to the prior year. Continued pressure on property valuations resulted in a R155 million impairment for 2011, which consisted of:

- middle market residential developments decreased by R13 million;
- unlisted property investments decreased by R102 million;
- Diluculo investments increased by R3 million;
- goodwill impairments decreased by R28 million; and
- offshore investments decreased by R15 million.

Looking forward

- We will continue to improve customer service and gain a better understanding of customer needs and business requirements. Our refined segmentation model has been developed and we established a customer experience team as a further outcome of the initiative to know and service customers better. This will enable us to become truly customer-orientated.
- We will provide existing customers with additional products and enhance transactional banking to strengthen and expand primary banking relationships.
- Our end-to-end customer process and sales operating model will be comprehensively overhauled to improve customer engagement.
- Our risk management practices, particularly recovery and business support, will continue to be improved.

Absa Capital

In summary

Strategic pillars discussed

Favourable

- Successfully leveraged the global franchise as evidenced by the number of high-profile mandates awarded.
- Key business initiatives such as FX and Prime Services delivered good results.
- Client revenues underpinned Markets revenues in difficult market conditions.
- Investment banking fee income up 44%.
- Improved performance from Absa Wealth.
- Private Equity stabilised.
- Core cost growth managed below inflation.
- Retained the top position in the Risk South Africa rankings in 2011, winning in nine categories including Best Overall Bank.
- Garnered 7 JSE Spire Awards in 2011, including Overall Best Fixed Income House.

Unfavourable

- Investment Banking margin income declined due to unwinding of structured on-balance sheet financing business.
- Performance from Africa trading desks impacted by margin compression and higher funding costs.
- Cash Equities business roll-out slower than anticipated.

Business unit scope

Absa Capital offers corporate, investment banking and wealth management services. Our primary business is to act as an intermediary between, and advisor to, suppliers and users of various forms of capital. Our business model centres on delivering specialist corporate, investment banking, financing, risk management and advisory solutions across asset classes to corporates, financial institutions, government clients and high net-worth individuals. These capabilities are delivered through a client-centric approach which emphasises the origination and distribution of risk. Absa Capital remains the only South African corporate and investment bank to provide a full range of services on both a local and international basis. Through our affiliation with Barclays Capital, we are able to deliver comprehensive international and local solutions to our customer which differentiate us from competitors.

Key business areas

- **Markets** – offers trading, hedging and pricing expertise across various asset classes to a global client base.
- **Investment Banking –** structures innovative solutions to meet clients' strategic acquisition, financing and risk management requirements across industry sectors in South Africa and the sub-Saharan region. Our offerings include product expertise encompassing loans, bonds and structured products such as project finance, structured equity finance, leveraged finance and debt capital markets.
- **Corporate** – offers banking solutions across the range of Group products to meet corporate customer needs.
- **Private Equity and Infrastructure Investments –** Private Equity acts as a principal by investing in equity exposures to companies and other entities. Infrastructure Investments acts as a principal by investing in equity and mezzanine loans to entities focused on infrastructure development in sub-Saharan Africa.
- **Absa Wealth –** provides a full range of onshore and offshore wealth management services to individuals and families in the high and ultra-high net-worth market.

Business performance

Markets

Markets' net revenue decreased by 3% to R3 436 million (from R3 544 million in 2010). Revenues remained resilient in a challenging environment, supported by strong growth in our client franchise. The value of these annuity-like flows can be seen in the further improvement of the daily revenue distribution. Daily value at risk also continued to reduce during the period. Foreign exchange revenue showed solid growth and our Prime Services roll-out continued to deliver good results. Investment into our Cash Equities business is now largely complete, however revenue growth lagged expectations. Fixed Income was adversely impacted by illiquid markets as well as the absence of monetary policy trends. Our Africa revenue was lower due to margin compression in foreign exchange trading and higher funding costs.

Investment Banking

Investment Banking net revenue decreased by 20% to R1 282 million (from R1 598 million in 2010), with divergent performances from the fee and margin businesses. We had a strong performance from the fee business, which grew by 44% to R241 million as it started to capitalise on the benefits of the integrated corporate and investment banking coverage strategy, as well as close collaboration with Barclays Capital in the sub-Saharan African region. The unwinding of the structured on-balance sheet financing business at the end of 2010 lead to a decrease of 27% in margin income to R1 041 million as well as a reduction in our average loans and advances. We saw an improvement in the quality of income as a result.

Private Equity and Infrastructure Investments

Private Equity and Infrastructure Investments' recovery continued in 2011, with net revenue of R317 million compared to R22 million in 2010. Our improved performance was the result of positive realisations and net positive revaluations, mainly on debt exposures in the portfolio, while funding costs were reduced by 38% as a result of lower funding rates and also a smaller portfolio. The portfolio size reduced by 11% during the year to R5,4 billion from R6,1 billion.

Absa Wealth

Wealth reported 33% growth in net revenue to R392 million from R294 million in 2010. Gross revenue increased by 14%, reflecting higher margins and increased fee earning activities. This aligns with our strategy of acquiring more assets under advisement and increasing the cross-selling of Absa Capital and Barclays Wealth products. Impairments decreased significantly as a result of improved credit management processes in the business.

Looking forward

- Further build out of the corporate business including taking responsibility for the transactional products used by corporate customers. This will enable customers to be managed across a fully integrated product value chain, including markets, financing, advisory and transactional products.
- The new structure will enable seamless customer service as the business grows across the continent in the One Africa strategy.
- We will continue to leverage off the global platform to deliver to customers the benefits of the fully global fully local operating model.
- Capital and liquidity management will remain a key focus in anticipation of ongoing regulatory changes limiting the negative impact on shareholder returns.
- We will continue to look for efficiences in our cost structure and opportunities to leverage the infrastructure platform that has been built over the past years across the broader CIBW business.

Financial Services

In summary

Strategic pillars discussed

Favourable

- Assets under management increased to R168 billion.
- Achieved strong gross and net revenue growth, of 18% and 14% respectively.
- Net revenue growth of 14%.
- Improved claims management and experience.
- Good growth in equity assets under management.
- Revenue growth in excess of cost growth, resulting in an improved efficiency ratio.

Unfavourable

- Investment returns on shareholder funds.
- Increased acquisition cost of new business.
- Slight increase in the effective tax rate.

Business unit scope

Our Financial Services segment provides insurance, fiduciary and non-banking related investment products and services. We offer these through a well-established and unique financial services operating model, which combines the strengths of a traditional financial services model with that of a pure distribution model. This integrated model enables us to efficiently provide financial services to all market segments in sub-Saharan Africa.

Key business areas

- **Life insurance (Life) –** offers life insurance covering death, disability and retrenchment, and funeral and investment products.
- **Investments –** consists of six business segments which work collaboratively to offer individual and institutional customers access to high-quality investment products and services including asset management, private customer asset management, multi-management, unit trusts, stock broking, participation bonds and linked investments.
- **Short-term insurance (Insurance) –** provides short-term insurance solutions to retail and commercial market segments. Our customised short-term solutions are also offered to corporate customers. A direct-to-customer short-term solution, *i*direct, is also available to the retail market.
- **Fiduciary services –** consists of employee benefits businesses, offering retirement fund administration, consulting and actuarial services and healthcare services. Absa Trust administers deceased estates and provides trustee services for personal, family, charitable and employee benefit trusts.
- **Distribution –** we have one of the largest financial, investment and risk advisory companies in South Africa. We provide a full spectrum of financial advisory services and act as an intermediary between our customers and various other product providers.

Business performance

Life

New products, improved service levels, digital channels and higher penetration of our customer base all contributed to Life maintaining its strong revenue momentum and to growing gross and net premiums by 22% and 25% respectively. Income from other sources increased the year-on-year revenue growth by 31% and with claims and operating expenses growing by similar percentages; net operating income increased year on year by 28%. Investment income on shareholder funds declined by 55% due to the lower interest rate environment, poor equity market performance and de-risking of the shareholder portfolio. Profit before and after tax increased by 12% and 11% respectively. The embedded value of new business decreased by 21% to R369 million. The return on embedded value for the year is 37,1%, compared to 39,8% in 2010.

Investments

Investments posted solid growth in revenue of 11% with our customers continuing to benefit from good investment performance. We continued to invest in brand, talent and product development, technology infrastructure and distribution channels, resulting in operating expenses growth of 15%. Headline earnings increased by 4% to R312 million. Assets under management (AUM) grew by 3% to R168 billion, despite a R3,5 billion reduction in assets invested in the dividend income fund. Net money market outflows of R8,5 billion and equity-based inflows of R12,7 billion were experienced over the year and our net margins improved to 48,9 bps compared to the 46,0 bps in 2010, due to higher equity inflows.

Insurance

Gross premiums increased by 10% to R3 756 million, but our prudent reinsurance approach and a change in the accounting of an associated investment resulted in net premiums increasing by only 1%. Claims paid were in line with the prior year and operating expenses reduced by 1%, resulting in net operating income improving by 26%. Investment returns on shareholder funds declined by 34% in a low interest rate environment. During the year, our personal accident business was transferred from the Insurance business to Life and earnings before tax in Insurance decreased to R45 million from R58 million in 2010. Life reported pre-tax earnings of R50 million for this product. The underwriting margin of 6,5% was higher than the 5,2% in 2010 and the underwriting results of all product lines improved. The Agri business posted underwriting gains (surplus) of R31 million for the year, despite the loss of R14 million reported at June 2011.

Fiduciary services

Our fiduciary services, comprising Absa Trust, estate administration and employee benefits businesses, were impacted by the economic environment and although revenue increased by 9%, headline earnings reduced by R11 million to R83 million. Absa Trust was impacted by a cash shortfall in estates and low demand for properties, delaying the finalisation and reducing the value of estates, but still managed to grow revenue by 3% and maintain earnings at prior year levels. Our employee benefits business grew revenue by 13%, but headline earnings declined by R10 million. This business has been restructured to align to the changing regulatory and legislative environment as well as to improve profitability of customer funds. Customers not contributing adequately to profitability will be moved to the new umbrella offering to gain from economies of scale, be re-priced or exited in 2012.

Distribution

The integration of advisors into the our branches and an improved product and service offering increased the penetration of our customer base and increased market share. The loss of experienced advisors continued during the second half of the year and we continue to prioritise developing new and young talent through our advisor academy. The pass rate of our advisors completing the new regulatory exams was excellent and to date 88% of our advisors have successfully completed phase 1. We progressed with the development of new and improved digital channels, aiming to provide customers with alternative and easier access to our products, while improving efficiency and compliance with new regulatory requirements.

Expansion into the rest of Africa

Our operations in Botswana and Mozambique performed well with business volumes and earnings in line with expectations. The Mozambique business has contributed to profitability since its acquisition in September, but the Life fund reserving requirements in Botswana resulted in this entity posting a small loss. In addition, due diligence and other head office expenditure resulted in our Africa business posting a loss for the year. A positive contribution from the rest of Africa is expected in 2012.

Looking forward

- Further penetrate Absa's customer base through integration, leads management and trigger event solutions.
- Continued expansion into the rest of Africa, with immediate focus on Zambia and Kenya.
- Implementation of revised advisor operating model.
- Rolling out and improving digital channels and straight-through processing.
- Launch of new umbrella pension fund administration offering.
- Optimising returns, focusing on efficiency, capital management, product and customer profitability.
- Compliance with regulatory changes.



Robust management of . . .
governance, compliance, risk and remuneration



A summary of our approach to governance, compliance, risk and remuneration.

To achieve our vision of market sector leadership, we must continue to maintain the highest standards of corporate governance.

View further information about our governance online

How we govern our business

Appraising our governance

Our approach to responsible governance has been briefly described in the Group Chairman's review. This section of our report is divided into two parts, the first relating to:

- the board and Exco;
- the application of King III;
- a summary of progress against governance objectives; and
- the governance of audit and compliance.

This is followed by further detail on:

- ethics and fraud;
- the regulatory environment;
- risk management; and
- remuneration.

Directorate

The Absa Group board has a balance of executive, non-executive and independent directors. The board comprises a majority of independent directors (non-executive directors who are independent as defined in the King III report). The Chairman of the board is an independent director.

The board as a whole selects and appoints directors, including the Group Chief Executive and executive directors, based on recommendations from the DAC. Where appropriate, these recommendations are supported by the GRHRC. Barclays is consulted during the process of director selection and appointment.

All appointments follow a formal and transparent procedure and are subject to confirmation by shareholders at the AGM. Before appointment, potential board appointees must undergo a fit and proper test in terms of the JSE Listings Requirements and the Banks Act.

Directors of the Absa Group as at 31 December 2011

Independent directors: C Beggs, B P Connellan[1], Y Z Cuba, S A Fakie, G Griffin[1] (Group Chairman), M J Husain, P B Matlare, T M Mokgosi-Mwantembe, T S Munday, S G Pretorius and B J Willemse.

Non-executive directors: A P Jenkins[2], R Le Blanc[2], E C Mondlane, Jr[3] and I R Ritossa[4].

Executive directors: D W P Hodnett, M Ramos and L L von Zeuner.

The board Chairman is appointed annually, and Garth Griffin was reappointed as Chairman at the June meeting of the board, following a rigorous evaluation of performance.

Changes in board membership during 2011

Des Arnold and Monhla Hlahla retired at the AGM on 21 April 2011. On 21 September, Ivan Ritossa replaced Benoît de Vitry as a Barclays representative non-executive director. Peter Matlare was appointed to the board as an independent director on 5 December 2011.

Notes

[1]Has been on the board for more than nine years.
[2]British.
[3]Mozambican.
[4]Australian.

Board committee membership as at 31 December 2011

Committee	Members
Group Audit and Compliance Committee (GACC):	C Beggs (Chairman), B P Connellan, S A Fakie, M J Husain and T S Munday.
Group Risk and Capital Management Committee (GRCMC):	C Beggs, S A Fakie, G Griffin, R Le Blanc, T S Munday (Chairman) and B J Willemse.
Directors' Affairs Committee (DAC):	C Beggs, G Griffin (Chairman), M J Husain, R Le Blanc, T S Munday and S G Pretorius.
Group Remuneration and Human Resources Committee (GRHRC):	B P Connellan, G Griffin, A P Jenkins, T M Mokgosi-Mwantembe, E C Mondlane, Jr, S G Pretorius (Chairman) and I R Ritossa.
Board Finance Committee (BFC):	C Beggs, B P Connellan, Y Z Cuba, M J Husain, G Griffin (Chairman), T S Munday and I R Ritossa.
Concentration Risk Committee (CoRC):	B P Connellan, G Griffin (Chairman), D W P Hodnett, T S Munday, M Ramos, L L von Zeuner and B J Willemse.
Social and Ethics Committee (SEC)	G Griffin, M J Husain (Chairman) and S G Pretorius.

We view committee work as an important part of the contribution made by non-executive directors and as an opportunity to gain a broader perspective on Group activities.

Governance structure

Board

The board identifies and monitors key risk areas, key performance areas and non-financial aspects relevant to the Group, supported by board-appointed committees. Matters specifically reserved for the board include the approval of:

- the Group's objectives, strategy, short-term and medium-term plans and the monitoring of performance against agreed criteria;
- annual financial statements, interim reports, dividends and related financial matters;
- Absa's code of ethics;
- the appointments to and removals from the board (including the Chairman, Group Chief Executive, and executive and non-executive directors);
- delegations of authority to the Group Chief Executive;
- board committee mandates, authorities and membership;
- Absa's risk appetite;
- significant company policies;
- Absa's corporate governance philosophy and ongoing governance compliance;
- compliance with laws and regulations;
- risk management and internal controls;
- stakeholder communication; and
- board and individual director performance evaluation.

Group Audit and Compliance Committee

Disclosure Committee

Oversees internal controls, compliance, internal and external audit and external reporting.

Group Risk and Capital Management Committee

Assists the board with risk, capital and liquidity management.

Directors' Affairs Committee

Assists the board with corporate governance, board nominations and related matters.

Group Remuneration and Human Resources Committee

Advises the board on various strategic matters relating to human resources, including remuneration, incentives and talent management.

Concentration Risk Committee

Considers and approves credit applications above 10% of Absa's qualifying capital and reserves.

Board Finance Committee

Assists the board in approving financial results, the annual budget, and entering into acquisitions and disposals as well as capital-raising and securitisation transactions.

Social and Ethics Committee[1]

Assists the board in complying with the 2008 Companies Act pertaining to sustainability, stakeholder management, good corporate citizenship, ethic, labour, transformational and compliance matters.

Delegation

Accountability

Group Chief Executive

Group Executive Committee

Note

[1]Committee established in September 2011. First meeting was held on 5 March 2012.

Board and board committee meeting attendance

This table outlines details of board and committee members' attendance of board and board committee meetings[1] for 2011.

Name	Group and Bank board	GACC	GRCMC	DAC	GRHRC	BFC	Total
Number of meetings held	8	6	6	6	5	7	
Current directors							
C Beggs	8/8	6/6[2]	6/6	3/4	n/a	5/5	28/29
B P Connellan	7/8	2/3	n/a	1/1	4/5	7/7	21/24
Y Z Cuba	8/8	4/5	n/a	n/a	n/a	6/7	18/20
S A Fakie	7/8	5/6	3/3	n/a	n/a	n/a	15/17
G Griffin (Group Chairman)	8/8	[3]	5/6	6/6[2]	5/5	7/7[2]	31/32
D W P Hodnett	8/8	[3]	[3]	[3]	[3]	[3]	8/8
M J Husain	7/8	2/3	2/3	5/6	n/a	3/3	19/23
A P Jenkins	8/8	[3]	n/a	n/a	3/5	n/a	11/13
R Le Blanc	8/8	n/a	6/6	5/6	n/a	n/a	19/20
P B Matlare	1/1	n/a	n/a	n/a	n/a	n/a	1/1
T M Mokgosi-Mwantembe	7/8	n/a	n/a	n/a	4/5	n/a	11/13
E C Mondlane, Jr	8/8	n/a	2/3	n/a	2/2	n/a	12/13
T S Munday	8/8	6/6	6/6[2]	6/6	n/a	7/7	33/33
S G Pretorius	7/8	n/a	n/a	6/6	5/5[2]	n/a	18/19
M Ramos	8/8	[3]	[3]	[3]	[3]	[3]	8/8
I R Ritossa	3/3	n/a	n/a	n/a	1/1	1/1	5/5
L L von Zeuner	8/8	[3]	[3]	[3]	[3]	[3]	8/8
B J Willemse	7/8	n/a	6/6	n/a	n/a	n/a	13/14
Past directors							
D C Arnold	3/3	2/2	2/2	2/2	n/a	3/3	12/12
B C M M de Vitry	2/5	n/a	n/a	n/a	3/4	3/5	8/14
M W Hlahla	2/3	n/a	1/2	n/a	n/a	n/a	3/5

Notes

[1]Excludes the CoRC, which meets as and when required, and the Social and Ethics Committee which met in 2012 for the first time.

[2]Denotes Chairman.

[3]Denotes attendance/standing invitee.

From this table, it can be seen that the overall board member attendance rate exceeded 90% over the year. In addition to the above, board members were expected to be available for meetings with the regulator, a two-day board strategy meeting and a further two training sessions.

In addition to the board committees noted, certain directors also serve on a number of other committees and forums such as the IT Steering Committee and Disclosure Committee, where their independence and experience can be of value to the Group.

Group Executive Committee

The Group Executive Committee (Group Exco), chaired by the Group Chief Executive, comprises the Group's executive directors and other members of executive management. It meets, as a general rule, once a month and deals with all material matters relating to implementing Absa's agreed strategy, monitoring performance and considering Group policies.

Group Exco as at 31 December 2011

Member	Designation
D W P (David) Hodnett[1]	Group Financial Director
W T (Willie) Lategan[1]	Chief Executive: Absa Financial Services
J (Jan) Lubbe	Chief Risk Officer
B A (Bobby) Malabie	Chief Executive: Retail and Business Banking
F C S (Fergus) Marupen	Chief Human Resources Executive
D (Daphne) Motsepe	Chief Executive: Unsecured Lending
V (Alfie) Naidoo	Group Chief Operating Officer
H (Happy) Ntshingila	Chief Marketing and Communications Officer
N (Nomkhita) Nqweni	Chief Executive: Absa Wealth
M (Maria) Ramos[1]	Group Chief Executive
S (Stephen) van Coller[1]	Chief Executive: Absa Capital and Wealth
L L (Louis) von Zeuner[1]	Deputy Group Chief Executive

Note
[1]Also serve on the Africa Exco.

Group Exco changes in 2011

Nomkhita Nqweni, the Chief Executive of Absa Wealth, was appointed to Group Exco on 6 October 2011. Gavin Opperman, the Chief Executive of Retail Bank, resigned from the Group on 30 November 2011, while Bobby Malabie's designation changed to Chief Executive of Retail and Business Banking.

Group Exco changes after 31 December 2011

Two Group Exco members, namely Happy Ntshingila (Chief Marketing and Communications Officer) and Alfie Naidoo (Group Chief Operating Officer) left Absa on 29 February and 31 March 2012 respectively, to pursue other interests. Daphne Motsepe (Chief Executive: Unsecured Lending) will retire from the Group on 30 April 2012.

Applying the King Code of Governance Principles for South Africa 2009 (King III)

A formal King III Steering Committee (Steerco) was established in 2010 to ensure effective application of the various principles and the recommendations of King III throughout the Group. The objectives of the Steerco were to derive efficiencies and ensure Group-wide depth of application through the central co-ordination of the King III project.

King III specialists were contracted to provide the Steerco with an assessment of the level of King III application in Absa. The King III gap analysis report, released in April 2011, confirmed that Absa was compliant in many areas relating to the Code, and the Steerco put action plans in place to address areas where gaps were identified.

The DAC monitored the progress of the King III project and reported on it to the board. The board is of the opinion that the Group and its subsidiaries were fully compliant with the principles of King III as at 31 December 2011. In addition, Absa Group Internal Audit conducted a review of the level and progress of the application of King III during the period October 2011 to January 2012, and confirmed that Absa was King III compliant.

During 2011, Absa focused on certain initiatives to further strengthen the Group's application of the principles. Key amongst these were:

- the implementation of a full review of stakeholder relationships during September 2011;
- establishing a more formal IT governance structure and IT Steering Committee in March 2011;
- enhanced implementation of the combined assurance model in June 2011;
- further enhancement of the Group's code of ethics, completed in September 2011;
- the publication of this integrated annual report;
- internal audit review of the level of our King III compliance; and
- a subsidiary governance framework established between the Group and our subsidiary companies.

During 2012, management will consider and make proposals to the board on how to ensure sustainability of King III principles in Absa.

Areas where we apply King III principles differently

Alternatives to the King III recommendations can be applied to further the best interests of the company, so long as the overarching principles of good corporate governance are still being achieved. In this regard, the board has decided to adopt the following different practices:

Principle/recommendation	Explanation/alternative arrangement
Establishment of a board IT Committee	The board is comfortable that alternate governance is in place through the IT Steering Committee, whose mandate is to improve the overall status of IT governance in Absa, while ensuring that future platforms will meet strategic needs and remain competitive. It reports on items requiring board attention, and participates in strategy reviews with the board. IT risk management is aligned to the principal risk framework under operational risk. Furthermore, the GACC and GRCMC have oversight of certain components of IT governance.
The board both oversees the value delivery of IT, and monitors the return on investment from significant IT projects	The board is focused on improving IT Governance including the monitoring and reporting of IT spend and ROI on significant projects. The board's commitment is demonstrated through the inclusion of this item on the board's 2012 corporate governance objectives. Active monitoring takes place throughout the year by the board receiving regular reports on IT expenditure and return on-investment, deep dive sessions on IT governance and board representation on the IT steering committee.
Vesting of share-based incentives should be subject to performance conditions measured over a period appropriate to the strategic objectives of the company	From 2012, deferred performance awards under the Deferred Award Plan will not be subject to financial performance conditions. The board believes that the exposure to share price and provisions relating to conduct and prudent financial control in the plan provide appropriate links to performance and risk adjustment. This structure is compliant with the requirements of the Financial Stability Board's principles for sound compensation practices and generally, subjects Absa incentive awards to more conservative deferral conditions than found elsewhere in the local market. Long-term incentive awards are subject to financial performance conditions, ensuring that a significant proportion of senior executives' remuneration remains contingent of future performance over three years.
Companies should provide full disclosure of the remuneration for the three most highly paid employees who are not directors of the company	The board believes that the disclosure of remuneration paid to executive directors, prescribed officers and other senior managers and material risk takers is sufficient to provide stakeholders with evidence of the link between pay and performance and the alignment of remuneration with shareholder value.

Progress against 2011 corporate governance objectives

Objective	Progress
1. Revise board charter and board committee mandates.	Revised and approved by the board in March 2011.
2. Embed King III framework.	Implemented through the King III project and reviewed by internal audit.
3. Establish an effective IT governance structure.	Established the IT Steering Committee (a subcommittee of Group Exco) on 17 March 2011; formalised regular IT reviews at board level.
4. Establish effective sustainability reporting.	Approved the sustainability workstreams, reporting frameworks and processes during September 2011.
5. Establish an effective stakeholder strategy and reporting framework.	Approved the stakeholder management strategy and reporting framework in September 2011.
6. Finalise framework and process for 2011 integrated report, including appropriate attestation.	Approved by the DAC. The board established the Disclosure Committee to oversee the disclosures in the IAR, including integrated reporting and combined assurance.
7. Review board succession for 2012.	Peter Matlare was appointed on 5 December and brings significant commercial experience to the board. Brian Connellan will step down from the board at the 2012 AGM.
8. Review and respond to new Companies Act requirements.	Assessment completed. A Group Social and Ethics Committee was established and will meet from 2012. The new Memorandum on Incorporation will be voted on at the 2012 AGM.

Objective	Progress
9. Ensure an effective board training programme.	Training covered many aspects affecting the Group's business, including the 2008 Companies Act and the implications of new anti-corruption legislation.
10. Implement an independent board evaluation process for 2011.	Board review facilitated independently by the Institute of Directors.
11. Review remuneration and incentive policies – have in place a transparent remuneration report.	The GRHRC carried out a review of the remuneration policy, funding, structures and governance to ensure alignment with global best practice and compliance with regulatory requirements. The revised remuneration policy will be subject to a non-binding shareholder vote at the 2012 AGM.
12. Ethics management.	Ethics code reviewed and approved by the board; enhanced training and wide exposure given to implications of non-compliance.

In addition to the above, key focus areas over the past year related to the quality of board papers and the board's engagement with management during the process of developing the Group's strategic plan. We believe that both are effective and constructive.

See page 58 for our 2012 objectives

Governance of audit and compliance

The GACC assists the board with the governance and oversight of the Group's internal controls, internal and external audit functions, accounting and reporting, and the Group compliance function. The committee met six times during the year and the Chairman engages extensively outside of the committee meetings with internal and external audit, Group compliance and other members of management. The committee also maintains oversight of the Group's business continuity programmes.

In addition to its normal activities, the committee dealt with the introduction of a combined assurance model for the Group and the development of our initial integrated annual report. The GACC has determined that a process of co-ordinating all assurance activities is appropriate to address the significant risks facing Absa for each principal risk and business area. The model is owned and managed by Group Risk with Internal Audit and Group Compliance, being an integral part of the process. We recognise that there will be continuous strengthening and enhancing of both the process and its activities as we mature our approach to integrated reporting, particularly on non-financial issues.

Further details of the committee's activities can be found online and within the full financial statements.

2011 in review

Sound controls throughout the Group rely heavily on the efforts of management and employees as a first line of defence in identifying and dealing with key operational risks. We are expected to have in place appropriate controls over our operations, processes to overcome or mitigate risks, and to implement ongoing assessments of these processes.

The GACC is pleased to note an improving trend in the results of management's assessment of its individual control and risk environments, which is confirmed by internal and external audit. Our remediation of identified weaknesses also improved as the number of overdue outstanding matters decreased.

The changing technological and regulatory environment necessitates a dynamic approach to risk and controls. The GACC challenges management regularly to assess and ensure that they anticipate and plan for the effects of key changes, such as the current review of the target operating model. The GACC, together with Group Risk and Internal Audit, has keenly followed such changes to ensure that risk and control measures, and departmental staffing resources, are appropriate for these developments.

The GACC has assessed the performance and qualifications of the Group Financial Director, Chief Internal Auditor and internal audit function for the year ended 31 December 2011 and found them to be satisfactory.

Internal audit

Internal Audit reviews the Group's systems of internal controls and risk management on an ongoing basis. Based on the work performed following completion of the approved audit plan for 2011, Internal Audit confirmed that there is a framework of internal control and risk management in place. Where areas of improvement were identified, corrective actions by management have been taken or are in the process of being completed and progress is tracked to completion.

Internal Audit issued a satisfactory assessment in 2011 over the Group's financial reporting processes noting management has implemented effective accountability, review and monitoring processes over ownership of general ledger accounts. While the current financial reporting control environment is assessed as effective, and the supporting IT applications are determined to be fit for purpose at the current level of business volumes. It is important that continuous improvements are made, given the future growth plans, and planned business changes, including the Barclays Africa integration. Management has recognised the need to develop and implement a finance target operating model consistent with the desired future strategic direction of the Absa Group as part of the Integrated Finance and Risk Programme (IFRP). This will create capacity and improve scalability and sustainability through automation of financial reporting processes and controls.

In view of the ongoing changes to regulatory landscape in 2011, internal audit placed additional emphasis on monitoring existing and new legislation and will continue to do so in 2012. Regulatory focus areas in 2011 included the anti-money laundering and terrorist financing environments with significant progress made by business in remediation of previously raised issues relating to the 'Know Your Client' requirements.

Group Compliance

Over and above the ongoing advisory and monitoring responsibilities, the changing regulatory landscape remained a key focus area for Group Compliance during 2011. Several Group-wide projects relating to the requirements of the Consumer Protection Act, the Companies Act, the United Kingdom Bribery Act, the amendments to the Financial Intelligence Centre Act and the Fit and Proper requirements of the Financial Advisory and Intermediary Services Act were implemented and integrated into the business processes. Group Compliance monitored the key controls implemented and the control environment was found to be satisfactory.

We actively participated in lobbying efforts to address the operational and business impact of proposed changes to the local and international regulatory landscape. Consultation continues in respect of developments relating to the National Treasury document 'A safer financial sector to serve South Africa', the US Foreign Account Tax Compliance Act and the Management of Insurance Assets under Solvency II. In support of the global agenda to eradicate money laundering, terror financing and bribery and corruption, Absa is continually revising controls in these areas to enhance our compliance programmes to detect and counter such activities.

External audit

The GACC reviews the plans and monitors the outputs of the external auditors and is satisfied with the independence and performance of the external auditor for the period under review. The committee supports the reappointment of E&Y and PwC as the independent registered audit firms. The individual registered auditors are Messrs E Pera and J Bennett for E&Y and PwC respectively.

Effectiveness of the overall governance process

We believe that good governance supports both effective decision making and appropriate behaviour. Accordingly, we put great store in high standards of corporate governance, in line with both local and international norms.

The board has undertaken a review, independently facilitated by the Institute of Directors, of its own effectiveness and that of the board committees, as well as a general review of the overall effectiveness of the governance process in Absa.

The board believes that Absa Group has well-functioning processes and procedures to ensure adherence to the required standards and the expectations of our various stakeholders. The directors are also satisfied that the board and each of its committees have fulfilled their mandates as set out in their terms of reference. The conclusion was that the board and the committees function effectively and have access to the information necessary for them to fulfil their various roles.

See pages 61, 64 and 74 for summaries of the regulatory, risk and remuneration reports

Looking forward

The board will focus on the following six areas relating to governance during 2012:

- To review and evaluate the corporate governance structure and arrangements to ensure they are operating effectively.
- To ensure the effective and efficient functioning of the Group Social and Ethics Committee.
- To maintain compliance with King III principles and monitor progress on sustainability and related matters, stakeholder relations, good corporate citizenship strategies and to ensure that integrated reporting is contained in key management reports and embedded in management reporting.
- To ensure that remuneration policies, processes and practices are compliant with the provisions of the new Regulation 39 (16) of the Banks Act.
- To continue monitoring and improving IT governance.
- To enhance the governance and controls in Group subsidiary companies.

Ethics and fraud management

Ethics management

As an organisation, Absa is committed to the highest standards of integrity and ethical behaviour. We believe that all our efforts should be conducted with honesty and integrity and that all people must be treated fairly and with dignity. Our values as an organisation are core to how we conduct ourselves and underpin the Absa Code of Ethics. This code is the backbone of Absa being a trusted financial services provider.

In consultation with trade union SASBO, the Code of Ethics was revised and approved by the Absa board in 2011 to incorporate the King III governance recommendations, anti-bribery and anti-corruption and other relevant standards.

The code is accepted by directors and employees as a way to protect and promote our corporate reputation. The code is presented in such a way that it is easy to understand, yet has sufficient detail to enable employees to measure their decisions in areas such as:

- maintaining confidentiality and taking care of competitive intelligence;
- avoiding conflict of interest as well as contingency or commission fees;
- accepting and giving of gifts, entertainment and business courtesies;
- using company assets and systems as well as the company's funds and resources correctly; and
- combating financial crime, dishonesty and criminal activities.

Absa provides safe, effective and, if so desired, anonymous mechanisms for employees to seek guidance or raise concerns. Concerns that may be raised are taken seriously and all potential breaches are fully investigated.

Fraud environment

The current fraud landscape within the South African banking industry is dominated by card fraud. Counterfeit fraud is the most prevalent threat that is being addressed through an accelerated chip and personal identification number (PIN) roll-out programme. As chip and PIN saturates the market, fraudsters will accelerate their migration to non-chip and PIN territories as well as to the virtual (cyber) environment where their anonymity can be preserved and which also provides a wider environment to steal information. This form of fraud will be exacerbated as it coincides with Absa's strategic drive to increase business in the m-commerce and e-commerce arenas.

In line with international trends, South African banks can expect a significant increase in phishing. Trojans are an emerging threat, as well as the threat of mobile banking fraud via "smishing" (security attack in which the user is tricked into downloading malware onto a cellular phone or other mobile device or is directed to a phishing website). Illegal SIM swaps are a common threat and are affected by fraudsters to intercept telecommunications (one-time-passwords) intended to authenticate customers. Account take-over via identity theft or application fraud is also expected to increase.

Aside from third-party fraud events, first-party fraud threats (where a *bona fide* customer commits fraud) are expected to increase. From a lending perspective, first-party fraud occurs when customers (retail and corporate) apply for credit cards, loans, overdrafts or other unsecured banking credit lines with no intention of repaying them.

The threat of occupational (internal) fraud is also expected to rise, given continued high debt burdens and the current economic environment. It encompasses a wide variety of conduct by employees, ranging from pilferage to sophisticated investment swindles.

Syndicate-oriented fraud, particularly crimes conducted against major organisations is always a worrisome threat which Absa proactively addresses. These threats include, but are not limited to, secured property lending (commercial and retail), asset financing fraud and acquiring fraud.

Reporting unethical behaviour

Absa respects the right of individuals to retain their anonymity when reporting irregularities. Employees have the responsibility to report observed or suspected unethical behaviour promptly via any of the following avenues:

- The employment equity dedicated email address: employmentequity@absa.co.za
- The HR Contact Centre at 0860 369 369
- Tip-offs Anonymous by:
  - phoning: FreeCall 0800 205 055
  - faxing: FreeFax 0800 007 788
  - sending an email to: absa@tip-offs.com
- Action Line on 0800 41 41 41
- The Absa Ethics Officer 011 350 4313 or ethics@absa.co.za

2011 in review

Absa fraud risk management (FRM) is a centralised model which manages the risk of fraud across the Group and collaborates with key industry stakeholders to further reduce this risk. A summary review of our performance:

- Fraud losses remain within the short-term plan and reflect a 51,8% decrease in fraud losses year on year across the Group.
- Plastic (card) fraud remains the highest contributor to fraud, with losses 13,2% above 2010 levels.
- Internal fraud has seen a 62,8% decrease in losses. This can be attributed to improved controls within business and the significant focus on fraud awareness at a Group level.
- Lending fraud has decreased 91,2% and the benefits of Instinct, a rules-based application fraud detection system deployed in card, home loans, personal loans, cheques, savings and VAF are already being felt with savings achieved in excess of R58 million.
- Transactional fraud (payment and cheque) has decreased by 8%. Payment fraud still remains the prominent threat of transactional fraud.
- E-crime fraud losses reflect a decrease in overall exposure of 82% for 2011. Customers' losses have also decreased by 82%, coinciding with a decrease of 53% in the number of cases reported.

Absa performs favourably against industry peers, as reflected in industry-level losses across credit card, debit card, cheque fraud and e-crime.

Looking forward

In line with our continued investment in process and systems, there are two ancillary initiatives linked to the account opening process that have bearing on application fraud risk:

- Department of Home Affairs (DHA) Biometrics: The DHA project is a necessary strategic imperative to identify fraudsters in the face-to-face channels that tender false documentation during origination or fulfilment. This is a joint initiative between government and banking industry with the objective of fighting financial crime in South Africa through the verification of customers using biometrics technology. Fingerprint scanners have been deployed in seven Gauteng pilot sites and have identified several false application attempts.
- IDX: IDX is a banking industry initiative being co-ordinated by an external vendor. This vendor will facilitate customer statement switching technology for subscribing banks which, in turn, will allow for a more accurate assessment of the financial documentation required when originating the customer.

We are investigating voice biometrics with a potential pilot envisaged in 2012. This capability will not only offer the same process efficiencies in the call centre network as foreseen in the E2E project, but will also allow for a more accurate customer authentication capability in the 'non face-to-face' channel. This is a further deterrent to application fraud, identity theft and account-take-over fraud.

Training and awareness is a key component of Absa's anti-fraud policy and has proven successful in improving levels of understanding, knowledge and appreciation of fraud. Broad awareness campaigns, as well as personalised training and intervention, are paramount to drive the right message to internal (and at times external) stakeholders and will remain a strategic pillar to embed ethical behaviour within the organisation and a disincentive to aspiring fraudsters within the Group.

Our response to the regulatory environment

Introduction

Compliance with regulations, laws and codes presents a complex challenge to Absa. Unlike many of its local competitors, we need to ensure that our activities comply not only with the laws, regulations and supervisory requirements of the various local jurisdictions in which the Group operates, but also with relevant international regulations applicable to the Barclays Group. Under direction from the board, compliance risks associated with our business activities are clearly assessed, challenged, managed and reported on, both internally and to our external stakeholders.

Values are integral to our operations and to the building of a compliance culture. We place a high value on our reputation for integrity and fair dealing in the market place. Through the Employee Compliance Conduct Guide and the associated Group-wide attestation process, employees are made aware of compliance-related policies as well as the conduct expected of all employees, as described in Absa's Code of Ethics. All our employees and temporary employees are required to acknowledge they have read and understood the guide on first joining Absa and every year thereafter.

Absa Group Compliance, comprising Regulatory Compliance (RC) and Group Money Laundering Control, addresses the key compliance roles and responsibilities prescribed in the Banks Act. RC focuses on the identification, assessment, prioritisation, management, monitoring and reporting of compliance risks, as well as internal awareness programmes and training. Group Money Laundering Control supports the regulatory obligations of the Group in terms of legislation aimed at preventing money laundering, corruption and terrorist financing.

The regulatory landscape relating to financial institutions is constantly changing and evolving. Absa's New Regulatory Requirements Forum (NRRF) is responsible for assessing the impact that new regulations (as well as changes and amendments to existing regulations) will have on the Group's business. We are regulated by several regulators with whom we seek to maintain relationships of honesty, trust and transparency. Our Contact with Regulators Policy provides a framework for prompt and professional communication with all relevant regulatory bodies.

2011 in review

Through the NRRF, we monitor and respond to developments regarding specific policy and legislation both nationally and internationally. The most significant regulatory developments of 2011 are discussed below.

Anti-money laundering, corruption and terrorist financing

Governments and regulators globally continue to place significant emphasis on money laundering, terrorist financing and anti-bribery and anti-corruption. As part of the Barclays Group, Absa has implemented world-class systems and processes to ensure the risk of money laundering, terrorist financing and anti-bribery and anti-corruption is minimised. We have committed to a 'zero-tolerance approach' to money laundering, corruption and terrorist financing and continued improving our systems and processes aimed at eradicating such activities during 2011.

The United Kingdom Bribery Act came into effect on 1 July 2011. With extra-territorial reach, the Act is considered to be amongst the most stringent anti-bribery and anti-corruption legislation in the world. We are participating in a project initiated by Barclays to address the requirements of this act through adopting an Anti-Bribery and Anti-Corruption Policy. In addition, the Group is continuously enhancing the control environment to ensure that employees do not engage in any activities that may be in breach of this legislation. In support of this initiative, we implemented an anonymous reporting process which employees may use to report instances of unlawful or unethical behaviour. Allegations of corruption are investigated by dedicated specialist teams. The investigations are monitored by Group Compliance and any issues and trends are reported to the appropriate levels of management and governance committees. The process is designed to protect whistleblowers from being discriminated against as a result of reporting unlawful or unethical behaviour.

Government policy document: 'A safer financial sector to serve South Africa better' (draft) – *Proposed approach to regulating the financial sector*

This policy document sets out the South African government's roadmap for the continued development and enhancement of the financial services sector, the proposed approach in respect of regulating the financial sector, following the 2008 global financial crisis and the movement towards the twin peaks model of regulation. We are actively participating in discussions and forums with various industry bodies with a view to ensuring that the

Regulatory summary

Group is well prepared to meet any changes imposed by this policy document. It is expected that several regulatory developments will be published during 2012 in support of the proposed regulatory reform.

The Foreign Account Tax Compliance Act (FATCA) – *Identification and reporting on US-sourced income*

In a move to prevent foreign banks actively marketing tax evasion schemes to citizens and residents of the United States of America, the Internal Revenue Service (IRS) has introduced the Foreign Account Tax Compliance Act (FATCA) as a mechanism to ensure that US taxpayers are identified and that they declare all income received outside of the USA. This far-reaching legislation requires all Foreign Financial Institutions (FFIs), including Absa, to voluntarily contract with the IRS and to implement controls to detect and report on all US persons, as well as their gross proceeds to the IRS. Failure to contract as an FFI will see the FFI and its clients being subject to a 30% withholding penalty on all interest, dividends and sale proceeds (effectively a penalty on all US assets). We are actively working with Barclays and various other parties on the questions FATCA raises for the industry and our customers. We are analysing the recently published draft regulations and will consolidate our understanding of the impact that FATCA will have.

The new Companies Act (CA) – *A new corporate law for South Africa*

The new CA substantially replaced the Companies Act, No 61 of 1973 (as amended) on 1 May 2011. The fundamental common law principles of company law remain substantially intact, with new concepts, rights, obligations and remedies added. We commenced a Group-wide project in 2009 to ensure that the Group was able to address the legal and compliance obligations of the Act in a timely manner.

‘Treating Customers Fairly’ (TCF) discussion paper – *Customer treatment in the non-financial services industry*

The TCF paper was published by the Financial Services Board (FSB) during 2010. The discussion paper requires the non-banking financial services industry to consider how they treat their customers at all stages in the product lifecycle, from the design phase of an offering through to marketing and after-sale practices. By virtue of our association with the Barclays Group, we adopted a set of TCF principles similar to those applicable under United Kingdom legislation with the aim of enhancing the customer experience. We are furthermore participating in the FSB programme which aims to implement a TCF regime in South Africa.

The Consumer Protection Act (CPA) – *National norms and standards for consumer protection*

The CPA, which came into effect on 1 April 2011, constitutes an overarching framework for consumer protection. The Act intends to promote a fair, accessible and sustainable marketplace for consumer products and services. The Act, which has established national norms and standards for consumer protection, prohibits certain unfair marketing and business practices and promotes responsible consumer behaviour. We initiated a Group-wide project which successfully implemented the requirements of the CPA.

The Financial Advisory and Intermediary Services (FAIS) Act General Code – *Regulation of the management of conflict of interests*

The FAIS Act General Code regulates the management of conflicts of Interests. An amendment to this code, implemented during 2011, requires Financial Services Providers (FSPs) to maintain an up-to-date policy governing the management of conflicts of interest and to train all employees on the code. Our existing Conflicts of Interest Management Policy was extended to include the additional requirements. All employees are receiving awareness training.

The Financial Advisory and Intermediary Services (FAIS) Act

The amended FAIS Act aims at improving professionalism in the financial services industry by requiring all FAIS representatives and key individuals to complete and pass prescribed regulatory exams within stipulated deadlines. The first deadline for all key individuals and representatives across all categories of FAIS licences is 30 June 2012. Failure to pass the examination will result in the candidates being unable to continue in their roles as representatives and key individuals. We have introduced a Group-wide support programme to assist with completion of the exams.

The Competition Commission – *Competition in retail banking*

The Competition Commission launched an inquiry into the transactional aspects of the South Africa retail banking sector in August 2006. The inquiry focused on the transparency and level of fees and changes imposed on consumers and the need for interchange fees for ATM transactions and the level of interchange fees for card transactions. During 2010, we implemented the Banking Inquiry commitments that were agreed between the Minister of Finance and the CEOs of various South African banks (including Absa) in May 2010. Absa continues to place focus on these areas to ensure that it remains in compliance with its committed obligations.

For more information on our response see Customer experience on page 28.

Code for Responsible Investing in South Africa (CRISA)

The voluntary Code for Responsible Investing in South Africa was launched in July 2011 to promote open and broadly beneficial investment in South Africa. CRISA aims to encourage institutional investors to formally integrate environmental, social and governance issues into their investment decisions. A key requirement is that institutional investors have to disclose the policies underpinning their investment decisions and actions. This requirement enables the institutional fund managers to be held to account for their decisions and actions. The impact will be a process adjustment to include a social and environmental assessment for proposed investments, based on criteria yet to be determined. A project has been initiated to address the requirements of CRISA in line with our corporate citizenship policy statement.

The National Gambling Act (NGA) – *Prohibition of internet gambling*

The NGA prohibits internet gambling in South Africa if performed without a licence, irrespective of whether the device enabling the gambling within South Africa is situated outside the country or not. We are actively participating in various forums aimed at ensuring that the banking industry is able to meet any obligations imposed by new legislative developments related to the NGA.

The Code of Banking Practice – *The banking industry's customer charter on good banking service*

The Banking Association's Board Executive Committee approved the final draft of the Code of Banking Practice in June 2011. The new code came into effect on 1 January 2012. The main changes to the code focus on consumer education and information in so far that it is essential for consumers to understand how complex legislation affects them. Absa will continue to place emphasis on its banking practices to ensure that it remains compliant with the spirit of the code.

The Protection of Personal Information (PoPI) bill – *Obtaining consent for how personal information is processed*

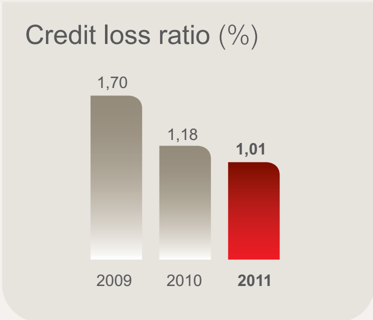
The PoPI bill, once enacted, will apply to all personal information that Absa holds in respect of its employees, customers and suppliers. The underlying principle of the bill relates to obtaining consent for processing and notifying the employee, customer or supplier of the purpose for which personal information will be retained and processed. We continue to monitor the legislative process relating to the PoPI bill and will take appropriate steps to implement the requirements of the bill once it is enacted.

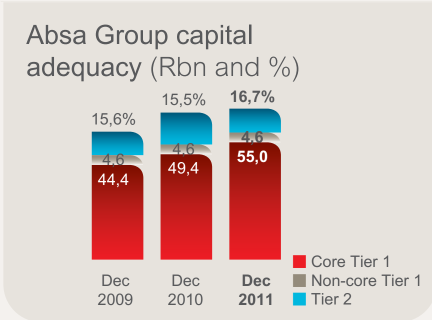
Looking forward

The financial services industry globally has been under greater regulatory scrutiny in the continuing aftermath of the financial crisis. In response, regulators around the world are seeking ways to prevent a reoccurrence of the crisis by implementing new and amended regulatory requirements. This trend is expected to continue into the foreseeable future as European regulators seek ways to prevent a repeat of recent events in its member states. Absa is well placed to manage the new requirements and will continue to enhance its control environment related to regulatory risk.

Our focus in 2012 will be:

- ongoing review and assessment of new regulatory developments and the initiation of projects, as required, to minimise regulatory risk;
- ongoing vigilance in respect of measures aimed at countering money laundering, terrorist financing and bribery and corruption; and
- enhancing compliance programmes aimed at preventing and detecting regulatory risk.





View further information about our risk management online.

How we manage our risks

Introduction

The continuing uncertain economic conditions present a challenge to risk management in the financial services industry. In this context, risk management is a key pillar of the One Absa strategy and is guided by the Principal Risk Policy (PRP), that has been developed and approved by the board. Our structured and disciplined approach to risk management, as well as the enhancements made in the year, position us well to take advantage of sustainable business growth opportunities.

While we identify 14 risk areas related to our business, this summary report reviews the six most important risks, cross referencing to a seventh, regulatory risk, which is dealt with in the review of the regulatory environment. Key areas which received focus are:

- credit risk management;
- liquidity management;
- maintaining adequate capital buffers; and
- enhancing the level of integration of operational risk management tools and processes.

2011 in review

Capital management is a key strategic pillar supporting the One Absa strategy. Closely related is the management of our liquidity resources in order to meet potential stresses on the financial system. We closely monitor key areas such as market conditions, the global banking industry, Basel II.5 and Basel III requirements and anticipated demands relating to Absa's future asset growth. The environment turned out relatively benign, with South Africa being largely shielded from the turmoil of international markets. The key challenge going forward will be to sustain this favourable position and to exploit the foundation it provides more aggressively for specific, value-adding opportunities.

2011 was a year in which we:

- consolidated and improved our internal risk management processes, in particular the measurement of risk and the calculation of risk versus return;
- improved our liquidity position;
- experienced an improvement in credit risk exposure;
- improved the internal operational risk management processes and environment; and
- limited market and equity risk exposures.

As a result, we saw a marked improvement in both the level and structure of our capital. Capital levels stayed above target ranges for both the Group and Absa Bank, with Core Tier 1 capital levels improving by 130 and 140 basis points (bps) respectively.

The regulatory environment continues to shift, necessitating robust engagement with all relevant authorities. The Group has investigated the impact of Basel II.5 and Basel III and is prepared for full implementation within the timelines required. Due to existing strong capital positions, capital management is not expected to be significantly impacted by Basel III, although uncertainties remain. Based on an initial assessment, capital requirements and risk-weighted assets (RWAs) may increase, but overall capital adequacy should remain at levels above the range set by the board. The Core Tier 1 ratio is expected to decrease by 110 bps after taking into account the potential impact of the offset of the implementation of AIRB. RWA optimisation is a key focus area. The Group is participating in ongoing discussions with the regulator concerning the local application and discretionary limits of Basel III.

During the year, we further improved liquidity risk management in formulating the Group's liquidity risk appetite (measured as the number of days that we are expected to survive a defined liquidity stress scenario). We have extended this horizon and now hold sufficient liquidity resources to meet our liquidity risk appetite, which is to be able to survive a severe liquidity stress for a minimum period of 30 days. We will continue to focus on liquidity risk management during 2012 and to strengthen the Group's liquidity position ahead of the implementation of Basel III to achieve compliance within the required timeframes. The Basel III requirements remain challenging for the Group and other South African banks in spite of the work done in recent years to further strengthen the liquidity position. We look forward to continued engagement with the South African Reserve Bank (SARB) to ensure an appropriate implementation of the Basel III liquidity framework in South Africa.

Risk management will not be significantly impacted by the application of King III in 2012.

Further reviews of the risks we manage are described in the tables following this introduction.

It's of critical importance that we continue to effectively assess, control and monitor the risk environment in which we operate. Achieving good credit quality and strong capital and liquidity levels, not only safeguard us, but also position us to take advantage of the future.

Trevor Munday – Chairman Group Risk and Capital Management Committee

Absa's approach to risk management

The board-approved PRP sets out the scope of the risks facing the Group and who is responsible for managing these risks. Oversight resides with two board committees, the Group Risk and Capital Management Committee (GRCMC) and the Group Audit and Compliance Committee (GACC). A combined assurance model, owned and managed by Group Risk, covers each principal risk and business area. The aim is to provide a co-ordinated approach to all assurance activities enabling the board and management to assess if the significant risks facing the Group are adequately covered and to maximise the value of these activities.

The Group Risk and Capital Management Committee

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

Our five-step process to risk management

Risk management process	
Identify	➜ Understand the principal risks fundamental to achieving Absa's strategy. ➜ Establish the risk appetite. ➜ Establish and communicate the risk management framework including responsibilities, authorities and key controls.
Assess	➜ Establish the process for analysing business-level risks. ➜ Agree and implement measurement and reporting standards and methodologies.
Control	➜ Establish key control processes and practices, including limit structures, provisioning requirements and reporting standards. ➜ Monitor controls and adherence to risk direction and limits. ➜ Provide early warning of control or appetite breaches. ➜ Ensure that risk management practices and conditions are appropriate for the business environment.
Report	➜ Interpret and report on risk exposures, concentrations and risk-taking outcomes. ➜ Interpret and report on sensitivities and key risk indicators. ➜ Communicate with external parties.
Manage/challenge	➜ Review and challenge all aspects of Absa's risk profile. ➜ Assess new risk-return opportunities. ➜ Advise on ways to optimise Absa's risk profile. ➜ Review and challenge risk management practices.

The GRCMC meets quarterly and consists of six non-executive directors, five of whom are independent.

GRCMC meetings during the year were also attended by the Group Chief Executive (GCE), Deputy Group Chief Executive, Group Financial Director, Chief Risk Officer and Group Treasurer. Internal and external auditors also attended the meetings in accordance with our governance processes.

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

The Chairman of the GRCMC attended all meetings of the GACC, met with the Chief Risk Officer and executive management on a regular basis and reported to the board after each committee meeting.

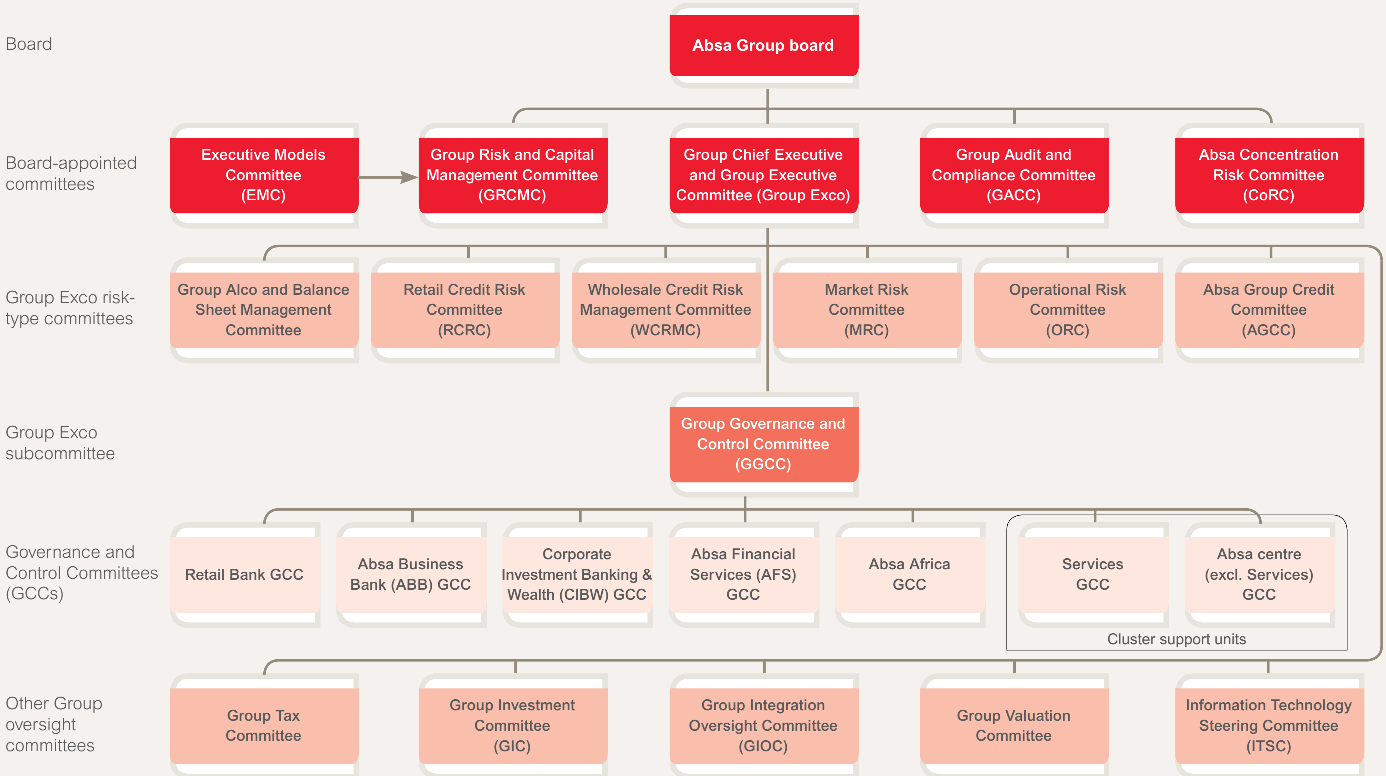
Core activities of the GRCMC

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

- recommending the Group's risk appetite to the board for approval and monitoring on a quarterly basis the actual risk against the board-approved appetite;
- assisting the board in executing its duties with respect to risk and capital management as required by the Banks Act;
- monitoring Absa's emerging risk profiles and reporting its findings to the board;
- monitoring the level of available capital, both current and projected, and reporting to the board on the adequacy of available capital relative to the emerging risk profile of Absa;
- reviewing the adequacy and effectiveness of the PRP, the completeness of principal risks coverage and the ongoing effectiveness of the framework as implemented by us;
- assessing our risk management approach and practices in light of the global financial crisis;
- liaising with the GACC to ensure appropriate oversight of key controls and, in turn, considering and acting on concerns raised by the GACC;
- oversight of the risk governance structures and oversight measures for information technology;
- ensuring the appropriate disclosure by Absa of its risk and capital management status and activities; and
- setting our liquidity risk appetite and monitoring the liquidity position of Absa over the year.

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

Absa's risk governance structure



Our risk appetite

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

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

Our risk appetite can be categorised into four broad areas, namely:

- earnings volatility in comparison to targets;
- capacity to absorb unexpected losses;
- capital ratio targets; and
- desired dividend payout levels.

Stress testing

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

Stress tests simulate the effects on the business' financial position across the Group by analysing the impact on profits and the ability to maintain appropriate capital ratios and liquidity levels. Insights gained are integrated into the management process covering the medium to long-term horizon. Stress testing also forms an integral part of evaluating our risk appetite for reasonableness under specifically designed scenarios. Stress tests are regularly discussed with the regulators. We participated in Barclays group-wide stress testing. This has also included participation in the Barclays submission related to the European Union wide annual stress testing conducted by the European Banking Authority.

Looking forward

Absa is positioning itself for growth, notwithstanding uncertain and (at times) volatile market conditions. We are working to maintain the quality, level and mix of the Group's capital and to generate sufficient capital to support growth opportunities. We will further strengthen our liquidity risk position ahead of Basel III. By focusing on value and balance sheet optimisation, we will ensure optimal capital and funding utilisation. Through responsible lending and rehabilitation practices we are managing credit risk successfully, despite ongoing pressure in both the wholesale and retail environments.

We will continue to monitor the economic and regulatory environment and ensure that we adapt our risk management to deal with the changing demands on all our business ventures.

In the tables that follow, we provide a high-level summary of the six major risks facing Absa.

Risk summary

Capital management	2011 in review	Looking forward

Definition

Failure to maintain adequate levels of capital and/or losing our investment grade credit rating.

KPIs

	2011 %	2010 %
Core Tier 1 capital adequacy ratio	**13,0**	11,7
Return on average risk-weighted assets (RoRWA)	**2,35**	1,99
Return on average economic capital (RoEC)	**23,0**	19,7
Cost of equity	**14,0**	14,0

Strategy

- Maximise shareholder value by optimising the level and mix of capital resources.

2011 in review

Focus in 2011 included:

- improving capital adequacy levels;
- increasing RoRWAs;
- improving the understanding of risk, allowing more accurate allocation of capital and improved returns;
- ensuring capital models were updated to reflect the current environment;
- RWA optimisation; and
- Advanced Internal Ratings Based (AIRB) approach for the wholesale credit portfolio.

Capital levels remain above board-approved target ranges for both Absa Group and Absa Bank, with Core Tier 1 capital levels improving by 130 and 140 bps respectively. Proactive capital management, including RWA optimisation, remains a priority.

The Basel III framework, released in December 2010, is expected to have a significant effect on the global banking industry. The framework introduces new and more stringent capital and liquidity requirements which are expected to be phased in over a number of years.

Looking forward

Our focus for 2012 is to maintain a strong level, high quality and optimal mix of capital. We will continue to generate sufficient capital to support economically profitable asset growth, while actively managing the business portfolio. In addition, we intend to further optimise the use of capital without jeopardising our ability to comply with expected Basel III regulatory changes. As in 2011, RWA optimisation remains a key focus area, together with the implementation of the AIRB approach for the wholesale credit portfolio.

We are actively engaging with the SARB to obtain more clarity on the application of Basel III in South Africa and local discretionary limits which are still to be determined. The Group deems it prudent to maintain higher capital levels in the interim.

Credit risk	2011 in review	Looking forward

Credit risk

Definition

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

KPIs

	2011 %	2010 %
Growth in loans and advances to customers	**(1,0)**	(1,6)
Non-performing loans as a percentage of loans and advances to customers	**6,9**	7,6
Impairment losses ratio	**1,01**	1,18
Total credit impairments as a percentage of total gross loans and advances to customers	**2,4**	2,7

Strategy

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

Securitisation

In seeking to pool debt, spread risk and fund the Group's loan operations, securitisation exposes Absa to the risks of irresponsible lending. This may result from declines in underwriting standards, excessive leverage and the risks inherent in the complexity of securitisation instruments.

2011 in review

Wholesale credit risk

Domestic and international uncertainty reflected in volatile local equity markets, resulting in credit quality (in the form of probability of default) marginally degrading across the majority of industries within the wholesale portfolio. In spite of this, the performance of the wholesale book in 2011 was steady. The value of exposures on the early warning list (EWL) (the Group's distressed debt list) has decreased, across the board, and particularly in Commercial Property Finance (CPF), and identified and unidentified impairment levels have reduced from 2010 levels.

Retail credit risk

Conditions remained challenging, although signs of the expected economic recovery were in evidence. Growth proved difficult and the total portfolio remained static. The Group reviewed its lending policies on a regular basis to ensure returns were optimised. Impairments improved, but remain a key focus. The mortgage loans business reduced market share in 2011 as the retail strategy focused on value creation by ensuring the optimal return levels were met. Mortgage loans have since reviewed the direct strategy through mortgage originators in order to sustain an acceptable market share. Early delinquencies continued to improve in all portfolios. The lengthy process to resolve the legal book, particularly the secured portfolios, has kept this area under pressure, exacerbated by the debt counselling process and the subdued mortgage market. Although improved collections processes and strategies for the mortgage legal portfolio and properties in possession started to bear fruit, a protracted recovery period remains probable. The reduction in the debt counselling book continued in 2011 and stabilised towards the end of the year as accounts entered the legal process.

Securitisation

In line with the Group's strategy, the securitisation portfolio has reduced during the year. Abacas, Absa's securitisation conduit, was wound up in December 2011, reducing from R2,53 billion at 31 December 2010 to nil and notes held on the statement of financial position reduced from R2,2 billion to R1,6 billion due to natural amortisation.

Looking forward

Wholesale credit risk

We expect to see continued improvement in wholesale impairment levels, and reduced exposure on the EWL. Focus areas for 2012 include reducing concentrations to perceived higher risk sectors, enhancing the risk and control framework and further embedding the AIRB principles in the business.

Retail credit risk

We will continue to focus on value and balance sheet optimisation. The aim is to increase portfolio growth through defining low risk pockets/products and improving decision-making processes by continuously assessing market conditions and understanding the impact of economic shifts on the various portfolios. We will therefore remain focused on the quality and profitability of new business written and will continue to be selective in the type of business written.

We will continue to focus on rehabilitating customer arrears in step with affordability.

We will focus on reducing non-performing loans (especially in the secured portfolios) by optimising the potential value when disposing of assets.

Securitisation

We will continue to reduce the level of on-statement of financial position securitisation exposures. Furthermore, Absa intends to securitise a portion of the CPF portfolio in 2012.

Market risk

Definition

The risk that our earnings, capital or ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads.

KPIs

	2011	2010
Average traded market risk (DVaR) (Rm)	23,73	27,85
Traded market risk regulatory capital (RC) (at 8% of RWAs) (Rm)	669,0	721,0
Banking book AEaR for a 2% interest rate shock (% of Group NII)	<5	<5
Equity investments in the banking book RWAs (Rm)	22 168	25 911

Strategy

- Ensure traded market risk resides mainly in Absa Capital.
- Maintaining a hedge programme encompassing non-traded interest rate risk and equity, towards greater net interest margin stability over a full interest rate cycle.
- Apply sound equity investment management principles.

2011 in review

Traded market risk

Despite challenging market conditions, the trading revenue-to-risk ratio remained favourable during the year. The risk profile was adjusted lower in line with increased market volatility and deterioration of traded market liquidity which occurred as a result of the sovereign debt crisis. Average traded market risk DVaR decreased by 14,8% from 2010 to 2011, mainly due to lower customer trading activity and lower overnight exposures. The potential impact of increased market volatility was closely monitored through tail risk assessments.

Measurement systems were upgraded to support trading expansion plans and Basel II.5 amendments. Regulatory approval for the Internal Models Approach (IMA) for trading book general position risk was also maintained.

Interest rate risk in the banking book

Interest rate risk in the banking book was managed to low risk appetite levels.

Our hedge programme for structural products and equity remains in place. Cash flow hedge reserves were further bolstered as a result of favourable mark-to-market movements. With South African interest rates at historically low levels during the past 12 months, efficient maintenance of the structural hedge programme was a key focus.

Absa remains exposed to prime-JIBAR basis risk.

Equity investment risk in the banking book

We have reduced our equity exposures.

Looking forward

Traded market risk

The sovereign debt crisis and spill-over effect into the South African economy remains a concern going into 2012 and is closely monitored.

From 2012, bank regulations based on Basel II.5 will result in an increase in the Group's traded market risk regulatory capital charge primarily due to the introduction of a stressed VaR charge. Traded market risk is expected to return to more normal levels as Basel II.5 implementations become embedded, removing one of the key drivers of uncertainty. Countercyclical enhancements to our traded market risk economic capital model will also result in an increase in internal capital.

We will thus remain focused on risk-adjusted returns and efficient use of risk capital across trading desks and products. Key focus areas remain our low capital consuming customer flow, cash equities and prime brokerage businesses. We will also continue to focus on customer risk solutions for sub-Saharan Africa markets.

Disclosure enhancements will be introduced in respect of Basel II.5 changes and to improve visibility of the inflation and credit spread asset classes.

Interest rate risk in the banking book

We will continue to manage interest rate risk in the banking book to low levels. Efficient maintenance of the structural interest rate hedge programme will remain a focus area.

Equity investment risk in the banking book

The focus in 2012 for equity investments is to continue to balance the portfolio composition in line with the Group's risk appetite, with further selective exits as appropriate.

Liquidity risk

Definition

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

KPIs

	2011 %	2010 %
Long-term funding ratio	**26,8**	25,6
Loans-to-deposits ratio	**88,1**	92,1

Strategy

- Grow and diversify the funding base.
- Lengthen the Group's funding profile.
- Build surplus liquid asset holdings.
- Lower the weighted average cost of funding.

2011 in review

Our liquidity position remained strong as it continued to focus on increasing its surplus liquid asset reserves, extending its funding term and growing its deposit base. Relatively slow growth in the South African economy meant that the supply of liquidity remained strong. The level of surplus liquid assets held by Absa (defined as unencumbered liquid assets held in excess of the amount required to be held in accordance with the regulations) increased during 2011. As at the reporting date, R27 billion of surplus liquid assets were held. Total liquid assets held were R63 billion, an increase of R10 billion on 2010.

We successfully issued senior unsecured debt to further extend our funding term and diversify our funding base. The Group also succeeded in reducing its reliance on wholesale money markets funding sources. The cost of liquidity remained high, but reduced from peak levels seen towards the end of 2009 and 2010. The appetite for term funding in the money markets reduced towards the end of the year, driven largely by asset managers rebalancing the duration profiles of their money market funds.

Looking forward

Regulators have allowed several years for full implementation of the Basel liquidity rules. Compliance with the liquidity coverage ratio, aimed at promoting the short-term resilience of a bank's liquidity risk profile, is required by January 2015, whereas compliance with the net stable funding ratio, aimed at promoting resilience over a longer time horizon (one year), is required by January 2018. We will continue to focus on liquidity risk to maintain and continuously improve our strong liquidity risk position ahead of Basel III and to ensure full compliance within the required timeframes.

Operational risk

Definition

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

KPIs

	2011	2010
Total number of events	↓	↓
Total loss value	↓	↑

Strategy

- Further embedding an operational risk-aware culture throughout the Group.
- Hold a risk-sensitive RC for operational risk under the Advanced Management Approach (AMA).
- Enhancing controls using automated solutions as far as possible, specifically relating to fraud and e-fraud.
- Set and monitor appropriate operational risk appetite and tolerance levels.

2011 in review

AMA approval was maintained for the Group subject to the relevant RC floors.

Losses were kept to acceptable levels and remain within appetite.

The implementation of new controls improved the management of fraud risk and resulted in fewer losses for the year compared to 2010. Total losses remained within appetite and were down from 2010, partially due to improved recoveries on losses.

Several control improvement projects were implemented during the year, which introduced new systems and technological processes to reduce operational risk (including the risk of fraud) and consequent losses.

We improved our risk governance structures and oversight measures for information technology.

The continued focus on control enhancements for financial and violent crime resulted in a decrease in losses.

Looking forward

We will continue to control fraud (the key operational risk within the Group) through further implementation and enhancement of fraud systems.

A key focus area will be to mitigate operational risks arising from new projects and programmes implemented in response to the changing economic and regulatory environments.

Plans to grow the African presence will require continuous assessment of operational risks and our response to them. Additional focus will be placed on sound project and programme management going forward to reduce risks arising from ‘change’.

Technology risk management capabilities will be further enhanced.

Given regulatory changes and increasing focus on consumer protection, related risks will be monitored.

Insurance risk	2011 in review	Looking forward

Definition

The risk that future claims and expenses will exceed the allowance for expected claims and expenses in measuring policyholder liabilities and in product pricing.

KPIs

	2011 %	2010 %
Short-term loss ratio	**67,4**	68,5
Life new business margin	**7,4**	9,5
Return on shareholders' assets versus benchmark	**7,3 vs 6,9**	13,8 vs 10,7

Strategy

- Sustainability through risk management and governance.
- Pursue profitable growth opportunities.
- Balance exposure between life and short-term insurance.

2011 in review

All insurance risk types remained well within set appetite limits. We completed a realignment of the Absa Life portfolios with revised asset allocations. This resulted in improved matching between assets and policyholder liabilities and a decrease in the risk profile of shareholder assets.

We increased our focus on profitability management per product line and implemented corrective measures to ensure products met the required levels of return.

A review of risk management processes indicated the entities are well prepared for the developing solvency assessment and management (SAM) legislation.

Looking forward

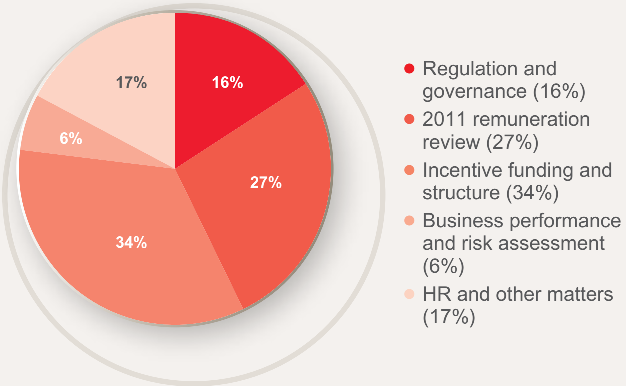
We will continue developing the capital model for the short-term insurance environment and maintain focus on driving product profitability by maximising returns on capital allocated to individual product lines.

We will continue with the work required in preparation for the SAM legislation, and in particular an assessment of the risk profiles of the insurance entities, and the capital requirements specific to these profiles.

Focus will also remain on:

- diversifying of risk between business lines and between South African and non-South African risks; and
- enhancing risk reporting and measurement with the aim of improving the monitoring of risk appetites and capital requirements across the insurance businesses, particularly in respect of non-South African insurance exposures.

Figure 1: GRHRC's allocation of time in 2011



View our full remuneration disclosures online

A balanced approach to remuneration

Highlights

- Total compensation as a % of PBT (before total compensation) for 2011 was 46,7%, down from 49,4% in 2010.
- The total performance incentive pool (including the initial value of deferred awards) was 13% up on 2010, with PBT up 20%.
- All of our remuneration arrangements are consistent with the local and international remuneration regulations governing financial services. We operate very high levels of deferral compared to the local market.

Outlook

- We are committed to showing responsibility in remuneration. We will continue to review our remuneration policy and will maintain close dialogue with our key stakeholders.

Strategic pillars discussed

Introduction

We are sensitive to the current focus on executive remuneration, particularly in financial services, and acknowledge that it is an important issue for our stakeholders. On behalf of the board, the GRHRC seeks to achieve an appropriate balance between delivering market competitive remuneration and optimising current and future returns for our shareholders, while considering our other stakeholders, including customers and regulators. All of our decisions seek to balance the views of these stakeholders with the need to attract, retain and incentivise talent in a competitive market, where people are both locally and globally mobile.

During 2011, we carried out a detailed review of remuneration with assistance from Barclays. We have developed a policy and framework which looks at the following key principles:

1. There must be a clear framework for evaluating total compensation costs and the share of value between employees and shareholders.
2. Performance incentives must be determined with reference to clear performance objectives. Performance cannot always be assessed simply by formulae, as this may lead to unintended consequences. The application of informed discretion by the GRHRC is important in order to achieve appropriate outcomes, which reflect the underlying health of the business and the shareholder value created.
3. Remuneration should be structured in accordance with the local and international regulations that govern financial services.
4. Deferral over the medium to long-term, with clawback provisions and linked to share price performance, should be an important feature of performance incentives in order to mitigate the focus on short-term performance and align the interests of senior employees and shareholders.
5. Overall remuneration packages must be competitive; talent is mobile both in local markets and globally.
6. Reporting on remuneration should be transparent and should provide stakeholders with clear insights into our decision-making.

Our remuneration policy and arrangements, summarised here from our full remuneration review available online, are designed to support these principles. Details of the ways in which we have applied these principles to our decision-making for 2011 are set out in table 1.

Absa is acutely aware of the focus on executive remuneration. Our approach aims to balance the interests and views of our stakeholders with the need to attract and retain talent.

Brand Pretorius Chairman – Group Remuneration and Human Resources Committee

Absa's remuneration policy

The GRHRC revised the remuneration policy during 2011. Changes were made to ensure that the policy is appropriately aligned with the interests of shareholders and supports the delivery of the business strategy within our risk management framework. The aims of the Absa remuneration policy are to:

1. Attract and retain those people with the ability, experience and skill to deliver the strategy.
2. Create a direct and recognisable alignment between the rewards and risk exposure of shareholders and employees, particularly executive directors and senior management.
3. Incentivise employees to deliver sustained performance, consistent with strategic goals and appropriate risk management, and to reward success in this.
4. Deliver compensation that is affordable and appropriate in terms of value allocated to shareholders and employees.
5. Encourage behaviour consistent with the Absa values which guide our business.

Table 1: Our approach to key remuneration principles

Key principle	Our approach	How we have applied this in 2011
Operating a framework which evaluates total compensation Link to policy: 4. Deliver compensation that is affordable and appropriate.	In 2011, we established forward looking frameworks for each business and at the Group level that evaluate total compensation and assist with the planning and management of compensation costs. The framework for each business sets out key compensation and risk-adjusted financial ratios achieved by Absa and its competitors, specifically designed to take account of underlying business performance and current and future affordability. At an individual level, remuneration decisions are made on a total compensation basis, benchmarked against the relevant market. The exact pay mix, including the proportions of fixed and variable pay, varies by role, seniority and business to ensure that it is appropriate to each individual.	Our decisions on the aggregate funding of 2011 performance incentives were made with reference to these total compensation frameworks. Total compensation as a percentage of PBT (before total compensation) was 46,7% (49,4% in 2010). Total compensation as a percentage of net income (total income less impairments) was 30,6% (31,4% in 2010).

Remuneration summary

<table>
<tr><th>Key principle</th><th>Our approach</th><th>How we have applied this in 2011</th></tr>
<tr><td>Linking pay to performance

Link to policy:
3. Incentivise employees to deliver sustained performance, consistent with strategic goals and risk management and reward success in this.
4. Deliver compensation that is affordable and appropriate.</td><td>Our core principle is to pay for sustained performance.

The GRHRC's aggregate incentive funding decisions are based on a risk-adjusted view of financial performance. This is a continuous process with detailed monitoring of financial and risk performance, forecast remuneration and key compensation ratios throughout the year.

In reaching its decisions, the GRHRC applies informed discretion to the compensation analysis. We believe that overly formulaic approaches to remuneration can lead to unintended consequences and can incentivise undesirable behaviour.

All our long-term remuneration arrangements are subject to performance over time. For deferred awards, performance adjustment is provided through the link to share price over three years; long-term incentives are subject to risk-adjusted financial performance over three years. The GRHRC has the discretion to reduce the vesting of awards, to nil if appropriate, to ensure that payments reflect actual performance achieved over time.</td><td>In making performance incentive decisions for 2011, the GRHRC considered overall Group and business financial performance, key risk themes and non-financial performance against our material issues.

A summary of the key performance factors considered is set out on page 80.

Taking this performance into account, the total performance incentive pool (including the initial value of deferred awards) was 13% up on 2010.

The outcomes of prior-year long-term incentives demonstrate the link between pay and performance. During 2011, R270 million of Performance Share Plan (PSP) awards were forfeited because the performance conditions were only partially met. During 2012, R191 million of PSP awards will be forfeited because the performance conditions were not met.</td></tr>
<tr><td>Remuneration regulation</td><td>Absa is committed to complying with the regulations that govern financial services, including the King III Corporate Governance Code and the Financial Stability Board (FSB) Implementation Standards.

Absa's approach to remuneration is also consistent with the UK Financial Services Authority's (FSA) Remuneration Code by virtue of being a part of the Barclays Group.

It should be noted that inconsistent implementation of international regulations around deferral and the structure of remuneration by organisations and regulators places organisations such as ours at a competitive disadvantage in our local markets.</td><td>All of our decisions for 2011 have been made in accordance with South African and UK regulatory requirements and international best practice.</td></tr>
<tr><td>Structure of remuneration

Link to policy:
2. Create a direct and recognisable alignment between the risk exposure of shareholders and employees.</td><td>We operate high levels of deferral on performance incentives, which we believe is appropriate in order to:
➜ ensure that remuneration is appropriately adjusted for risk and reflects actual performance achieved over time;
➜ align remuneration with the creation of shareholder value; and
➜ increase retention of our key employees.

Deferred awards are delivered as phantom shares, normally released in equal portions over three years.

All deferred awards include clawback provisions, which mean that the GRHRC may reduce the vesting of awards, including to nil if appropriate. Events that may lead to the operation of clawback provisions include employee misconduct, material restatement of Absa's financial statements, material failure of risk management or a significant deterioration in the financial health of Absa.

We award guaranteed performance incentives by exception, only in the context of hiring and only in relation to the first year. Guaranteed incentives are subject to the same levels of deferral as discretionary incentives.</td><td>25% of all 2011 performance incentives were delivered as deferred awards.

Maria Ramos received 100% of her 2011 performance incentive as a deferred award.

Louis von Zeuner, David Hodnett and Stephen van Coller were subject to the specific remuneration structure requirements of the FSA's Remuneration Code, meaning that they received 20% of their performance incentive in cash in February 2012, 20% in phantom shares released after six months and 60% as a deferred award.

For other members of the Group Exco and other highly paid executives, 60% of 2011 performance incentives were delivered as a deferred award.

For other senior managers and material risk takers, at least 40% of 2011 performance incentives were delivered as a deferred award.

All other employees with performance incentives above a specific threshold were subject to deferral on a scaled basis, with a minimum deferral rate of 30%.

Executive directors and other senior executives may also participate in long-term incentives, vesting after three years subject to risk-adjusted performance conditions focused on the execution of the strategy.</td></tr>
</table>

Key principle	Our approach	How we have applied this in 2011
Operating in a competitive environment Link to policy: 1. Attract and retain those people with the ability, experience and skill to deliver the strategy.	The quantum of our remuneration packages is driven by the need to attract, retain and incentivise talent in a highly competitive market, where people are locally and globally mobile and there is a scarcity of talent. Attracting and developing talented people is essential to the delivery of our strategy and in ensuring we have a leading position in the financial services industry. Decisions are made on an individual basis, taking into account business and personal performance, overall affordability and market data. Decisions on the quantum of remuneration are made on a total compensation basis, with reference to the relevant market. Performance incentives are neither capped nor formulaically linked to a specific proportion of fixed remuneration. We retain discretion over the quantum of incentives to ensure that we can differentiate remuneration levels to reflect appropriately performance and attract, retain and incentivise the most talented people. For the most senior employees, a significant proportion of total compensation is delivered as deferred awards and long-term incentives to help ensure sustained performance over the longer-term.	The quantum of all executive directors and prescribed officers' remuneration is benchmarked against the relevant markets in which we compete for talent. No executive directors or current prescribed officers received increases to their fixed remuneration in the April 2011 pay review. Maria Ramos, Louis von Zeuner and David Hodnett have received increases in their performance incentives compared to 2010. This reflects the absolute and relative performance of Absa in a challenging operating environment and the improvement in underlying profitability, as well as their strong personal contributions. The performance incentive for Bobby Malabie reflects a full year's service, whereas his 2010 performance incentive was for 10 months of the year. His 2011 incentive reflects the performance of Absa Business Bank (PBT up 4% on 2010). Willie Lategan's performance incentive reflects the strong performance of Absa Financial Services (PBT up 9% on 2010). The decrease in Stephen van Coller's performance incentive reflects the decrease in profitability in Absa Capital compared to 2010 (PBT down 7% on 2010).
Transparency and disclosure Link to policy: 2. Create a direct and recognisable link between the rewards and risk exposure of shareholders and employees.	We are committed to providing transparency to enable stakeholders to assess our remuneration arrangements, including the ways in which we link pay to performance and align our decisions with shareholder value.	This report, and our full report online, set out the details of our remuneration arrangements to support this commitment to transparency. Our 2011 remuneration disclosures are consistent with the Basel Committee on Banking Supervision's (BCBS) Pillar 3 requirements.

GRHRC advisors

During 2011, Deloitte provided the GRHRC with market benchmarking and compensation analytics data. The Barclays Compensation and Benefits Director also provided valuable insights on Barclays practices, global market trends and the regulatory environment and supported our detailed review of remuneration.

The Group Chief Executive, Deputy Group Chief Executive, Group Financial Director, Chief Human Resources Executive, Chief Risk Officer and Group Head: Reward and Benefits also attend meetings as required and advise the Committee, supported by their teams.

How we make remuneration decisions

During 2011, the GRHRC established forward looking frameworks to assist with the planning and management of remuneration. The framework for each business unit includes key financial ratios achieved by Absa and its competitors. The frameworks are specifically designed to take account of underlying business unit performance and current and future affordability, and are used by the GRHRC to inform its decisions when approving aggregate remuneration spend, including performance incentives. The historical and 2011 compensation ratios for the Group framework are set out in table 2.

Remuneration summary

Overall performance incentive pools are determined for each business unit by the GRHRC on a discretionary basis, informed by these frameworks and the risk-adjusted financial and non-financial performance of each business unit and the Group. PBT, RoRWA and net income are considered for all business units, in addition to other industry-specific metrics which may be appropriate.

This analysis is supported by advice from the Group Financial Director and the Chief Risk Officer on the quality of earnings and performance from a risk perspective. The GRHRC also conducts sensitivity analysis on the impact of key performance metrics if the total performance incentive funding were to be adjusted upwards or downwards. The GRHRC takes all this analysis into account, as well as factors driving the long-term sustainability of the business, including strengthening capital, investing in the business and protecting the Absa franchise, in making a decision on the size of the total Group performance incentive pool.

The performance incentive pools are then divided and allocated to the principal business unit or product areas, on the same basis as the overall pools, taking into account the risk-adjusted performance of each area and team.

In linking pay to performance at an individual level, performance incentives are strongly differentiated on the basis of performance. The performance assessment process formally considers both quantitative and qualitative factors, including objectives linked to the overall strategy and adherence to relevant risk frameworks. Employee behaviour is considered in the context of the Absa values. This link helps to reinforce appropriate behaviours and so mitigate operational and reputational risks.

The resulting individual performance ratings have a direct impact on individual remuneration decisions. All individual remuneration decisions are benchmarked against the markets in which we compete for talent. This includes benchmarking against other leading South African financial services organisations and other companies, of a similar size and scope, listed on the JSE.

Detailed reviews are conducted by each team, business unit and function and at the Group level on both performance ratings and remuneration decisions to ensure decisions are consistent, fair and appropriate. Remuneration recommendations are analysed against budgets and by performance rating as well as diversity and inclusion principles. All reviews are cascaded upward through management channels with no individual participating in discussions or decisions relating to their own pay or performance rating.

The GRHRC approves the individual remuneration for any employee with an annual total remuneration equal to or in excess of a pre-determined threshold (R3,5 million in 2011). In addition, the remuneration of all senior managers and material risk takers, including senior finance, risk and compliance officers, is also reviewed by the GRHRC. The aggregate 2011 remuneration for senior managers and material risk takers can be found online.

A new framework, established during 2011, formalised the role and input of the Risk and Compliance functions in remuneration activities. As part of this framework, Group Risk provides regular updates on business performance from a risk perspective and reviews remuneration frameworks and the design and performance targets for incentive plans. Group Risk and Group Compliance also ensure that any material risk or compliance incidents are taken into consideration in the final performance assessment and remuneration decisions for senior managers and material risk takers. There were no material issues identified during or in respect of 2011.

Informed discretion plays an important role in all our remuneration decisions, as opposed to making exclusive use of formulaic approaches. Financial services is a complex and rapidly evolving business and it is essential that the GRHRC can exercise discretion, within a structured governance framework, in order to achieve appropriate compensation outcomes, which reflect the underlying health of the business and the shareholder value created.

Table 2: 2011 and historical compensation framework ratios

Compensation framework ratio	**2011 %**	2010 %	2009 %	2008 %
Total compensation as a % of PBT (before total compensation)	**46,7**	49,4	51,6	40,6
Cost as a % of net income (total income less impairments)	**64,8**	67,9	71,3	58,5
Total compensation as a % of net income	**30,6**	31,4	31,7	28,2
RoRWA	**2,35**	1,99	1,97	2,58

Our remuneration arrangements for 2011

The remuneration policy applies the same overarching principles to all employees, though the exact structure and quantum of individual packages varies by business unit and role. Table 3 summarises the key elements of Absa's remuneration arrangements for 2011. We review all remuneration arrangements on a regular basis and may amend, remove or introduce plans, subject to shareholder approval where appropriate, to ensure that our arrangements support the objectives of the remuneration policy.

Table 3: Key elements of Absa's remuneration arrangements

Element and strategic purpose	Summary
Fixed remuneration, based on the cost to company methodology is designed to attract and retain talent in a competitive market and provide market competitive benefits.	Fixed remuneration is delivered to all employees based on their total cost to company which includes base salary and employer contributions to: ➜ the Absa Group Pension Fund, a defined contribution pension scheme; ➜ the Absa Group Life benefit, which includes a death-in-service benefit as well as temporary and permanent disability benefits; and ➜ medical aid. In addition to cost to company, all employees receive a taxable cash medical subsidy of R7 200 per annum which we pay to assist with rising medical costs. We benchmark employees' cost to company against the appropriate market and aim to pay at the market median. Where appropriate, we may target an above median position to ensure we can attract and retain talented employees.
Performance incentives are designed to incentivise the delivery of annual goals at Group, business, team and individual levels.	Performance incentives are discretionary. The aggregate incentive pool is determined with reference to a range of risk-adjusted metrics. Incentives are strongly differentiated, based on Group, business, team and individual performance (both financial and non-financial). In 2011, 27 329 employees (85% of all employees) received a performance incentive. The structure varies based on the amount and may include cash paid in February 2012, and a deferred award, which is delivered over three years, dependent on future service and subject to clawback provisions. Some employees, where appropriate, participate in sales incentive schemes, typically instead of discretionary performance incentives.
Deferred awards are designed to align performance with shareholder value and to retain key senior employees.	Employees receiving a performance incentive above a certain threshold, receive a deferred award, dependent on future service. Deferral levels typically range from 30% to 60% depending on role and the value of the performance incentive. 2012 awards will be delivered as phantom share awards under the Deferred Award Plan (DAP). These normally vest in three equal portions on the first, second and third anniversaries of the award, subject to clawback provisions. For 2012, financial performance conditions will not be applied to DAP awards because we believe the link to share price and the clawback provisions provide appropriate performance linkage and risk-adjustment. Long-term incentives for senior executives ensure that a significant proportion of remuneration remains directly contingent on meeting future performance targets.
Long-term incentive awards are designed to reward execution against the strategy and the creation of sustained growth in shareholder value and align senior employees' goals with the long-term success of Absa.	Absa's most senior employees may receive long-term incentive awards. We continually review the design of our long-term incentive arrangements to ensure that they are appropriately aligned to our strategic goals and provide appropriate incentive for longer-term performance. The structure of arrangements may include both share and cash-based awards, as deemed appropriate by the GRHRC, based on our specific business and operating environments. All awards are structured in accordance with regulatory and corporate governance requirements. All long-term incentive awards are subject to risk-adjusted performance conditions and clawback provisions over a three-year period. Awards only vest if the performance conditions are satisfied and then at the discretion of the GRHRC to ensure that awards only vest for performance. Because it has been designed as a share plan, shareholder approval is being sought at the 2012 AGM for the new Absa Long-Term Incentive Plan (Absa LTIP), which will replace the PSP as our primary share-based long-term incentive arrangement. The Absa LTIP is designed to reward execution against the Group strategy and the creation of sustained growth in shareholder value. Following shareholder approval, the GRHRC will consider making awards under the plan during 2012. Further details are included in the 2012 notice of AGM. The GRHRC may also consider cash-based LTIP arrangements from time to time that may not require shareholder approval but will be disclosed as required in the normal course of our remuneration reporting.

Executive director and prescribed officers' remuneration

King III provides for the disclosure of the three most highly paid employees who are not directors. We believe that the disclosure of remuneration paid to executive directors, prescribed officers and other senior managers and material risk takers (as required under the Companies Act and the BCBS Pillar 3 requirements) is sufficient to provide stakeholders with evidence of the link between pay and performance and the alignment of remuneration with shareholder value.

Determination of performance incentives

For executive directors and prescribed officers, the individual performance assessment process measures absolute and relative financial performance against the prior year and against board-approved targets, as well as non-financial performance.

The key factors taken into consideration in assessing executive and overall performance over the year are set out below. From this it can be seen that the measurement of performance cannot simply be reduced to a formula; it is important that informed discretion is overlaid onto quantitative analysis.

Summary 2011 performance relating to our material issues

➜ **Sustainable financial viability**

- PBT up 20% to R14 210 million.
- Headline earnings up 21% to R9 719 million.
- Cost-to-income ratio of 55,5% (improved from 56,2% in 2010).
- Cost growth limited to 6%, with sustainable cost containment measures.
- Headline earnings per share up 21% to 1 355,9 cents.
- Total dividend up 50% to 684 cents.
- Group total capital adequacy ratio of 16,7%.
- Strengthened balance sheet, improving the Group's Core Tier 1 ratio to 13%.
- Credit loss ratio improved to 1,01% (from 1,18%) with the impairment charge improving by 15% on 2010.
- RoE of 16,4% and RoRWA of 2,35%, both improved from 2010 and favourable to plan.
- Adherence to control frameworks has generally been good and improved compared to 2010.

➜ **System and process effectiveness**

- Significant progress in rolling out the target operating model in functional areas.
- Progress made on end-to-end processes to improve turnaround time and customer service.

➜ **Customer experience**

- Further progress needed to reach customer satisfaction goals and complaint resolution processes.
- Fraud halved and related customer losses decreased by 82%.

➜ **Our people**

- Talent retention and succession planning improved, with internal promotions and transfers up to 55% from 36%.
- Skills development spend increased to 5% of leviable payroll spend.
- Employee behaviour is considered against the Absa values as part of the performance assessment process for each individual.

➜ **Economic equity**

- Entry-level customers increased from 7,2 million to 7,4 million.
- Affordable Housing grew its loan book by 10,5% and added R1,5 billion in new home loans.
- Absa's BBBEE recognition level was maintained at Level 3.

Performance is assessed against these factors to determine an individual performance rating. This rating drives a discretionary decision on the quantum of each individual's performance incentive. This is then benchmarked against market data for peers at other banks, financial services organisations and other industrial companies listed on the JSE and moderated as appropriate.

Structure of performance incentives

Maria Ramos received all of her 2011 performance incentive as a deferred award, vesting in three equal portions in 2013, 2014 and 2015.

As required by the FSA's Remuneration Code, performance incentives for Louis von Zeuner, David Hodnett and Stephen van Coller were delivered 20% in cash in February 2012, 20% in phantom shares released after six months and 60% as a deferred award, vesting over three years.

Willie Lategan and Bobby Malabie received their performance incentives 40% in cash in February 2012 and 60% as a deferred award, vesting over three years.

Remuneration disclosures contained in the remuneration review form part of the standard disclosures required in the Group's audited annual financial statements. These disclosures have been indicated as audited with a blue line:

- Table 5: Executive directors' 2011/12 remuneration set out on page 82.
- Table 6: Prescribed officers' 2011/12 remuneration set out on page 82.
- Table 7: Payments from prior years' deferred awards and long-term incentives and outstanding share plan and long-term incentive awards set out on pages 84 and 85.
- Table 9: Contract terms and appointment dates set out on page 87.
- Table 10: Group Chairman and non-executive directors' fees set out on page 88.

Remuneration awarded in 2011/12

Tables 5 and 6 set out the value of remuneration awarded to executive directors and prescribed officers for 2011/12. This is the total remuneration awarded for all services to the Absa Group. No employee receives additional remuneration from Barclays or any of Absa's subsidiary companies.

In addition to the remuneration awarded in 2011/12, executive directors and prescribed officers received other payments during 2011 from vested deferred and long-term incentive awards, made in respect of prior years' performance. For executive directors, the initial value of these awards was disclosed in prior years, at the time they were awarded. The value of these payouts and the number of shares outstanding under these awards is set out in table 7.

No executive directors or current prescribed officers received increases to their fixed remuneration in the April 2011 pay review. They have not had increases to their fixed remuneration since April 2010. The total fixed remuneration figures in tables 5 and 6 show an increase for 2011 compared to 2010, as these reflect the increases they received after the first three months of 2010, in April. Gavin Opperman received an increase in his fixed remuneration in April 2011.

Table 4: Reconciliation between remuneration paid and awarded in 2011

	Paid in 2011	Payable in 2012	Payable over 2013 – 2015
Remuneration awarded (tables 5 and 6)	➜ Fixed remuneration (salary and benefits) received monthly; and ➜ payment in lieu of accrued leave (the number of leave days which employees may hold is capped and any days accrued above the cap are paid to the employee in cash).	➜ 2011 cash performance incentive paid in February 2012; and ➜ 2011 performance incentive in phantom shares, granted February 2012 and released in August 2012.	➜ Deferred award over phantom shares granted in February 2012 and released in three equal portions in February 2013, 2014 and 2015, dependent on continued service over this period and subject to clawback provisions.
Payouts from long-term awards made in prior years (table 7)	➜ Payments from deferred awards made in 2010 under DAP; ➜ payments from PSP awards made in 2008; ➜ payments from deferred bonus awards made under the Executive Share Award Scheme (ESAS) in 2008; and ➜ gains on options exercised from Share Option Scheme (SOS) awards, originally granted in 2004 and 2005 and which vested in 2009 and 2010		

Remuneration summary

Table 5: Executive directors' 2011/12 remuneration

	D W P Hodnett[2]		M Ramos		L L von Zeuner		Total	
	2011 R	2010 R	2011 R	2010 R	2011 R	2010 R	2011 R	2010 R
Directors' fees[1]	—	—	—	37 922	—	37 922	—	75 844
Salary	3 056 877	2 484 240	6 070 244	5 948 781	3 930 748	3 789 461	13 057 869	12 222 482
Medical aid	83 268	63 370	64 716	59 100	84 804	76 044	232 788	198 514
Retirement benefits	251 852	204 321	492 593	482 419	322 222	310 185	1 066 667	996 925
Other employee benefits	31 158	22 281	29 740	29 557	88 008	105 302	148 906	157 140
Total fixed remuneration	**3 423 155**	**2 774 212**	**6 657 293**	**6 557 779**	**4 425 782**	**4 318 914**	**14 506 230**	**13 650 905**
Performance incentive								
– cash	1 800 000	2 450 000	—	2 275 000	2 500 000	3 850 000	4 300 000	8 575 000
– phantom shares after six months	1 800 000	—	—	2 275 000	2 500 000	—	4 300 000	2 275 000
Initial value of deferred award[3]	5 400 000	4 550 000	14 000 000	8 450 000	7 500 000	7 150 000	26 900 000	20 150 000
Total remuneration	**12 423 155**	**9 774 212**	**20 657 293**	**19 557 779**	**16 925 782**	**15 318 914**	**50 006 230**	**44 650 905**
Pay in lieu of leave	—	—	—	—	91 512	88 093	91 512	88 093

Notes

[1]The practice of paying directors' fees to executive directors was discontinued in April 2010. M Ramos and L L von Zeuner received directors' fees for the first three months of 2010 after which they were incorporated into fixed remuneration.

[2]D W P Hodnett joined the board in March 2010 and did not receive any directors' fees. His 2010 fixed remuneration in table 5 reflects the 10 months of the year he served as an executive director. His performance incentives reflect the full amount awarded in respect of 2010/11.

[3]Deferred awards are delivered as phantom shares vesting over three years, dependent on future service and subject to clawback provisions.

Table 6: Prescribed officers' 2011/12 remuneration

	W T Lategan		B A Malabie[1]		G R Opperman[2]		S van Coller		Total	
	2011 R	2010 R	2011 R	2010 R	2011 R	2010 R	2011 R	2010 R	2011 R	2010 R
Salary	2 494 712	2 456 458	2 706 836	2 281 386	2 566 667	2 145 140	2 955 453	2 733 105	10 723 668	9 616 089
Medical aid	92 544	84 516	64 716	28 160	21 252	21 492	92 544	84 516	271 056	218 684
Retirement benefits	207 408	203 704	222 222	185 185	194 445	174 074	244 445	225 920	868 520	788 883
Other employee benefits	79 001	12 523	39 013	19 923	8 919	10 195	14 851	13 648	141 784	56 289
Total fixed remuneration	**2 873 665**	2 757 201	**3 032 787**	2 514 654	**2 791 283**	2 350 901	**3 307 293**	3 057 189	**12 005 028**	10 679 945
Performance incentive										
– cash	2 200 000	1 925 000	1 600 000	980 000	—	1 871 000	3 000 000	5 775 000	6 800 000	10 551 000
– phantom shares after six months	—	—	—	—	—	—	3 000 000	—	3 000 000	—
Initial value of deferred award[3]	3 300 000	3 575 000	2 400 000	1 820 000	—	2 600 000	9 000 000	10 725 000	14 700 000	18 720 000
Total remuneration	**8 373 665**	8 257 201	**7 032 787**	5 314 654	**2 791 283**	6 821 901	**18 307 293**	19 557 189	**36 505 028**	39 950 945
Pay equal to six months fixed remuneration	—	—	—	—	1 500 000	—	—	—	1 500 000	—
Pay in lieu of leave	—	—	—	—	1 136 857	—	—	—	1 136 857	—

Notes

[1]B A Malabie joined Absa on 1 March 2010. The 2010 remuneration was paid in respect of the period he was employed.

[2]G R Opperman (Chief Executive, Retail Bank) was a prescribed officer until 30 November 2011, when he left Absa. On leaving, he received pay equal to six months' cost to company and the value of all accrued leave. He did not receive an annual performance incentive in respect of 2011.

[3]Deferred awards are delivered as phantom shares vesting over three years, dependent on future service and subject to clawback provisions.

Outstanding share plan and long-term incentive plan awards

Absa operates a number of share plans to align the interests of employees with shareholders and the execution of the strategy. Table 7 summarises the interests of each executive director and prescribed officer in long-term plans operated by Absa. This includes:

- prior years' deferred awards under DAP and ESAS (the bonus deferral scheme in place from 2006 to 2010);
- retention awards made in 2010 under the Key Leaders' Retention Plan (KLP); and
- long-term incentives under SOS and PSP.

The details of the structure of each plan are set out in tables 11 and 12 on pages 89 to 91. Table 8 summarises the three-year performance conditions set at grant on DAP, PSP and KLP awards.

The outcomes of the 2008 – 2010 and 2009 – 2011 cycle PSP awards demonstrate the link in place between pay and performance:

- The attributable earnings performance condition on the 2008 – 2010 cycle PSP Plan 1 awards was not met and the total shareholder return (TSR) performance condition was met in full. As a result, awards vested in February 2011 at 1,5 times the initial value (the maximum was 3 times). 50% of the maximum awards vested to participants, while 50% (R125 million) lapsed. In table 7, the shares released under the PSP during 2011 reflect the number of shares which vested to executive directors and prescribed officers at the 1,5 multiple.
- The attributable earnings performance condition on the 2008 – 2010 cycle PSP Plan 2 awards was not met and all awards, due to vest in February 2011, lapsed in full (R145 million).
- For the 2009 – 2011 cycle PSP awards, the attributable earnings growth performance condition was not met. As a result, all awards, due to vest in 2012, will lapse in full (R191 million).

There are no outstanding awards under the PSP and it is proposed that it is replaced with the Absa LTIP, subject to approval of the plan by shareholders at the 2012 AGM.

Table 7: Payments from prior years' deferred awards and long-term incentives and outstanding share plan and long-term incentive awards

	Number of shares under award/option at 1 January 2011	Number of shares awarded during 2011	Strike price for shares under option (R)	Share price on award (R)	Number of shares released/ exercised during 2011
Executive directors					
D W P Hodnett					
ESAS 2008	5 955			105	
ESAS 2009	7 880			95	
DAP 2010	24 508			133	8 169
DAP 2011		34 332		133	
PSP Plan 1 2008	17 034			117	25 551
PSP 2009	31 522			95	
JSAP 2008	5 556			117	5 556
KLP 2010[1]	22 574			133	
Total value of releases					
M Ramos					
2010 incentive in shares		17 166		133	17 166
DAP 2010	40 845			133	13 615
DAP 2011		63 760		133	
KLP 2010[1]	30 098			133	
Total value of releases					
L L von Zeuner					
SOS 2004	102 000		52		
SOS 2005	60 000		92		
ESAS 2008	23 820			105	23 820
ESAS 2009	21 015			95	
DAP 2010	49 016			133	16 338
DAP 2011		53 951		133	
PSP Plan 1 2008	60 028			105	90 042
PSP 2009	69 349			95	
KLP 2010[1]	30 098			133	
Total value of releases					
Prescribed officers					
W T Lategan					
SOS 2005	20 000		92		
ESAS 2008	8 337			105	8 337
ESAS 2009	9 850			95	
Voluntary ESAS bonus shares	516			116	516
DAP 2010	22 058			133	7 352
DAP 2011		26 976		133	
PSP Plan 1 2008	19 056			105	28 584
PSP 2009	31 522			95	
KLP 2010[1]	22 574			133	
Total value of releases					
B A Malabie[2]					
DAP 2011		13 733		133	
KLP 2010[1]		16 767		134	
JSAP 2010	17 869			133	7 148
Total value of releases					
S van Coller					
ESAS 2008	35 731			105	35 731
ESAS 2009	39 403			95	
DAP 2010	56 557			133	18 852
DAP 2011		80 926		133	
KLP 2010[1]	22 574			133	
Total value of releases					
Former prescribed officer – G R Opperman					
SOS 2005	13 334		92		13 334
ESAS 2008	4 406			105	4 406
ESAS 2009	3 414			95	
DAP 2010	14 705			133	4 901
DAP 2011		19 619		133	
PSP Plan 1 2008	9 528			105	14 292
PSP Plan 2 2008	9 420			106	
PSP 2009	10 507			95	
KLP 2010[1]	22 574			133	
JSAP 2011		108 611		129	
Total value of releases					

Notes

[1]The share-based portions of the KLP awards are shown in the table above. 50% of the award is over deferred cash, subject to a PBT performance condition linked to the One Absa strategy. The value of the deferred cash portions are as follows: M Ramos (R4 000 000); L L von Zeuner (R4 000 000); D W P Hodnett (R3 000 000); S van Coller (R3 000 000); W T Lategan (R3 000 000); and B A Malabie (R2 250 000). The cash portion of G R Opperman's award lapsed on leaving.

[2]In addition to the awards above, B A Malabie has 25 011 shares under award in the Absa HDSA Employees Trust. The Absa HDSA Employees Trust is not an incentive arrangement, but forms part of Absa's BBBEE arrangements. Full details are set out in table 11 on page 89.

Market price on release/ exercise date (R)	Value of release/ exercise (R)	Value of dividends released (R)	Value of bonus shares released (ESAS only) (R)	Number of shares/ options lapsed in 2011	Number of shares under award/ option at 31 December 2011	End of performance period	Last exercise/ scheduled vesting date
					5 955	23/02/2011	23/02/2013
					7 880	20/02/2012	20/02/2014
133	1 118 990	36 352			16 339	31/12/2012	20/02/2013
					34 332	31/12/2013	20/02/2014
132	3 886 182	342 514			—	31/12/2010	23/02/2011
					31 522	31/12/2011	20/02/2012
129	815 399	100 841			—	31/03/2011	31/03/2011
					22 574	31/12/2012	01/03/2013
	5 820 571	**479 707**					
132	2 350 385	90 825			—	20/08/2011	20/08/2011
133	1 864 983	60 587			27 230	31/12/2012	20/02/2013
					63 760	31/12/2013	20/02/2014
					30 098	31/12/2012	01/03/2013
	4 215 368	**151 412**					
					102 000	19/08/2009	19/08/2014
					60 000	18/08/2010	18/08/2015
131	4 305 587	569 373	622 702		—	23/02/2011	23/02/2013
					21 015	20/02/2012	20/02/2014
133	2 237 979	72 704			32 678	31/12/2012	20/02/2013
					53 951	31/12/2013	20/02/2014
132	13 697 922	1 208 895			—	31/12/2010	23/02/2011
					69 349	31/12/2011	20/02/2012
					30 098	31/12/2012	01/03/2013
	20 241 488	**1 850 972**	**622 702**				
					20 000	18/08/2010	18/08/2015
135	1 586 031	205 774	225 378		—	23/02/2011	23/02/2013
					9 850	20/02/2012	20/02/2014
135	69 428				—	28/02/2011	28/02/2013
133	1 007 077	32 716			14 706	31/12/2012	20/02/2013
					26 976	31/12/2013	20/02/2014
132	4 348 147	383 562			—	31/12/2010	23/02/2011
					31 522	31/12/2011	20/02/2012
					22 574	31/12/2012	01/03/2013
	7 010 683	**622 052**	**225 378**				
					13 733	31/12/2013	20/02/2014
					16 767	31/12/2012	01/03/2013
129	967 553	48 249			10 721	31/03/2014	31/03/2014
	967 553	**48 249**					
132	6 522 550	863 215	943 201		—	23/02/2011	23/02/2013
					39 403	20/02/2012	20/02/2014
133	2 582 347	83 891			37 705	31/12/2012	20/02/2013
					80 926	31/12/2013	20/02/2014
					22 574	31/12/2012	01/03/2013
	9 104 897	**947 106**	**943 201**				
138	622 031				—	18/08/2010	18/08/2015
130	790 709	104 034	114 424		—	23/02/2011	23/02/2013
					3 414	20/02/2012	20/02/2014
133	671 339	21 809			9 804	31/12/2012	20/02/2013
					19 619	31/12/2013	20/02/2014
132	2 173 479	191 386			—	31/12/2010	23/02/2011
				9 420	—	31/12/2010	23/02/2011
					10 507	31/12/2011	20/02/2012
					22 574	31/12/2012	01/03/2013
				84 475	24 136	31/03/2014	31/03/2014
	4 257 558	**317 229**	**114 424**				

Table 8: Performance conditions attached to the long-term plans in which executive directors and prescribed officers participate

Scheme	Performance target	Actual performance
PSP 2008 – 2010 (plan 1)	A performance underpin that cumulative PAT over the performance period must exceed cumulative PAT over the prior three-year performance period (2005 – 2007). Following achievement of the underpin: ➜ 50% of the award was subject to nominal attributable earnings growth. No value vested for less than 10% growth over the performance period and the maximum multiple of three times the initial award vested if attributable earnings growth was 20% over the performance period; and ➜ 50% of the award was subject to TSR based on performance against the financial and industrial (FINI) 15 index. No value vested for performance below the FINI 15 index and the maximum multiplier of three times the initial awards vested if TSR outperformed the FINI 15 index by 10%.	➜ PAT for the 2008 – 2010 period was R27 408 million, which was higher than the PAT for the 2005 – 2007 period (R24 509 million) so the underpin was met. ➜ Nominal attributable earnings growth over 2008 – 2010 was negative 9,4%, meaning that the performance condition was not met. 50% of the total awards lapsed. ➜ The TSR condition was met. Absa's TSR for the three-year performance period was 13,46% per annum (FINI 15 index plus 10,67%). 50% of awards vested at the maximum multiplier of three times. ➜ The total awards vested at 1,5 times the initial value in February 2011.
PSP 2008 – 2010 (plan 2)	A performance underpin that cumulative PAT over the performance period must exceed cumulative PAT over the prior three-year performance period (2005 – 2007). Following achievement of the underpin, the compound annual growth in attributable earnings over the performance period must exceed the average consumer price index (CPI) over the performance period.	➜ PAT for the 2008 – 2010 period was R27 408 million, which was higher than the PAT for the 2005 – 2007 period (R24 509 million) so the underpin was met. ➜ Compound annual growth in attributable earnings between 2008 and 2010 was negative 5,4%, below average CPI of 7,4% over the same period so the performance condition was not met. Awards lapsed in full in February 2011.
PSP 2009 – 2011	A performance underpin that cumulative PAT over the performance period must exceed cumulative PAT over the prior three-year performance period (2006 – 2008). Following achievement of the underpin, compound annual growth in attributable earnings over the performance period must exceed the average CPI over the performance period.	➜ PAT for the 2009 – 2011 period was R26 275 million, which was lower than the PAT for the 2006 – 2008 period (R29 608 million) so the underpin was not met. ➜ Compound annual growth in attributable earnings between 2009 and 2011 was negative 3,2%, below average CPI of 5,5% over the same period so the performance condition was not met. ➜ Awards will lapse in full in 2012.
DAP 2010 – 2013	RoE must equal or exceed cost of equity (CoE) for each portion to vest.	➜ In 2010, RoE of 15,1% exceeded the CoE of 14,0%, so the first portion of awards vested in February 2011. ➜ In 2011, RoE of 16,4% exceeded the CoE of 14,0%, so the second portion of awards vested in February 2012. ➜ To be measured at the end of 2012 for vesting of the third portion of awards.
DAP 2011 – 2014	RoE must equal or exceed CoE for each portion to vest.	➜ In 2011, RoE of 16,4% exceeded the CoE of 14,0%, so the first portion of awards vested in February 2012. ➜ To be measured at the end of 2012 and 2013 for vesting of the second and third portions of awards.
KLP 2010 – 2012	50% of the award is cash-based and subject to a performance measure linked to the PBT objective of the One Absa strategy. A scaled target was set by the GRHRC. The remaining 50% of the award is over phantom shares and is linked to movements in the share price over the performance period and subject to clawback provisions.	➜ The performance condition for the cash portion to be measured at vesting in March 2013.

Service contracts

Details of executive director and prescribed officers' contract terms are shown in table 9.

Executive directors and prescribed officers are employed on permanent contracts of employment, which do not have a fixed term but typically provide for a notice period of six months. These contracts allow for termination with contractual notice from the Group. The GRHRC's approach when considering payments in the event of termination is to take account of the individual circumstances, including the reason for termination, contractual obligations and the applicable rules of any share plans. In cases of gross misconduct, neither notice nor any payments are given. All executive director and prescribed officers' service contracts are being reviewed during 2012 to ensure that key terms of employment, including notice periods, are appropriate.

Special termination arrangements are in place for Louis von Zeuner, entered into in 2008 to ensure continuity during the transition to a new Group Chief Executive. Following the announcement on 1 February 2012 regarding his retirement as an executive director, these arrangements will mature and the benefits detailed in table 9 will be payable.

Table 9: Contract terms and appointment dates

	Board appointment date	Notice period	Potential compensation for loss of office
Executive directors			
D W P Hodnett	1 March 2010	6 months	6 months fixed remuneration (cost to company)
M Ramos	1 March 2009	6 months	6 months fixed remuneration (cost to company)
L L von Zeuner	1 September 2004	6 months	➜ A termination payment of at least R12,35 million; ➜ 6 months fixed remuneration (cost to company) while on special leave; and ➜ Eligible leaver treatment on all share and share-based awards made up to and including 28 February 2009.
Prescribed officers			
W T Lategan		6 months	6 months fixed remuneration (cost to company)
B A Malabie		6 months	6 months fixed remuneration (cost to company)
S van Coller		3 months	3 months fixed remuneration (cost to company)

Group Chairman and non-executive directors

The Group Chairman and non-executive directors receive fees which reflect the specific responsibilities relating to their membership of the board and board committees. The Group Chairman receives a single retainer fee for his role. Non-executive directors receive a fixed fee for board membership and additional fees for membership of each board committee, with premia paid to the chairmen of the board committees. Set fees are also payable for special or ad hoc board or committee meetings and consultancy work. All non-executive directors, regardless of independence or length of service, are subject to the same fee structure and neither the Group Chairman nor the non-executive directors receive any performance-related pay or other benefits.

The same robust governance processes applied to executive remuneration are applied to non-executive remuneration, including benchmarking against the appropriate market. Fees are reviewed each year by the Directors' Affairs Committee and the Group Chairman and Group Chief Executive and are then recommended by the board to shareholders for approval. During 2011, fees have been benchmarked against the relevant market and an increase is proposed for 2012 to ensure market competitiveness. Full details are set out in the 2012 notice of AGM.

Details of the fees received by the non-executive directors during 2011 are set out in table 10.

Table 10: Group Chairman and non-executive directors' fees

	Absa Group Limited R	Absa Bank Limited R	Absa board committees and sub-committees R	Subsidiary boards, board committees and trusts R	Other[5] R	2011 Total R	2010 Total R
Group Chairman							
G Griffin[1]	—	—	—	—	—	**3 616 667**	1 770 243
Non-executive directors							
C Beggs	219 333	219 333	760 900	64 800	—	**1 264 366**	294 491
B P Connellan	195 333	195 333	391 650	55 150	76 700	**914 166**	643 211
Y Z Cuba	219 333	219 333	224 725	—	—	**663 391**	584 597
S A Fakie	219 333	219 333	242 050	—	—	**680 716**	474 255
M J Husain	219 333	219 333	280 767	—	—	**719 433**	541 095
A P Jenkins[2]	219 333	219 333	245 833	—	—	**684 499**	554 338
R Le Blanc[2]	219 333	219 333	234 567	—	—	**673 233**	541 095
P B Matlare[4]	38 600	38 600	—	—	—	**77 200**	—
T M Mokgosi-Mwantembe	196 433	196 433	85 333	122 767	—	**600 966**	477 596
E C Mondlane, Jr	219 333	219 333	122 300	455 480	—	**1 016 446**	844 024
T S Munday	219 333	219 333	854 533	—	70 100	**1 363 299**	1 008 116
S G Pretorius	219 333	219 333	274 833	14 367	13 500	**741 366**	574 465
I R Ritossa[2, 4]	58 067	58 067	29 850	—	—	**145 984**	—
B J Willemse	196 433	196 433	294 267	—	63 500	**750 633**	597 707
Past directors							
D C Arnold[6]	78 533	78 533	311 456	—	—	**468 522**	1 153 085
M W Hlahla[6]	78 533	78 533	51 767	—	—	**208 833**	486 021
B C M M de Vitry[2, 3]	138 367	138 367	115 683	—	—	**392 417**	459 853
Total	**2 954 296**	**2 954 296**	**4 520 514**	**712 564**	**223 800**	**14 982 137**	**11 004 192**

Notes

[1]G Griffin was appointed Group Chairman on 1 October 2010. His 2010 fees reflect the fact that his fee as Group Chairman was paid for three months and non-executive director fees for nine months of 2010.

[2]The fees for the Barclays non-executive directors (A P Jenkins, R Le Blanc, I R Ritossa, B C M M de Vitry) were paid to Barclays and not to the individuals.

[3]B C M M de Vitry ceased to be a non-executive director on 21 September 2011. He did not receive a termination payment.

[4]I R Ritossa was appointed to the board on 21 September 2011 and P B Matlare was appointed to the board on 5 December 2011. The fees in this table were paid in respect of the periods they served as directors.

[5]Other fees includes fees for ad hoc and special board and board committee meetings and other consultancy work.

[6]D C Arnold and M W Hlahla ceased to be directors on 21 April 2011. They did not receive termination payments.

Summary of share plans and other long-term incentive plans

Absa operates a number of share plans and long-term incentive plans. Details of current plans in operation are included in table 11. The details of legacy plans with outstanding awards are included in table 12.

Table 11: Summary of Absa share plans and long-term incentive plans currently in operation

Plan	Employees eligible	Design details
Deferred Award Plan (DAP)	All employees, but typically for those whose performance incentives are above a set threshold.	➜ Plan typically used to deliver deferred awards. ➜ Phantom Absa shares released in three equal portions, subject to clawback provisions and dependent on future service. ➜ Awards are settled in cash with the value of dividends that would have been received released with each portion.
Joiners Share Award Plan (JSAP)	All employees, but typically only used for new joiners.	➜ Plan typically used to deliver phantom share awards to new joiners as a buy-out of awards forfeited on leaving their previous employer. ➜ Phantom Absa shares with flexible vesting dates in order to replicate the vesting profile of forfeited awards. ➜ Awards are settled in cash with the value of dividends that would have been received released with each portion.
Batho Bonke Capital Proprietary Limited Absa HDSA Employees Trust	Employees qualifying as historically disadvantaged.	➜ BBBEE arrangement with Batho Bonke Capital approved by shareholders in 2004. ➜ Employees from historically disadvantaged South African (HDSA) groups awarded shares as a proportion of the total shares held by the Trust which vest in 2012 subject to the approval of the board of Batho Bonke Capital and the trustees.

Table 12: Summary of legacy Absa share plans and long-term incentive plans with outstanding awards

Plan	Last awards made	Employees eligible	Design details
Share Option Scheme (SOS) used to deliver long-term incentives until 2006.	→ No awards made since 2006. → SOS replaced with PSP in 2006.	Selected employees (including executive directors and prescribed officers).	→ Share option awards. → All awards have vested and all outstanding options will expire by 2015.
Performance Share Plan (PSP) used to deliver long-term incentive awards between 2006 and 2009.	→ No awards made since 2009. → Replacement share-based long-term incentive plan, Absa LTIP, proposed for 2012.	Selected employees (including executive directors and prescribed officers).	→ Phantom Absa shares vesting after three years at a maximum of three times the initial award, subject to performance conditions. → There are no outstanding awards as the final awards will lapse during 2012 (PSP 2009).
Executive Share Award Scheme (ESAS) used for mandatory deferral of variable remuneration between 2006 and 2010.	→ No awards made since 2010. → DAP used to deliver long-term awards since 2010.	All employees (including executive directors and prescribed officers).	→ Deferred Absa shares awarded as mandatory deferral for annual bonus awards over a specific threshold. → Award shares vest after three years. → 20% in bonus shares released after three years. If the participant does not withdraw the award shares until the fifth anniversary, a further 10% bonus shares may be released. → The value of dividends which would have been received released on vesting. → Participants could elect to defer additional amounts of variable remuneration into Voluntary ESAS (VESAS) on a post-tax basis. → The final awards under ESAS and VESAS are due to expire in 2015.

Plan	Last awards made	Employees eligible	Design details
Key Leaders Retention Plan (KLP) aimed at securing the services of key leaders for a three-year period.	➜ One-off retention initiative in 2010.	Selected employees (including executive directors and prescribed officers).	➜ Awards vest after three years. ➜ 50% of award delivered as deferred cash, subject to a sliding scale of PBT performance. ➜ 50% of award delivered as deferred phantom Absa shares, subject to clawback provisions. ➜ All outstanding awards due to vest in 2013, subject to the performance condition.
Employee Share Ownership (ESOP) Trust, a broad-based employee ownership plan launched as part of Absa's BBBEE arrangements in 2004.	➜ One-off BBBEE initiative in 2004.	All employees, regardless of race and gender, in employment on 1 July 2004.	➜ Broad-based share option plan. ➜ Each employee in the Group as at 1 July 2004 was allocated 200 redeemable option-holding preference shares against the receipt of a R400 subscription price. ➜ Options could be exercised at specific intervals, with the final opportunity to do so being 30 June 2009. ➜ All awards have vested and the plan is closed.



In closing . . . our 2011 delivery and 2012 targets



Our strategic delivery and 2012 targets.

Looking forward

In this, our first integrated annual report, we have undertaken to tell Absa's story in a balanced way, to allow our stakeholders to assess our performance and prospects. We have shown how interacting with stakeholders informs our material issues and how our One Absa strategy addresses these. We consider the move to integrated reporting a process and will continue to enhance our disclosure to make it increasingly relevant to our stakeholders.

This section summarises our One Absa strategy and sets out our goals for 2012.

	1	2
Strategic pillar	**Sustainable growth in targeted markets** Become the leading financial services group in South Africa and selected African countries, while improving profitability and returns.	**Balance sheet optimisation and proactive risk management** To maintain a strong balance sheet that can withstand economic and financial shocks.
Objectives	➜ Implement innovative methods to meet customer needs, while reducing the current cost to serve. ➜ Develop innovative products aimed at growing revenue where we are currently under-represented. ➜ Drive growth in targeted areas.	➜ Balance risk and reward, while ensuring optimal liquidity and capital management by using capital where we generate high returns. ➜ Manage all our major risks prudently.
Achievements	➜ Business transactional banking revenue up. ➜ Financial Services strong premium growth. ➜ Solid retail earnings growth. ➜ One Bank in Africa strategy. ➜ Appointed the Africa Executive Committee. ➜ Established a Corporate Bank. ➜ Bancassurance presence in Botswana and Mozambique. ➜ Opened 100 entry-level ('1234') outlets.	➜ Improved strong Core Tier 1 capital ratio. ➜ Increased surplus liquid assets. ➜ Improved proportion of long-term funding. ➜ Continued to optimise RWAs. ➜ Reduced equity exposures. ➜ Improved credit loss ratio. ➜ Reduced non-performing loans. ➜ Low trading DVaR. ➜ Improved loans-to-deposits ratio.
2012 goals	➜ Positive income vs cost growth (JAWS) ➜ Return on risk weighted asset (RWA) more than 2,5%	➜ Improve credit loss ratio to below 1% ➜ Decrease loans-to-deposits ratio ➜ Continue to grow surplus liquid assets ➜ Core Tier 1 ratio to remain above board target of 9% – 11%.

3 Simple, streamlined Group for customer delivery

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

- Simplify customer engagement to improve sales effectiveness.
- Systematically re-engineer major customer processes to improve service delivery while reducing costs.
- Consolidate and optimise our distribution network by focusing service offerings and delivery on customer needs, to free up excess capacity and reduce our cost to serve.
- Consolidate and rationalise infrastructure and utility activities to reduce duplication and improve utilisation.

- Integrated our Retail and Business Banking operating models.
- Re-engineered key transaction processes including account opening and home loans.
- Launched Learning@Absa.
- New customer billing and pricing system in Retail Markets.

- Improve cost-to-income ratio
- Bed down RBB and CIBW target operating models

4 Customer- and people-centred organisation

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

- Understand and remedy the root causes of customer dissatisfaction.
- Better co-ordinate customer relationships and interactions, increasing customer loyalty and share of wallet.
- Help customers adapt their transactional behaviour to improve their experience and bank more efficiently.
- Provide personal and career growth opportunities.
- Provide a work environment that promotes training and monitoring programmes.

- Implemented needs analysis tool to better advise customers.
- Continued product innovation across card and electronic banking.
- Developed an integrated talent management framework.
- Established Africa customer and community committees.

- Improve customer satisfaction
- Maintain employee opinion survey results


Telling you about . . .
our shareholders and financials



Our shareholder information, five-year financial summary, summarised financial statements and other useful resources.

Shareholder information

Share performance (cents)

Share performance on the JSE Limited

	2011	2010	Change %
Number of shares in issue[3]	**718 210 043**	718 210 043	—
Market prices (cents per share):			
➜ closing	**14 100**	14 000	1
➜ high	**14 682**	14 295	3
➜ low	**12 319**	12 000	3
➜ average	**13 559**	13 292	2
Closing price/net asset value per share (excluding preference shares)	**1,62**	1,79	
Price-to-earnings (P/E) ratio (closing price/headline earnings per share)	**10,4**	12,5	
Volume of shares traded (millions)	**317,0**	363,3	(13)
Value of shares traded (Rm)	**42 837,8**	48 266,8	(11)
Market capitalisation (Rm)	**101 267,6**	100 549,4	(1)

Ordinary shares

	2011 %	2010 %
Major ordinary shareholders (top 10)		
Barclays Bank PLC	**55,5**	55,5
Public Investment Corporation	**9,3**	9,4
Batho Bonke Capital Proprietary Limited	**3,9**	5,1
Old Mutual Asset Managers	**3,0**	3,0
Coronation Fund Managers	**2,3**	1,9
Sanlam Investment Management	**2,2**	1,6
Momentum Investments	**1,6**	n/a
Dimensional Fund Advisors Incorporated	**1,4**	1,0
Stanlib Asset Management	**1,3**	1,7
Investec Asset Management	**1,2**	n/a
The Vanguard Group Incorporated	**n/a**	1,0
Prudential Portfolio Managers	**n/a**	0,8
Other	**18,3**	19,0
	100,0	100,0
Geographical split		
England and Wales	**57,1**	56,2
South Africa	**29,6**	33,0
United States	**6,3**	4,6
Other countries	**4,3**	4,5
Below threshold	**2,7**	1,7
	100,0	100,0

Notes

[1] Absa's annual total return for the year ended 31 December 2011 was **4,4%**.

[2] The Banks' Index outperformed Absa's share price by **2,59%** during the year ended 31 December 2011. Total return was used to calculate the relative performance (calculated using the dividend yield for the year).

[3] Includes **369 105** shares held by Absa Group Limited Share Incentive Trust (2010: 1 049 790) and **826 717** shares held by Group subsidiaries (2010: 570 000).

Shareholder information

Public and non-public shareholders

	2011			2010		
	Number of shareholders	**Number of shares held**	**%**	Number of shareholders	Number of shares held	%
Public shareholders	**37 539**	**289 981 420**	**40,4**	40 333	278 947 605	38,8
Non-public shareholders						
Barclays Bank PLC	**2**	**398 774 945**	**55,5**	2	398 774 945	55,5
Trustees of the Absa Share Incentive Trust	**1**	**369 105**	**0,0**	1	1 049 790	0,2
Related holdings	**15**	**28 753 397**	**4,1**	19	39 184 642	5,5
Directors' and associates' beneficial holdings	**14**	**331 176**	**0,0**	17	253 061	0,0
→ Direct		**320 176**			242 061	
→ Indirect		**11 000**			11 000	
Directors' and associates' non-beneficial holdings						
→ Direct		**—**			—	
→ Indirect		**—**			—	
Total	**37 571**	**718 210 043**	**100,0**	40 372	718 210 043	100,0

Total number of Absa Group shares

	Ordinary shares	**Preference shares**	**Total shares**
Shares in issue at 31 December 2011	**718 210 043**	**—**	**718 210 043**
Shares in issue at 31 December 2010	718 210 043	—	718 210 043

Shareholders' diary

Financial year-end	31 December 2011
Annual general meeting	3 May 2012
Announcement of the final results	10 February 2012
Announcement of the interim results[1]	27 July 2012

Dividend	Declaration date	Last day to trade	Ex dividend date	Record date	Payment date
Final – December 2011	10 February 2012	23 March 2012	26 March 2012	30 March 2012	2 April 2012
Interim – June 2012[1]	27 July 2012	31 August 2012	3 September 2012	7 September 2012	10 September 2012

Note

[1] Subject to change.

Five-year financial summary

for the year ended and as at 31 December

	Five-year CAGR[1,2] %	2011 Rm	2010[3] Rm	2009[3] Rm	2008 Rm	2007 Rm
Consolidated statement of comprehensive income						
Interest and similar income	6	**51 221**	54 241	65 247	76 260	55 123
Interest expense and similar charges	(3)	**(26 792)**	(30 901)	(43 393)	(54 154)	(36 233)
Net interest income	10	**24 429**	23 340	21 854	22 106	18 890
Impairment losses on loans and advances	(26)	**(5 081)**	(6 005)	(8 967)	(5 839)	(2 433)
Net interest income after impairment losses on loans and advances	8	**19 348**	17 335	12 887	16 267	16 457
Non-interest income	7	**21 403**	19 474	20 232	20 821	16 756
Operating profit before operating expenditure	8	**40 751**	36 809	33 119	37 088	33 213
Operating expenses	(10)	**(25 458)**	(24 070)	(20 857)	(21 114)	(18 442)
Other impairments	6	**(52)**	(108)	(1 457)	(18)	(58)
Indirect taxation	(4)	**(1 071)**	(771)	(913)	(724)	(709)
Share of post-tax results of associates and joint ventures	(19)	**40**	(9)	(50)	73	73
Operating profit before income tax	4	**14 210**	11 851	9 842	15 305	14 077
Taxation expense	(5)	**(4 026)**	(3 262)	(2 340)	(3 988)	(4 052)
Profit for the year	4	**10 184**	8 589	7 502	11 317	10 025
Non-controlling interest – ordinary shares	(21)	**(226)**	(151)	(241)	(194)	(117)
Non-controlling interest – preference shares	(31)	**(284)**	(320)	(421)	(457)	(313)
Profit attributable to ordinary equity holders of the Group	4	**9 674**	8 118	6 840	10 666	9 595
Headline earnings adjustments	>100	**45**	(77)	781	(701)	(182)
Headline earnings	4	**9 719**	8 041	7 621	9 965	9 413
Consolidated statement of financial position						
Assets						
Loans and advances to banks and customers	7	**560 935**	536 275	560 231	577 712	509 983
Total assets	10	**786 719**	725 957	721 641	773 316	641 014
Liabilities						
Deposits from banks and due to customers	9	**479 299**	403 004	403 751	437 820	368 545
Total liabilities	9	**718 314**	663 808	665 151	720 023	598 391
Equity						
Capital and reserves attributable to ordinary equity holders of the Group:	14	**62 308**	56 290	50 547	47 607	37 638
Non-controlling interest – ordinary shares	44	**1 453**	1 215	1 299	1 042	341
Non-controlling interest – preference shares	9	**4 644**	4 644	4 644	4 644	4 644
Total equity	14	**68 405**	62 149	56 490	53 293	42 623
Total equity and liabilities	10	**786 719**	725 957	721 641	773 316	641 014
Loans-to-deposits ratio (%)[4]		**88,1**	92,1	96,0	97,0	97,6

Notes

[1]CAGR: Compound annual growth rate.

[2]Unaudited.

[3]Comparatives have been reclassified, refer to note 19 of the summarised annual consolidated financial statements.

[4]These ratios have been calculated by management based on extracted audited information contained in the annual financial statements.

	Five-year CAGR[1, 2] %	2011 Rm	2010[3] Rm	2009[3] Rm	2008 Rm	2007 Rm
Financial performance (%)						
Return on average equity[4, 5]		**16,4**	15,1	15,5	23,4	27,2
Return on average assets[2, 4]		**1,32**	1,10	1,00	1,38	1,68
Return on average risk-weighted assets[2, 4]		**2,35**	1,99	1,97	2,62	2,41
Operating performance (%)						
Net interest margin on average interest-bearing assets[2]		**4,11**	3,94	3,65	3,81	3,83
Impairment losses on loans and advances as a % of average loans and advances to customers[2]		**1,01**	1,18	1,70	1,19	0,58
Non-performing advances as % of loans and advances to customers[2]		**6,9**	7,6	6,8	4,1	1,7
Non-interest income as a % of total operating income[5]		**46,7**	45,5	48,1	48,5	47,0
Cost-to-income ratio[5]		**55,5**	56,2	49,6	49,2	51,7
Effective tax rate, excluding indirect taxation		**28,3**	27,5	23,8	26,1	28,8
Capital adequacy (%)[2, 6]						
Absa Group		**16,7**	15,5	15,6	14,1	13,1
Absa Bank		**16,2**	14,8	14,7	14,0	12,5
Share statistics per ordinary share (cents)						
Basic earnings		**1 349,6**	1 133,3	986,7	1 578,5	1 428,9
Headline earnings		**1 355,9**	1 122,6	1 099,4	1 474,8	1 401,9
Dividends per ordinary share relating to income for the year		**684**	455	445	595	560
Dividend cover (times)[5, 7]		**2,0**	2,5	2,5	2,5	2,5
Net asset value[5]	13	**8 690**	7 838	7 038	6 998	5 537
Share statistics						
Number of ordinary shares in issue (million)						
→ Weighted average		**716,8**	716,3	693,2	675,7	671,5
→ Weighted average diluted		**719,9**	720,7	711,5	702,8	716,4
→ End of the year		**718,2**	718,2	718,2	680,3	678,6
Dividend yield (%)[2]		**4,9**	3,2	3,5	5,5	5,0
Earnings yield (%)[2]		**9,6**	8,1	8,6	13,6	12,6
Price-to-earnings ratio (times)[2]		**10,4**	12,5	11,7	7,3	7,9
Share price (cents per share)[2]						
→ High		**14 682**	14 295	13 075	11 999	14 830
→ Low		**12 319**	12 000	7 690	7 900	10 832
→ Closing		**14 100**	14 000	12 850	10 815	11 100
Closing price/net asset value per share[2]		**1,62**	1,79	1,83	1,55	2,00
Volume of shares traded (millions)[2]		**317,0**	363,3	545,3	551,4	343,7
Value of shares traded (Rm)[2]		**42 837,8**	48 266,8	59 151,4	54 635,7	45 370,6
Market capitalisation (Rm)[2]	14	**101 267,6**	100 549,4	92 290,0	73 572,1	75 321,6
Employee statistics						
Number of total permanent employees[2]	0	**35 200**	36 770	36 150	37 828	36 893

Notes

[1]CAGR: Compound annual growth rate.

[2]Unaudited.

[3]Comparatives have been reclassified, refer to note 19 of the summarised annual consolidated financial statements.

[4]Ratios calculated using headline earnings.

[5]These ratios have been calculated by management based on extracted audited information contained in the annual financial statements.

[6]2007 does not reflect Basel II.

[7]Dividend cover is calculated using headline earnings per share and dividends per share.

Contents

103 – 128
Financial statements

These summarised annual consolidated financial statements 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, D W P Hodnett CA(SA).

*A copy of the audited annual consolidated financial statements is available on **www.absa.co.za** or can be obtained, on request, from the Company Secretary at the Group's registered address.*

Absa Group Limited

(1986/003934/06)

Audited summarised annual consolidated financial statements for the year ended 31 December 2011

Company Secretary's certificate to the shareholders of Absa Group Limited

In accordance with the provisions of the Companies Act, No 71 of 2008 (as amended) of South Africa (the Companies Act), I certify that, in respect of the year ended 31 December 2011, the Company has lodged with the Commissioner of the Companies and Intellectual Property Commission, all returns and notices prescribed by the Companies Act and that all such returns and notices are true, correct and up to date.

D W P Hodnett
Acting Company Secretary

Johannesburg
9 February 2012

Report of the independent auditors' on the summarised annual consolidated financial statements to the shareholders of Absa Group Limited

The summarised annual consolidated financial statements, which comprise the summarised consolidated statement of financial position as at 31 December 2011, and the summarised consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, as set out on pages 104 to 128, and those sections marked as audited in the remuneration report, but excludes those sections marked as 'unaudited' in note 18, are derived from the audited annual consolidated financial statements of Absa Group Limited for the year ended 31 December 2011. We expressed an unmodified audit opinion on those consolidated annual financial statements in our report dated 9 February 2012.

The summarised annual consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards (IFRS) and the requirements of the Companies Act. Reading the summarised annual consolidated financial statements, therefore, is not a substitute for reading the audited annual consolidated financial statements of Absa Group Limited.

Directors' Responsibility for the Summarised Annual Consolidated Financial Statements

The directors are responsible for overseeing the preparation of a summary of the audited annual consolidated financial statements in accordance with the presentation and disclosure requirements of International Accounting Standard (IAS) 34 *Interim Financial Reporting*, the requirements of the Johannesburg Stock Exchange (JSE) Listings Requirements and the Companies Act.

Auditors' Responsibility

Our responsibility is to express an opinion on the summarised annual consolidated financial statements based on our procedures, which were conducted in accordance with International Standards on Auditing (ISA) 810 *Engagements to Report on Summary Financial Statements.*

Opinion

In our opinion, the summarised annual consolidated financial statements derived from the audited annual consolidated financial statements of Absa Group Limited for the year ended 31 December 2011 are consistent, in all material respects, with those annual consolidated financial statements, in accordance with the presentation and disclosure requirements of IAS 34, the requirements of the JSE Listings Requirements and the Companies Act.

Ernst & Young Inc.

Director – Ernest van Rooyen
Registered Auditor
Chartered Accountant (SA)

Wanderers Office Park, 52 Corlett Drive, Illovo

PricewaterhouseCoopers Inc.

Director – John Bennett
Registered Auditor
Chartered Accountant (SA)

2 Eglin Road, Sunninghill

Johannesburg
9 February 2012

Group results

Main business and operations

Absa Group Limited and its subsidiaries (the Group) recorded an increase of 21% in headline earnings to **R9 719 million** for the year ended 31 December 2011 (2010: R8 041 million). Headline earnings per share (HEPS) increased by 21% to **1 355,9 cents** (2010: 1 122,6 cents) and fully diluted HEPS increased by 21% to **1 350,0 cents** (2010: 1 115,7 cents).

Headline earnings were derived from the following activities:

	2011 Rm	2010[1] Rm
Banking operations		
Retail Banking	4 179	3 258
Home Loans	516	196
Vehicle and Asset Finance	403	236
Card	1 758	1 483
Personal Loans	720	515
Retail Bank	782	828
Absa Business Bank	2 895	2 866
Absa Capital	1 496	1 612
Corporate centre	(301)	(397)
Capital and funding centres	315	(192)
Non-controlling interest – preference shares[2]	(283)	(319)
Total banking	8 301	6 828
Financial Services	1 373	1 290
Profit attributable to ordinary equity holders of the Group	9 674	8 118
Headline earnings adjustments (refer to note 12)	45	(77)
Headline earnings	9 719	8 041

Notes

[1]Comparatives have been reclassified, refer to note 19.

[2]Includes the elimination of non-controlling interest – preference shares of Retail Banking.

Directors' interests in the ordinary shares of Absa Group Limited (the Company)

The directors' interests in the issued ordinary shares of the Company as at the reporting date are disclosed in the table below. In terms of the board charter, non-executive directors are required to hold a minimum shareholding of 1 000 Company ordinary shares during their tenure as director, unless they are prevented from doing so by law or any other regulatory, governmental or relevant authority restriction, which they are subject to at the time. These shares have to be paid in full.

	Total direct and indirect number of shares in the Company ordinary shares		Total number of ordinary shares in Batho Bonke		Total direct and indirect number of shares in Absa Bank Limited preference shares			
	Beneficial		Number of shares		Direct		Indirect	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Present directors								
C Beggs[1]	**2 000**	2 000	**—**	—	**—**	—	**—**	—
B P Connellan[1,2]	**1 000**	1 000	**—**	—	**300**	300	**—**	—
Y Z Cuba[1]	**1 000**	1 000	**91 600**	91 600	**—**	—	**—**	—
S A Fakie[1]	**1 000**	1 000	**40 000**	40 000	**—**	—	**—**	—
G Griffin (Group Chairman)[1,2]	**8 000**	8 000	**—**	—	**—**	—	**1 680**	1 680
M J Husain[1]	**1 000**	1 000	**40 000**	40 000	**—**	—	**—**	—
A P Jenkins[3]	**1 000**	1 000	**—**	—	**—**	—	**—**	—
R Le Blanc[3]	**1 000**	1 000	**—**	—	**—**	—	**—**	—
T M Mokgosi-Mwantembe[1]	**1 000**	1 000	**40 000**	40 000	**—**	—	**—**	—
E C Mondlane, Jr[4]	**1 000**	1 000	**—**	—	**—**	—	**—**	—
T S Munday[1]	**3 000**	3 000	**—**	—	**—**	—	**—**	—
S G Pretorius[1]	**1 000**	1 000	**—**	—	**—**	—	**—**	—
L L von Zeuner (Deputy Group Chief Executive)[5]	**308 176**	226 061	**—**	—	**562**	562	**—**	—
B J Willemse[1]	**1 000**	1 000	**—**	—	**—**	—	**—**	—
Past directors								
D C Arnold[1,6]	**n/a**	2 000	**—**	—	**n/a**	400	**n/a**	—
B C M M de Vitry[7]	**n/a**	1 000	**—**	—	**—**	—	**—**	—
M W Hlahla[1,6]	**n/a**	1 000	**n/a**	50 000	**—**	—	**—**	—
	331 176	253 061	**211 600**	261 600	**862**	1 262	**1 680**	1 680

There was no movement in shareholding between the reporting date and the date of approval of the annual consolidated financial statements of the Group. No directors hold any non-beneficial investments in the Company's ordinary shares.

The Group entered into a broad-based black economic empowerment (BBBEE) transaction with Batho Bonke Capital Proprietary Limited (Batho Bonke) in July 2004. As at the reporting date, the above directors held an indirect interest in the Company through their direct or indirect holdings of ordinary shares in Batho Bonke.

Notes

[1]Independent director.

[2]Has been on the board for more than nine years.

[3]British.

[4]Mozambican.

[5]Executive director.

[6]Retired as director on 21 April 2011.

[7]French, resigned as director on 21 September 2011.

Directors' and officers' personal financial interests in contracts

No contracts were entered into in which directors and officers of the Company had a personal financial interest and which significantly affected the business of the Group. The directors had no interest in any third party or company responsible for managing any of the business activities of the Group.

Transactions with directors are entered into in the normal course of business under terms that are no more favourable than those arranged with third parties.

Acquisitions and disposals

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

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 were R211 million. APEF operates as a special purpose entity (SPE) specifically for the investment in community upliftment projects and is consolidated in terms of SIC-12 *Consolidation – Special Purpose Entities*. The APEF was disposed of in 2010 and reacquired in 2011. Since acquisition, the APEF contributed revenue of R10 million and a net profit before tax of R13 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) during September 2011. Global Alliance is one of the largest insurance providers in Mozambique and has recently launched a life offering. As at the acquisition date, the accounting for the business combination was provisionally determined since all the fair values of identifiable assets and liabilities are in the process of being finalised as part of the due diligence process. Currently, the fair values of net assets have been estimated at R94 million and goodwill of R23 million has been raised. Since its acquisition, Global Alliance has contributed revenue of R31 million and a net profit before tax of R16 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. 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 allow 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 the Group 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 on 18 June 2011. The term of the options was 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 Rnil 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 as a result of the additional purchase of shares totalled R3 million with goodwill raised of R3 million. Barrie Island holds property in Alberton. The property is zoned for commercial and residential use. The goodwill in Barrie Island has been impaired as Barrie Island has been consistently making losses and is not expected to be profitable in the near future. Since the additional purchase of shares in Barrie Island, there was 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 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 significant business combinations noted previously:

Class of asset	APEF	Barrie Island	Global Alliance
Cash, cash balances and balances with central banks	0	0	38
Other assets	1	—	91
Investment securities	277	—	—
Intangible assets	—	—	72
Investment properties	—	40	28
Property and equipment	—	—	24
Deferred tax	—	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)/liabilities acquired	(211)	3	(94)
Goodwill	—	3	23
Total cash and cash equivalents acquired	0	0	38

A full list of subsidiaries as at the reporting date is available, on request, at the registered address of the Group.

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.

Dividends

On 9 February 2012, a dividend of **392 cents** per ordinary share was approved. The dividend was announced on 10 February 2012 to ordinary shareholders registered on 30 March 2012. This dividend is payable on 2 April 2012. This brings the total dividend for the year ended 31 December 2011 to **684 cents** per share.

Segment restructurings planned for 2012

In October 2011, the Group announced that the Retail Banking and Business Banking segments will be consolidated into one reporting segment. This is effective from 1 January 2012. As part of this restructuring, selected corporate products will be migrated from Absa Business Bank to Absa Capital as part of the creation of a Wholesale Bank under the Corporate Investment Banking and Wealth Management (CIBW) umbrella. The first phase, which included the transfer of product lines and their supporting infrastructure from Absa Business Bank into the Wholesale cluster, has been completed. The second phase will include the migration of certain client accounts to CIBW. This phase is scheduled for completion by 31 March 2012.

Secretary

The previous Company Secretary, S Martin, resigned on 9 January 2012. The duties of the Company Secretary subsequent to this date, are fulfilled by D W P Hodnett in his capacity as Acting Company Secretary.

Auditors

PricewaterhouseCoopers Inc. and Ernst & Young Inc. continued in office as auditors of the Group. At the annual general meeting (AGM) of 3 May 2012, shareholders will be requested to reappoint PricewaterhouseCoopers Inc. and Ernst & Young Inc. as auditors of the Group for the 2012 financial year and it will be noted that Messrs J P Bennett and E L Pera will be the individual registered auditors that will undertake the audit.

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 summarised 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 per IAS 10 *Events after the Reporting Period*).

Summarised consolidated statement of financial position

as at 31 December

	Note	Group 2011 Rm	2010[1] Rm	2009[1] Rm
Assets				
Cash, cash balances and balances with central banks		**26 997**	23 741	20 206
Statutory liquid asset portfolio		**57 473**	48 215	33 943
Loans and advances to banks		**57 432**	27 495	43 223
Trading portfolio assets		**84 623**	62 047	52 302
Hedging portfolio assets		**4 299**	4 662	2 558
Other assets		**16 219**	12 855	10 586
Current tax assets		**288**	196	234
Non-current assets held for sale	3	**35**	—	—
Loans and advances to customers	4, 5	**503 503**	508 780	517 008
Reinsurance assets		**1 009**	860	719
Investment securities		**21 182**	24 446	29 955
Investments in associates and joint ventures		**420**	416	487
Goodwill and intangible assets		**2 135**	1 794	1 245
Investment properties		**2 839**	2 523	2 195
Property and equipment		**7 996**	7 493	6 606
Deferred tax assets		**269**	434	374
Total assets		**786 719**	725 957	721 641
Liabilities				
Deposits from banks		**38 339**	15 406	36 541
Trading portfolio liabilities		**55 960**	47 454	44 245
Hedging portfolio liabilities		**2 456**	1 881	565
Other liabilities		**14 695**	11 239	12 212
Provisions		**1 710**	1 808	1 684
Current tax liabilities		**267**	965	59
Deposits due to customers	6	**440 960**	387 598	367 210
Debt securities in issue	7	**130 262**	164 545	171 376
Liabilities under investment contracts		**15 233**	13 964	12 446
Policyholder liabilities under insurance contracts		**3 183**	3 001	3 136
Borrowed funds	8	**14 051**	13 649	13 530
Deferred tax liabilities		**1 198**	2 298	2 147
Total liabilities		**718 314**	663 808	665 151
Equity				
Capital and reserves				
Attributable to ordinary equity holders of the Group:				
Ordinary share capital		**1 434**	1 433	1 432
Ordinary share premium		**4 676**	4 590	4 784
Retained earnings		**53 813**	47 958	43 153
Other reserves		**2 385**	2 309	1 178
		62 308	56 290	50 547
Non-controlling interest – ordinary shares		**1 453**	1 215	1 299
Non-controlling interest – preference shares		**4 644**	4 644	4 644
Total equity		**68 405**	62 149	56 490
Total liabilities and equity		**786 719**	725 957	721 641

Note

[1]Comparatives have been reclassified, refer to note 19.

Summarised consolidated statement of comprehensive income

for the year ended 31 December

	Note	Group 2011 Rm	Group 2010 Rm
Net interest income		**24 429**	23 340
Interest and similar income	9.1	**51 221**	54 241
Interest expense and similar charges	9.2	**(26 792)**	(30 901)
Impairment losses on loans and advances		**(5 081)**	(6 005)
Net interest income after impairment losses on loans and advances		**19 348**	17 335
Non-interest income		**21 403**	19 474
Net fee and commission income		**15 293**	14 391
Fee and commission income	10.1	**17 422**	16 454
Fee and commission expense	10.2	**(2 129)**	(2 063)
Net insurance premium income		**5 209**	4 602
Net insurance claims and benefits paid		**(2 517)**	(2 405)
Changes in investment contracts and insurance contract liabilities		**(914)**	(1 059)
Gains and losses from banking and trading activities	10.3	**2 594**	2 349
Gains and losses from investment activities	10.4	**966**	884
Other operating income		**772**	712
Operating profit before operating expenditure		**40 751**	36 809
Operating expenditure		**(26 581)**	(24 949)
Operating expenses	11.1	**(25 458)**	(24 070)
Other impairments	11.2	**(52)**	(108)
Indirect taxation		**(1 071)**	(771)
Share of post-tax results of associates and joint ventures		**40**	(9)
Operating profit before income tax		**14 210**	11 851
Taxation expense		**(4 026)**	(3 262)
Profit for the year		**10 184**	8 589
Other comprehensive income			
Foreign exchange differences on translation of foreign operations		**522**	(371)
Movement in cash flow hedging reserve		**(237)**	1 152
Fair value gains arising during the year		**1 972**	3 421
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income		**(2 300)**	(1 820)
Deferred tax		**91**	(449)
Movement in available-for-sale reserve		**(17)**	166
Fair value (losses)/gains arising during the year		**(58)**	146
Amortisation of government bonds – release to the profit and loss component of the statement of comprehensive income		**20**	92
Deferred tax		**21**	(72)
Movement in retirement benefit asset and liabilities		**(51)**	21
(Decrease)/increase in retirement benefit surplus		**(66)**	27
(Increase)/decrease in retirement benefit deficit		**(5)**	2
Deferred tax		**20**	(8)
Total comprehensive income for the year		**10 401**	9 557
Profit attributable to:			
Ordinary equity holders of the Group		**9 674**	8 118
Non-controlling interest – ordinary shares		**226**	151
Non-controlling interest – preference shares		**284**	320
		10 184	8 589
Total comprehensive income attributable to:			
Ordinary equity holders of the Group		**9 791**	9 138
Non-controlling interest – ordinary shares		**326**	99
Non-controlling interest – preference shares		**284**	320
		10 401	9 557
Earnings per share:			
Basic earnings per share (cents)		**1 349,6**	1 133,3
Diluted earnings per share (cents)		**1 343,8**	1 126,4

Summarised consolidated statement of cash flows

for the year ended 31 December

		Group	
	Note	**2011 Rm**	2010[1] Rm
Net cash generated from operating activities		**8 305**	2 822
Net cash (utilised)/generated from investing activities		**(511)**	880
Net cash utilised from financing activities		**(4 143)**	(4 263)
Net increase/(decrease) in cash and cash equivalents		**3 651**	(561)
Cash and cash equivalents at the beginning of the year	1	**6 417**	6 976
Effect of foreign exchange rate movements on cash and cash equivalents		**0**	2
Cash and cash equivalents at the end of the year	2	**10 068**	6 417

Notes

1. Cash and cash equivalents at the beginning of the year

	2011 Rm	2010 Rm
Cash, cash balances and balances with central banks	**4 939**	5 175
Loans and advances to banks	**1 478**	1 801
	6 417	6 976

2. Cash and cash equivalents at the end of the year

	2011 Rm	2010 Rm
Cash, cash balances and balances with central banks	**7 893**	4 939
Loans and advances to banks	**2 175**	1 478
	10 068	6 417

Note

[1]Comparatives have been reclassified, refer to note 19.

Summarised consolidated statement of changes in equity

for the year ended 31 December

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

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

Summarised consolidated statement of changes in equity

for the year ended 31 December

Group

2011

Ordinary share capital Rm	Ordinary share premium Rm	Retained earnings Rm	Other reserves Rm	Total equity attributable to ordinary equity holders of the Group Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Total equity Rm
1 433	4 590	47 958	2 309	56 290	1 215	4 644	62 149
—	—	9 623	168	9 791	326	284	10 401
—	—	9 674	—	9 674	226	284	10 184
—	—	(51)	168	117	100	—	217
—	—	(3 744)	—	(3 744)	(173)	(284)	(4 201)
—	(281)	—	—	(281)	—	—	(281)
2	26	—	—	28	—	—	28
(1)	167	—	—	166	—	—	166
0	174	—	(116)	58	—	—	58
0	174	—	(174)	—	—	—	—
—	—	—	58	58	—	—	58
—	—	48	(48)	—	—	—	—
—	—	(19)	19	—	—	—	—
—	—	(40)	40	—	—	—	—
—	—	(13)	13	—	—	—	—
—	—	—	—	—	21	—	21
—	—	—	—	—	64	—	64
1 434	4 676	53 813	2 385	62 308	1 453	4 644	68 405

2010

Ordinary share capital Rm	Ordinary share premium Rm	Retained earnings Rm	Other reserves Rm	Total equity attributable to ordinary equity holders of the Group Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Total equity Rm
1 432	4 784	43 153	1 178	50 547	1 299	4 644	56 490
—	—	8 139	999	9 138	99	320	9 557
—	—	8 118	—	8 118	151	320	8 589
—	—	21	999	1 020	(52)	—	968
—	—	(3 191)	—	(3 191)	(142)	(320)	(3 653)
—	(234)	—	—	(234)	—	—	(234)
1	30	—	—	31	—	—	31
(0)	(49)	—	—	(49)	—	—	(49)
0	59	2	(13)	48	—	—	48
0	59	2	(61)	—	—	—	—
—	—	—	48	48	—	—	48
—	—	(39)	39	—	—	—	—
—	—	(55)	55	—	—	—	—
—	—	9	(9)	—	—	—	—
—	—	(60)	60	—	—	—	—
—	—	0	—	0	(0)	—	—
—	—	—	—	—	37	—	37
—	—	—	—	—	(78)	—	(78)
1 433	4 590	47 958	2 309	56 290	1 215	4 644	62 149

Summarised notes to the consolidated financial statements

for the year ended 31 December

1. Basis of preparation

The information in these summarised annual consolidated financial statements has been derived from the Group's 31 December 2011 full annual consolidated financial statements, which have been prepared in compliance with International Financial Reporting Standards (IFRS), Interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC), the requirements of the Companies Act, No 71 of 2008 (as amended) of South Africa (the Companies Act) and all other applicable legislation.

The summarised annual consolidated financial statements have been prepared in accordance with the disclosure requirements of IAS 34 *Interim FInancial Reporting*, AC 500 Standards as issued by the Accounting Practices Board or its successor and the JSE Listings Requirements.

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 estimates, are included below:

- 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 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 insurance contracts
- Income taxes
- Offsetting of financial assets and liabilities

The Group's 31 December 2011 full annual consolidated financial statements and these summarised annual consolidated financial statements have been audited by the Group's external auditors, PricewaterhouseCoopers Inc. and Ernst & Young Inc. It is noted that Messrs J P Bennett and E van Rooyen are the individual registered auditors that undertook the audit.

As the summarised financial statements do not include all the disclosures as per the full annual consolidated financial statements, they cannot be expected to allow a full understanding of the results of the Group and state of affairs of the Group, as would be provided by the full set.

A copy of the full annual consolidated financial statements is available on www.absa.co.za or can be obtained, on request, from the Company Secretary at the Group's registered address.

2. Accounting policies

The accounting policies applied in the preparation of these summarised annual consolidated financial statements are the same as the accounting policies applied in the preparation of the Group's full annual consolidated financial statements for the financial year ended 31 December 2011.

The application of the Group's accounting policies are consistent with those adopted in the prior year, except for the following:

During the year, the Group adopted the predecessor accounting method as the method for the treatment of common control transactions. The Group previously accounted for common control transactions, where the transaction had substance, using the acquisition method under IFRS 3 *Business Combinations*. This change has been adopted in order to be consistent with the Group's parent, Barclays Bank PLC.

The change in accounting policy did not impact the consolidated results, nor did it have any impact on basic or diluted earnings per share as previously reported. Furthermore, the change did not impact any line item on the statement of financial position for any financial periods prior to the comparative information presented.

3. 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 was transferred to investment securities.

The Group transferred, through its Absa Capital segment, 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 segment concluded contracts for the sale of several properties during 2011, with transfer due to take place during 2012.

Summarised notes to the consolidated financial statements

as at 31 December

	Group		
	2011 Rm	2010[1] Rm	2009[1] Rm
4. Loans and advances to customers			
Cheque accounts	**33 398**	32 005	39 801
Corporate overdrafts and specialised finance loans	**10 681**	9 612	13 484
Credit cards	**21 579**	20 663	20 202
Foreign currency loans	**9 628**	6 609	7 870
Instalment credit agreements	**57 385**	56 967	59 396
Gross advances	**68 540**	67 517	69 849
Unearned finance charges	**(11 155)**	(10 550)	(10 453)
Reverse repurchase agreements	**1 613**	3 063	1 988
Loans to associates and joint ventures	**7 909**	8 025	7 878
Microloans	**1 922**	2 069	2 936
Mortgages	**292 463**	307 054	304 724
Other advances[2]	**3 197**	2 948	3 322
Overnight finance	**12 320**	7 647	12 340
Personal and term loans	**29 925**	28 283	21 645
Preference shares	**6 958**	6 622	7 967
Wholesale overdrafts	**26 656**	31 115	26 613
Gross loans and advances to customers	**515 634**	522 682	530 166
Impairment losses on loans and advances (refer to note 5)	**(12 131)**	(13 902)	(13 158)
	503 503	508 780	517 008
5. Impairment losses on loans and advances			
Balance at the beginning of the year	**13 902**	13 158	
Amounts written off during the year	**(6 493)**	(5 219)	
Foreign exchange differences	**1**	(2)	
Interest on impaired assets (refer to note 9.1)	**(1 173)**	(764)	
	6 237	7 173	
Impairments raised during the year (refer to note 5.1)	**5 894**	6 729	
Balance at the end of the year (refer to note 4)	**12 131**	13 902	
Comprising:			
Identified impairments	**11 306**	12 949	
Unidentified impairments	**825**	953	
	12 131	13 902	
5.1 Statement of comprehensive income charge for the year ended 31 December			
Impairments raised during the year	**5 894**	6 729	
Identified impairments	**6 015**	6 919	
Unidentified impairments	**(121)**	(190)	
Recoveries of loans and advances previously written off	**(813)**	(724)	
	5 081	6 005	

Notes

[1]Comparatives have been reclassified, refer to note 19.

[2]Other advances include customer liabilities under acceptances and working capital solutions.

Summarised notes to the consolidated financial statements

as at 31 December

	Group		
	2011 Rm	2010[1] Rm	2009[1] Rm
6. Deposits due to customers			
Call deposits	**55 783**	54 707	61 995
Cheque account deposits	**134 505**	117 274	103 110
Credit card deposits	**1 884**	1 830	1 868
Fixed deposits	**125 273**	114 180	106 886
Foreign currency deposits	**8 947**	9 661	9 011
Notice deposits	**28 500**	11 365	10 293
Other[2]	**2 771**	3 702	7 618
Repurchase agreements with non-banks	**8 734**	7 035	1 712
Savings and transmission deposits	**74 563**	67 844	64 717
	440 960	387 598	367 210
7. Debt securities in issue			
Abacas – Commercial paper issued and floating rate notes	**—**	1 789	
Credit linked notes	**8 976**	6 360	
Floating rate notes	**69 553**	75 740	
Liabilities arising from securitised SPEs	**4 218**	4 216	
Negotiable certificates of deposit	**30 214**	64 271	
Promissory notes	**1 550**	1 811	
Structured notes and bonds	**1 451**	1 220	
Senior notes	**14 300**	9 138	
	130 262	164 545	

8. 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*	2011 Rm	2010[1] Rm
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[3] + 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
Fair value adjustment		**283**	212
		14 051	13 649

Notes

[1]Comparatives have been reclassified, refer to note 19.

[2]Included in 'Other' are partnership contributions received, deposits due on structured deals, preference investments on behalf of customers and unclaimed deposits.

[3]Johannesburg Interbank Agreed Rate.

Summarised notes to the consolidated financial statements

for the year ended 31 December

	Group 2011 Rm	Group 2010 Rm
9. Net interest income		
9.1 Interest income and similar income		
Interest income and similar income is earned from:		
Cash, cash balances and balances with central banks	159	103
Fair value adjustments on hedging instruments	1 063	1 023
Investment securities	390	495
Loans and advances to banks	991	1 234
Other	836	954
Reverse repurchase agreements	155	280
Loans and advances to customers	43 852	48 316
Cheque account	2 947	3 162
Corporate overdrafts and specialised finance loans	664	1 254
Credit cards	2 991	2 998
Foreign currency loans	177	252
Instalment credit agreements	5 577	6 095
Interest on impaired financial assets (refer to note 5)	1 173	764
Loans to associates and joint ventures	417	486
Microloans	544	706
Mortgages	22 062	25 071
Other advances[1]	412	943
Overnight finance	584	640
Personal and term loans	3 649	3 225
Preference shares	619	693
Wholesale overdrafts	2 036	2 027
Other interest	484	87
Statutory liquid asset portfolio	4 282	2 983
	51 221	54 241

Note

[1]Includes items such as interest on factored debtors' books.

	Group 2011 Rm	Group 2010 Rm
9. Net interest income *(continued)*		
9.2 Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	1 350	1 586
Debt securities in issue	9 602	12 786
Deposits due to customers	15 636	17 204
Call deposits	3 082	3 237
Cheque account deposits	2 761	3 196
Credit card deposits	10	13
Fixed deposits	6 315	7 197
Foreign currency deposits	102	142
Notice deposits	777	457
Other	494	609
Savings and transmission deposits	2 095	2 353
Deposits from banks	410	273
Call deposits	309	177
Fixed deposits	98	62
Other	3	34
Fair value adjustments on hedging instruments	(472)	(1 116)
Interest incurred on finance leases	85	108
Other interest	181	60
	26 792	30 901

Summarised notes to the consolidated financial statements

for the year ended 31 December

	Group 2011 Rm	Group 2010 Rm
10. Non-interest income		
10.1 Fee and commission income		
Asset management and other related fees	**81**	105
Consulting and administration fees	**520**	510
Credit-related fees and commissions	**12 672**	11 800
Cheque accounts	**3 334**	3 198
Credit cards[1, 2]	**1 094**	883
Electronic banking	**4 095**	3 828
Other[3]	**1 762**	1 474
Savings accounts	**2 387**	2 417
Insurance commission received	**901**	950
Merchant income[2]	**1 185**	1 055
Other	**256**	299
Pension fund payment services	**484**	497
Project finance fees	**222**	209
Trust and other fiduciary services	**1 101**	1 029
Portfolio and other management fees	**849**	783
Trust and estate income	**252**	246
	17 422	16 454
10.2 Fee and commission expense		
Cheque processing fees	**(171)**	(173)
Insurance commission paid	**(877)**	(867)
Other[2]	**(659)**	(524)
Transaction-based legal fees	**(229)**	(192)
Trust and other fiduciary service fees[2, 4]	**(51)**	(122)
Valuation fees	**(142)**	(185)
	(2 129)	(2 063)
Net fee and commission income	**15 293**	14 391

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)[5].

Notes

[1]Includes acquiring and issuing fees.

[2]During the year under review, 'Merchant income' and 'Trust and other fiduciary services fees' have been separately disclosed in order to achieve fair presentation. This resulted in a reclassification of comparative information.

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

[4]During the year under review, management fees which were previously included in 'Debt collection fees' have been reclassified to 'Trust and other fiduciary services fees' in order to achieve fair presentation. This resulted in a reclassification of comparative information.

[5]During the year under review, net fees and commission linked to financial instruments not at fair value have been reclassified to better reflect the nature of the underlying products. This resulted in a reclassification of comparative information.

10. Non-interest income *(continued)*

10.3 Gains and losses from banking and trading activities[1]

	Group 2011 Rm	Group 2010 Rm
Associates and joint ventures	—	87
Dividends received	—	45
Profit realised on disposal	—	42
Net gains on investments	437	88
Debt instruments designated at fair value through profit or loss	29	26
Equity instruments designated at fair value through profit or loss	428	154
Available-for-sale unwind from reserves	(20)	(92)
Net trading result	2 627	1 789
Net trading income excluding the impact of hedge accounting	2 571	1 689
Ineffective portion of hedges	56	100
Other	(470)	385
	2 594	2 349

'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).

Net losses on 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).

10.4 Gains and losses from investment activities[1]

	Group 2011 Rm	Group 2010 Rm
Available-for-sale unwind from reserves	1	0
Net investment gains from insurance activities	886	820
Policyholder insurance contracts	173	234
Policyholder investment contracts	511	214
Shareholder funds	202	372
Other	79	64
	966	884

'Net gains on investments from insurance activities' comprises 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** (2010: R820 million) consist of the following:
- Gains on financial instruments designated at fair value through profits or loss of **R880 million** (2010: R796 million).
- Gains on financial instruments held for trading of **R6 million** (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 banking and trading activities' and 'Gains and losses from investment activities' have been amended to align with market practice and to improve the quality of disclosure to the market. This resulted in a reclassification of comparative information.

Summarised notes to the consolidated financial statements

for the year ended 31 December

	Group 2011 Rm	Group 2010 Rm
11. Operating expenditure		
11.1 Operating expenses		
Amortisation of intangible assets	289	165
Auditors' remuneration	166	159
Cash transportation	726	729
Depreciation	1 261	1 147
Equipment costs	224	271
Information technology[1]	2 241	2 085
Investment property charges	41	4
Change in fair value	41	—
Other	—	4
Marketing costs	1 036	1 070
Operating lease expenses on properties	1 018	978
Other[2, 3]	1 562	1 871
Printing and stationery	253	272
Professional fees[1]	1 076	1 096
Property costs[3]	1 120	866
Staff costs	13 642	12 537
Bonuses	1 285	1 101
Current service costs on post-retirement benefits	772	635
Other[4]	487	528
Salaries	10 379	9 707
Share-based payments	467	297
Training costs	252	269
Telephone and postage	803	820
	25 458	24 070
11.2 Other impairments		
Financial instruments	5	37
Amortised cost	5	12
Available-for-sale	—	25
Other	47	71
Computer software development costs	—	4
Equipment	—	13
Goodwill	28	—
Investments in associates and joint ventures	(2)	29
Repossessed properties	21	25
	52	108

Notes

[1]'Information technology' and 'Professional fees' 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.

Summarised notes to the consolidated financial statements

for the year ended 31 December

	Group			
	2011		2010	
	Gross Rm	Net[1] Rm	Gross Rm	Net[1] Rm
12. Headline earnings				
Headline earnings are determined as follows:				
Profit attributable to ordinary equity holders of the Group		9 674		8 118
Total headline earnings adjustment		45		(77)
IFRS 3 – Goodwill impairment/(gain on bargain purchase)	28	28	(72)	(72)
IAS 16[2] – Profit on disposal of property and equipment	(33)	(30)	(41)	(37)
IAS 28[3] and 31[4] – Headline earnings component of share of post-tax results of associates and joint ventures	(0)	(0)	(1)	(1)
IAS 28 and 31 – Profit on disposal of investments in associates and joint ventures	—	—	(42)	(42)
IAS 28 and 31 – Impairment (reversal)/charge of investments in associates and joint ventures	(2)	(1)	29	21
IAS 36[5] – Impairment of equipment	—	—	13	9
IAS 38[6] – Loss on disposal and impairment of intangible assets	2	1	4	3
IAS 39[7] – Release of available-for-sale reserves	20	14	92	66
IAS 39 – Impairment of available-for-sale assets	—	—	25	18
IAS 40[8] – Change in fair value of investment properties	39	33	(50)	(42)
Headline earnings/diluted headline earnings		9 719		8 041
Headline earnings per share (cents)		1 355,9		1 122,6
Diluted headline earnings per share (cents)		1 350,0		1 115,7

Notes

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

[2]IAS 16 *Property, Plant and Equipment.*

[3]IAS 28 *Investments in Associates.*

[4]IAS 31 *Interests in Joint Ventures.*

[5]IAS 36 *Impairment of Assets.*

[6]IAS 38 *Intangible Assets.*

[7]IAS 39 *Financial Instruments: Recognition and Measurement.*

[8]IAS 40 *Investment Property.*

Summarised notes to the consolidated financial statements

for the year ended and as at 31 December

	Group 2011 Rm	Group 2010 Rm
13. 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;		
➜ fellow subsidiaries, associates and joint ventures of the parent company;		
➜ subsidiaries;		
➜ 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 *Related Party Disclosures* 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).		
Balances and transactions between the Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.		
Transactions with key management personnel and entities controlled by key management		
Balances		
Loans	**624**	758
Deposits	**33**	26
Guarantees issued by the Group	**79**	70
Other investments	**81**	67
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 debt expenses and provision for bad debts that related to balances with key management personnel.		
Transactions		
Interest income	**56**	2
Interest expense	**1**	1
Insurance premiums paid	**0,41**	0,38
Insurance claims received	**0,17**	0,28
Key management personnel compensation		
Directors		
Post-employment benefit contributions	**1**	1
Salaries and other short-term benefits	**33**	38
Share-based payments	**27**	17
Termination benefits	**—**	10
	61	66
Other key management personnel		
Post-employment benefit contributions	**2**	2
Salaries and other short-term benefits	**42**	43
Share-based payments	**36**	33
Termination benefits	**3**	—
	83	78

	Group			
	Parent company[1]		Fellow subsidiaries[2] associates and joint ventures	
	2011 Rm	2010 Rm	**2011 Rm**	2010 Rm

13. Related parties *(continued)*

13.1 Balances and transactions with parent company, fellow subsidiaries, associates and joint ventures[3]

	2011 Rm	2010 Rm	**2011 Rm**	2010 Rm
Balances				
Loans and advances to banks	**41 065**	15 261	**188**	412
Derivative assets	**10 254**	9 079	**1**	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 expense and similar charges	**67**	36	**—**	—
Net fee and commission income	**—**	(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 parent company, fellow subsidiaries, associates or joint ventures 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 to on a monthly basis in writing, and full settlement must be made at least quarterly.

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

Notes

[1]Absa Group Limited is a subsidiary of Barclays Bank PLC, which has majority equity interest in the Group.

[2]Fellow subsidiaries, associates and joint ventures are those entities 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.

[3]Debit amounts are shown as positive; credit amounts are shown as negative.

Summarised notes to the consolidated financial statements

as at 31 December

		Group	
		2011 Rm	2010 Rm
14.	**Assets under management and administration**[1]		
	Alternative asset management and exchange-traded funds	**30 486**	25 904
	Deceased estates	**2 166**	2 153
	Other	**10 505**	10 898
	Participation bond schemes	**2 544**	2 315
	Portfolio management	**26 792**	21 145
	Private equity	**728**	732
	Trusts	**6 720**	6 482
	Unit trusts	**133 245**	125 320
		213 186	194 949
15.	**Financial guarantee contracts**[2]		
	Financial guarantee contracts	**356**	599
16.	**Commitments**		
	Authorised capital expenditure		
	Contracted but not provided for[3]	**283**	1 061
	Operating lease payments due[4]		
	No later than one year	**1 106**	1 066
	Later than one year and no later than five years	**2 136**	2 059
	Later than five years	**585**	482
		3 827	3 607
	Sponsorship payments due[5, 6]		
	No later than one year	**209**	305
	Later than one year and no later than five years	**299**	508
		508	813
17.	**Contingencies**		
	Guarantees[7]	**13 226**	11 051
	Irrevocable debt facilities[8]	**46 189**	46 495
	Irrevocable equity facilities[8]	**494**	750
	Letters of credit	**5 190**	4 979
	Other	**10**	44
		65 109	63 319

Notes

[1]During the year under review, assets managed by Absa Capital on behalf of clients, exchange-traded funds and alternative asset management funds have been included in order to align assets under management and administration to current market practice. This resulted in a reclassification of comparative information.

[2]Represents the maximum exposure, which is not necessarily the measurement recognised in 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 property 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 expire in 2012 and are under review by management for renewal in the foreseeable future.

[7]Guarantees include performance guarantee 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.

Summarised notes to the consolidated financial statements

for the year ended and as at 31 December

18. Segment report per market segment

	Retail Banking		Absa Business Bank	
	2011 Rm	2010[1] Rm	2011 Rm	2010[1] Rm
Statement of comprehensive income				
Net interest income	13 792	12 744	7 753	7 536
Net interest income – external	25 068	26 573	5 020	6 002
Net interest income – internal	(11 276)	(13 829)	2 733	1 534
Impairment losses on loans and advances	(3 965)	(4 763)	(873)	(1 144)
Non-interest income	10 848	10 346	4 086	4 009
Non-interest income – external	10 232	9 851	4 080	3 992
Non-interest income – internal	616	495	6	17
Operating expenses	(13 965)	(13 291)	(6 552)	(6 218)
Depreciation and amortisation	(466)	(403)	(66)	(45)
Other operating expenses	(13 499)	(12 888)	(6 486)	(6 173)
Other impairments	(20)	(25)	(27)	(1)
Indirect taxation	(340)	(227)	(67)	(63)
Share of post-tax results of associates and joint ventures	66	(2)	(35)	(12)
Operating profit before income tax	6 416	4 782	4 285	4 107
Taxation expense	(2 049)	(1 431)	(1 369)	(1 222)
Profit for the year	4 367	3 351	2 916	2 885
Profit attributable to:				
Ordinary equity holders of the Group	4 179	3 258	2 895	2 866
Non-controlling interest – ordinary shares	187	92	21	19
Non-controlling interest – preference shares	1	1	—	—
	4 367	3 351	2 916	2 885
Headline earnings	4 179	3 137	2 948	2 811
Operating performance (%)				
Net interest margin on average interest-bearing assets[3]	3,19	2,82	4,44	4,75
Impairment losses on loans and advances as a percentage of average loans and advances to customers[3]	1,23	1,48	0,72	0,93
Non-interest income as a percentage of total operating income[4]	44,0	44,8	34,5	34,7
Revenue growth[4]	7	0	3	1
Cost growth[4]	(5)	(8)	(5)	(11)
Cost-to-income ratio[4]	56,7	57,6	55,3	53,9
Cost-to-assets ratio[3]	3,0	2,8	3,5	3,7
Statement of financial position				
Loans and advances to customers	318 733	323 427	122 250	127 792
Investment securities	3	0	1 644	2 243
Other assets	150 974	146 813	82 157	54 291
Total assets	469 710	470 240	206 051	184 326
Deposits due to customers	126 205	115 494	175 158	155 536
Debt securities in issue	4 256	4 216	—	—
Other liabilities	334 612	346 680	28 054	25 890
Total liabilities	465 073	466 390	203 212	181 426
Financial performance (%)[3]				
Return on average economic capital[5]	25,1	17,4	24,1	23,6
Return on average risk-weighted assets	2,64	1,96	1,95	2,20
Return on average assets	0,91	0,66	1,56	1,65
Other[3]				
Banking customer base by segment (millions)[6]	11,6	11,3	0,4	0,4
Attributable income from the rest of Africa	(123)	(85)	(69)	(23)

Notes

[1]Comparatives have been reclassified.
The following structure changes were 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 Holdings Proprietary Limited and Absa Development Company division 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.

These changes have no effect on the profit and loss of the Group. Comparative segment information has been reclassified to reflect the above.
[2]Head office and inter-segment eliminations do not represent a reportable segment, but the reconciliation to the Group results in terms of IFRS 8 *Operating Segments*.
[3]Unaudited.
[4]These ratios have been calculated by management based on extracted audited information contained in the full annual financial statements.
[5]The Financial Services return on average equity is 32,0% (2010: 34,8%) and Absa Group's return on average equity is 16,4% (2010: 15,1%).
[6]Includes African operations.

Summarised notes to the consolidated financial statements

for the year ended and as at 31 December

Absa Capital		Financial Services		Other		Head office and inter-segment eliminations[2]		Group	
2011 Rm	2010[1] Rm	**2011 Rm**	2010[1] Rm	**2011 Rm**	2010 Rm	**2011 Rm**	2010[1] Rm	**2011 Rm**	2010[1] Rm
2 062	2 578	**21**	10	**559**	(254)	**242**	726	**24 429**	23 340
(9 029)	(10 110)	**24**	10	**1 787**	676	**1 559**	189	**24 429**	23 340
11 091	12 688	**(3)**	—	**(1 228)**	(930)	**(1 317)**	537	**—**	—
(69)	(96)	**(4)**	(6)	**(2)**	—	**(168)**	4	**(5 081)**	(6 005)
3 457	2 930	**3 994**	3 594	**(263)**	(276)	**(719)**	(1 129)	**21 403**	19 474
5 147	3 102	**4 392**	3 084	**(298)**	(338)	**(2 150)**	(217)	**21 403**	19 474
(1 690)	(172)	**(398)**	510	**35**	62	**1 431**	(912)	**—**	—
(3 295)	(3 025)	**(2 020)**	(1 797)	**(252)**	(86)	**626**	347	**(25 458)**	(24 070)
(116)	(111)	**(81)**	(41)	**(154)**	(108)	**(667)**	(604)	**(1 550)**	(1 312)
(3 179)	(2 914)	**(1 939)**	(1 756)	**(98)**	22	**1 293**	951	**(23 908)**	(22 758)
9	(66)	**(2)**	1	**(2)**	(14)	**(10)**	(3)	**(52)**	(108)
(84)	(82)	**(105)**	(80)	**(99)**	(81)	**(376)**	(238)	**(1 071)**	(771)
(6)	2	**0**	—	**—**	—	**15**	3	**40**	(9)
2 074	2 241	**1 884**	1 722	**(59)**	(711)	**(390)**	(290)	**14 210**	11 851
(560)	(589)	**(511)**	(432)	**216**	362	**247**	50	**(4 026)**	(3 262)
1 514	1 652	**1 373**	1 290	**157**	(349)	**(143)**	(240)	**10 184**	8 589
1 496	1 612	**1 373**	1 290	**(127)**	(669)	**(142)**	(239)	**9 674**	8 118
18	40	**—**	—	**—**	—	**—**	—	**226**	151
—	—	**—**	—	**284**	320	**(1)**	(1)	**284**	320
1 514	1 652	**1 373**	1 290	**157**	(349)	**(143)**	(240)	**10 184**	8 589
1 495	1 659	**1 375**	1 291	**(139)**	(623)	**(139)**	(234)	**9 719**	8 041
n/a	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**4,11**	3,94
0,11	0,15	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**1,01**	1,18
62,6	53,2	**99,5**	99,7	**n/a**	n/a	**n/a**	n/a	**46,7**	45,5
0	24	**11**	6	**n/a**	n/a	**n/a**	n/a	**7**	2
(9)	(31)	**(12)**	(16)	**n/a**	n/a	**n/a**	n/a	**(6)**	(15)
59,7	54,9	**50,3**	49,9	**n/a**	n/a	**n/a**	n/a	**55,5**	56,2
0,9	0,8	**8,5**	5,3	**n/a**	n/a	**n/a**	n/a	**3,5**	3,3
62 079	58 378	**137**	242	**524**	622	**(220)**	(1 681)	**503 503**	508 780
7 181	10 594	**17 567**	16 964	**42**	—	**(5 255)**	(5 355)	**21 182**	24 446
300 537	287 138	**7 939**	5 741	**90 279**	78 465	**(369 852)**	(379 717)	**262 034**	192 731
369 797	356 110	**25 643**	22 947	**90 845**	79 087	**(375 327)**	(386 753)	**786 719**	725 957
139 249	117 584	**—**	—	**—**	—	**348**	(1 016)	**440 960**	387 598
107 795	148 061	**—**	—	**20 255**	14 465	**(2 044)**	(2 197)	**130 262**	164 545
118 824	87 015	**21 044**	18 975	**21 496**	19 357	**(376 938)**	(386 252)	**147 092**	111 665
365 868	352 660	**21 044**	18 975	**41 751**	33 822	**(378 634)**	(389 465)	**718 314**	663 808
16,5	18,4	**72,8**	65,3	**n/a**	n/a	**n/a**	n/a	**23,0**	19,7
1,62	1,72	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**2,35**	1,99
0,42	0,45	**5,78**	3,81	**n/a**	n/a	**n/a**	n/a	**1,32**	1,10
0,1	0,1	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**12,1**	11,8
220	219	**3**	3	**—**	—	**(3)**	(22)	**28**	92

19. Reclassifications

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

19.1 Collateralised loans

The Group has reclassified certain collateralised loans 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 below.

19.2 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 reported on a net basis. All balances within this portfolio were reassessed for appropriate presentation in terms of IAS 32 *Financial Instruments: Presentation* and the Group's stated accounting policies, taking into account contracted 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 and 31 December 2009 as reflected in the table below.

19.3 Money market instruments

The Group has reclassified certain money market instruments linked to investment contracts, with longer-term maturities 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 below.

	2010		
	As previously reported Rm	Reclassification Rm	Reclassified Rm
Assets			
Cash, cash balances and balances with central banks (refer to note 19.3)	24 361	(620)	23 741
Loans and advances to banks (refer to note 19.1)	24 877	2 618	27 495
Other assets (refer to note 19.1)	16 131	(3 276)	12 855
Loans and advances to customers	498 635	10 145	508 780
Collateralised loans (refer to note 19.1)		658	
Offsetting (refer to note 19.2)		9 487	
Investment securities (refer to note 19.3)	23 826	620	24 446
Total assets	716 470	9 487	725 957
Liabilities			
Deposits due to customers (refer to note 19.2)	378 111	9 487	387 598
Total liabilities	654 321	9 487	663 808
Total equity and liabilities	716 470	9 487	725 957

	2009		
	As previously reported Rm	Reclassification Rm	Reclassified Rm
Assets			
Cash, cash balances and balances with central banks (refer to note 19.3)	20 597	(391)	20 206
Loans and advances to banks (refer to note 19.1)	36 032	7 191	43 223
Other assets (refer to note 19.1)	17 777	(7 191)	10 586
Loans and advances to customers	506 163	10 845	517 008
Collateralised loans (refer to note 19.1)		—	
Offsetting (refer to note 19.2)		10 845	
Investment securities (refer to note 19.3)	29 564	391	29 955
Total assets	710 796	10 845	721 641
Liabilities			
Deposits due to customers (refer to note 19.2)	356 365	10 845	367 210
Total liabilities	654 306	10 845	665 151
Total equity and liabilities	710 796	10 845	721 641

Glossary

Term	Definition
Absa	Absa Group Limited, together with its subsidiary undertakings, special purpose entities, joint ventures and off-shore holdings. It is also referred to as 'the Group' in this report.
Banks Act	This means the Banks Act, No 94 of 1990 and its regulations.
Barclays	Barclays Group PLC, registered in England under registration number 1026167, and the majority shareholder of Absa Group Limited.
Basel (II and III)	The Basel Capital Accord of the Bank for International Settlements is an improved capital adequacy framework aimed at closely aligning banks' capital requirements with improved modern risk management practices and sophisticated risk assessment capabilities. It further ensures the risk sensitivity of the minimum capital requirements by including supervisory reviews and market discipline through enhanced disclosure.
Borrowed funds	Borrowed funds represents subordinated callable notes qualifying as long-term Tier II capital issued by Absa Bank Limited in terms of section 1 of the Banks Act,No 94 of 1990. The subordinated callable notes are listed on the Bond Exchange of South Africa. Borrowed funds also include preference shares classified as debt in terms of IAS 32.
Capital: Primary (Tier 1) capital	A component of regulatory capital, comprising Core Tier 1 capital and other Tier 1 capital. Other Tier 1 capital includes qualifying hybrid capital instruments such as non-cumulative perpetual preference shares and innovative Tier 1 securities.
Capital: Secondary (Tier 2) capital	A component of regulatory capital, comprising qualifying subordinated loan capital, related minority interests, allowable collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale. Tier 2 capital also includes reserves arising from the revaluation of properties.
Capital: Tertiary (Tier 3) capital	Tertiary capital comprises prescribed unsecured subordinated debt with a minimum original maturity of two years.
Capital adequacy ratio	The capital adequacy of South African banks is measured in terms of SARB requirements. The ratio is calculated by dividing the primary (Tier 1), secondary (Tier 2) and tertiary (Tier 3) capital by the risk-weighted assets. The minimum South African total capital adequacy ratio for banks is 9,75% of risk-weighted assets. Non-South African banks within the Group have similar capital adequacy methodology requirements.
Companies Act	This means the Companies Act, No 71 of 2008 (as amended) and its regulations.
Cost-to-income ratio	Operating expenses as a percentage of income from operations. Income consists of net interest income and non-interest income.
Dividend cover	Headline earnings per share, divided by dividends per share.
Dividends per ordinary share relating to income for the year/period	Dividends per ordinary share for the year are the actual interim dividends paid and the final dividends declared for the year under consideration, expressed as cents per share. Dividends per share for the interim period are the interim dividends declared for the period.
Debt securities in issue	Comprises primarily short- to medium-term instruments issued by the Group and includes promissory notes, bonds, negotiable certificates of deposits and commercial paper.

Glossary

Term	Definition
Earnings per share	Profit attributable to ordinary equity holders of the Group. They constitute the net profit for the period/year less earnings attributable to non-controlling interest, divided by the weighted average number of ordinary shares in issue during the period/year. **Headline earnings basis** – Headline earnings for the period/year divided by the weighted average number of shares in issue during the period/year. **Fully diluted basis** – The amount of profit for the period/year attributable to ordinary equity holders of the Group, divided by the weighted average number of ordinary shares outstanding during the period/ year, both adjusted for the effects of all dilutive potential ordinary shares, assuming they had been in issue for the period/year.
Economic capital	An internally calculated capital requirement deemed necessary by Absa to support the risks to which it is exposed, at a confidence level consistent with a target credit rating of AA.
Economic profit	The difference between the return on financial capital invested by shareholders (return on invested capital) and the cost of that capital.
Embedded value	The embedded value of the covered business is the discounted value of the projected stream of future after tax shareholder profits arising in the company's accounts from covered business in force at the valuation date. Covered business is taken to be all long-term insurance business written on the company's licence.
Exposure	A claim, contingent claim or position which carries a risk of financial loss.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Gains and losses from banking and trading activities	Comprises banking and trading portfolios and includes: ➜ realised gains on financial instruments held at amortised cost, held-to-maturity, or available-for-sale; ➜ realised gains on the disposal of associates, joint ventures and subsidiaries, within the banking portfolios; ➜ realised and unrealised gains and losses on financial instruments designated at fair value through profit or loss; and ➜ interest, dividends and fair value movements on certain financial instruments held for trading or designated at fair value through profit or loss.
Gains and losses from investment activities	Comprises insurance and strategic investment portfolios and includes: ➜ realised gains on financial instruments held at amortised cost, held-to-maturity or available-for-sale; ➜ realised gains on the disposal of associates, joint ventures and subsidiaries, within the investment portfolios; ➜ realised and unrealised gains and losses on financial instruments designated at fair value through profit or loss; and ➜ interest, dividends and fair value movements on certain financial instruments held for trading or designated at fair value through profit or loss.

Term	Definition
Headline earnings	Headline earnings reflects the operating performance of the Group separated from remeasurements (an amount recognised in the statement of comprehensive income relating to any change (realised or unrealised) in the carrying amount of an asset/liability that arose after the initial recognition of such asset or liability) as well as non-controlling interest preference shares.
Insurance risk	A risk, other than financial risk, transferred from the holder of a contract to the insurance provider. The principal insurance risk is that, over time, the combined cost of claims, administration and acquisition of the contract may exceed the aggregate amount of premiums received and investment income.
Liquidity risk	Liquidity risk is the risk that the Group is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, the consequences of which may be the failure to meet obligations to repay depositors and to fulfil commitments to lend.
Market capitalisation	The Group's closing share price times the number of shares in issue.
Market risk	The risk that movements in market risk factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices will reduce income or portfolio values.
Net asset value per share	Total equity attributable to ordinary equity holders divided by the number of shares in issue. The net asset value per share figure excludes the non-cumulative, non-redeemable preference shares issued.
Net interest income	The amount of interest received or receivable on assets net of interest paid or payable on liabilities.
Non-interest income	Non-interest income consists of the following statement of comprehensive income line items: net fee and commission income, net insurance premium income, net insurance claims and benefits paid, changes in investment and insurance liabilities, gains and losses from banking and trading activities, gains and losses from investment activities as well as other operating income.
Non-performing advances	A loan is considered non-performing once its delinquency reaches a trigger point, which is typically when interest is suspended (in accordance with Absa's policy) or if the loan is moved to the legal environment for recovery. As a consequence, a loan that has defaulted is not necessarily non-performing (unless certain criteria are met).
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including financial crime; financial reporting; tax risk; legal risk; operations risk; people risk; regulatory risk; technology risk; major change programme risk; corporate responsibility risk; and brand risk.
Price to earnings ratio	The closing price of ordinary shares divided by headline earnings per share for the period/year.
Private equity investments	Equity securities in operating companies not quoted on a public exchange, often involving the investment of capital in private companies or the acquisition of a public company that results in the delisting of the public equity.
Probability of default	The probability that a debtor will default within a one-year time horizon.
Regulatory capital	The capital which Absa holds, determined in accordance with the requirements of the Banks Act and regulations relating to banks.

Glossary

Term	Definition
Risk-weighted assets	Calculated by assigning a degree of risk, expressed as a percentage (risk weight) to an exposure, in accordance with the applicable standardised or IRB approach rules. Risk-weighted assets are determined by applying the following: → advanced IRB approach for retail credit; → foundation IRB approach for wholesale and corporate credit; → AMA approach for operational risk; → IMA for market risk; → IRB market-based simple risk-weight approach for equity investment risk in the banking book; and → standardised approach for all African entities.
Special purpose entity	A corporation, trust or other non-bank entity, established for a narrowly defined purpose, including for carrying on securitisation activities. The structure of the entity and its activities are intended to isolate the obligations of the SPE from those of the originator and the holders of the beneficial interests in the securitisation.
Value at risk	A technique that measures the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence.
Value of new business	The discounted value, at the date of sale, of the projected after tax shareholder profits from new covered business, net of the opportunity cost of the required capital for new business. New covered business is defined as long-term insurance contracts written by the company during the financial year and for which at least one premium has been recognised in the financial statements. The value of new business is calculated using closing assumptions for all basis items.

Acronyms

A

ABACAS	Asset Backed Arbitrage Securities Proprietary Limited
ABB	Absa Business Bank
Absa LTIP	Absa Long-term Incentive Plan
AEaR	annual earnings at risk
AFS	Absa Financial Services
AGCC	Absa Group Credit Committee
AIA	Absa Internal Audit
AIRB	Advanced Internal Ratings Based
ALCO	Group ALCO and Balance Sheet Management Committee
AMA	Advanced Management Approach
ATW	Absa Towers West

B

Basel	Basel Capital Accord
BBBEE	broad-based black economic empowerment
BBM	Barclays Bank Mozambique
BCBS	Basel Committee on Banking Supervision
BFC	Board Finance Committee
bps	basis points

C

CA	The Companies Act, No 71 of 2008 and its Regulations
CAF	Commercial Asset Finance
CIBW	Corporate, Investment Banking and Wealth
CoGP	Codes of Good Practice
CoRC	Concentration Risk Committee
CPA	Consumer Protection Act
CPF	Commercial Property Finance
CSI	corporate social investment

D

DAC	Directors' Affairs Committee
DAP	Deferred Award Plan
DHA	Department of Home Affairs
DTI	Department of Trade and Industry
DVaR	daily value at risk

E

ELIB	Entry-level and Inclusive Banking
EMC	Executive Model Committee
EOS	employee opinion survey
ESAS	Executive Share Award Scheme
ESIA	Environment and Social Impact Assessment
ESOP	Employee Share Ownership Programme
EWL	early warning list
Exco	Executive Committee
E2E	end-to-end

Acronyms

F	
FAIS	Financial Advisory and Intermediary Services Act, No 37 of 2002
FASSA	Fellow of the Actuarial Society of South Africa
FATCA	Foreign Account Tax Compliance
FFA	Fellow of the Faculty of Actuaries
FIA	Financial Intermediaries Association
FICA	Financial Intelligence Centre Act, No 38 of 2001
FRM	fraud risk management
FSA	Financial Services Authority
FSB	Financial Services Board (South Africa) or Financial Stability Board

G	
GACC	Group Audit and Compliance Committee
GCC	Group Credit Committee
GCE	Group Chief Executive
GDP	gross domestic product
GGCC	Group Governance and Control Committee
GIC	Group Investment Committee
GRCMC	Group Risk and Capital Management Committee
GRHRC	Group Remuneration and Human Resource Committee
GRI	Global Reporting Initiative

H	
HDSA	historically disadvantaged South African
HR	Human resources

I	
IAR	Integrated Annual Report
IAS	International Accounting Standards
IAS 10	IAS 10 Events after the Reporting Period
IAS 16	IAS 16 Property, Plant and Equipment
IAS 24	IAS 24 Related Party Disclosures
IAS 28	IAS 28 Investments in Associates
IAS 31	IAS 31 Interests in Joint Ventures
IAS 32	IAS 32 Financial Instruments: Presentation
IAS 34	IAS 34 Interim Financial Reporting
IAS 36	IAS 36 Impairment of Assets
IAS 38	IAS 38 Intangible Assets
IAS 39	IAS 39 Financial Instruments: Recognition and Measurement
IAS 40	IAS 40 Investment Property
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IFRS 3	IFRS 3 Business Combinations
IFRS 8	IFRS 8 Operating Segments
IMA	Internal Models Approach
IRB	Internal Ratings-Based Approach
IRS	Inland Revenue Service

J	
JIBAR	Johannesburg Interbank Agreed Rate
JSAP	Joiners Share Award Plan

K	
KLP	Key Leaders Retention Plan
King III	King Report on Corporate Governance for South Africa, 2009

L

LTV	Loan-to-value

M

MRC	Market Risk Committee
Mt	Metical/Meticals

N

NAV	Net asset value
NBC	National Bank of Commerce Limited
NCA	National Credit Act
NRRF	New Regulatory Requirement Forum

O

ORC	Operational Risk Committee

P

PAT	profit after taxation
PBT	profit before taxation
PD	probability of default
PRO	Principal Risk Owner
PRP	Principal Risks Policy
PSP	Performance Share Plan

R

RBB	Retail and Business Banking
RC	Regulatory Capital or Regulatory Compliance
RCA	Risk and Control Assessment
RoA	return on average assets
RoE	return on average equity
RoEC	return on economic capital
RoRWA	Return on average risk-weighted assets
RWA	risk-weighted assets

S

SAM	solvency assessment and management
SARB	South African Reserve Bank
SED	Socio-economic development
SIC	Standard Industry Classification or Standing Interpretations Committee
SME	small and medium sized enterprises
SOS	Share Option Scheme
SOX	Sarbanes-Oxley
SPE	special purpose entity

T

TCF	Training Customers Fairly
TSR	Total Shareholder Return

V

VAF	Vehicle and Asset Finance
VaR	Value at risk
VESAS	Voluntary Executive Share Award Scheme

W

WFS	Woolworths Financial Services Proprietary Limited

Our commitment to the environment

*What our impact was on the environment in **2010***

*What our impact was on the environment in **2011***

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

Administration and contact details

Absa Group Limited

Authorised financial services and registered credit provider (NCRCP7)
Registration number: 1986/003934/06
JSE share code: ASA
ISIN: ZAE000067237
Issuer code: AMAGB

Registered office

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

Transfer secretaries

South Africa
Computershare Investor Services Proprietary Limited
PO Box 61051
Marshalltown
Johannesburg, 2107
Republic of South Africa
Telephone: (+27) 11 370 5000
Fax: (+27) 11 370 5271/2

ADR depositary

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

Auditors

PricewaterhouseCoopers Inc.
2 Eglin Road
Sunninghill, 2157
Republic of South Africa
Telephone: (+27) 11 797 4000
Fax: (+27) 11 797 5800

Ernst & Young Inc.
Wanderers Office Park
52 Corlett Drive, Illovo
Johannesburg, 2196
Republic of South Africa
Telephone: (+27) 11 772 3000
Fax: (+27) 11 772 4000

Sponsor

J.P. Morgan Equities Limited
1 Fricker Road
Cnr Hurlingham Road
Illovo
Johannesburg, 2196
Private Bag X9936
Sandton, 2146
Telephone: (+27) 11 507 0300
Fax: (+27) 11 507 0503

Shareholder contact information

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

Group Investor Relations
Alan Hartdegen
Telephone: (+27) 11 350 2598
Email: investorrelations@absa.co.za

Group Secretary
David Hodnett (Acting)
Telephone: (+27) 11 350 4828
Email: groupsec@absa.co.za

Group Legal General Counsel
Marthinus van Rensburg
Telephone: (+27) 11 350 4313

Head office switchboard
Telephone: (+27) 11 350 4000

Customer support
Actionline: 0800 414 141 or actionline@absa.co.za
Absa call centre: 0860 008 600 or (+27) 11 276 4000
General email enquiries: absa@absa.co.za

Reporting fraud and corruption
Absa Fraud Hotline: 0860 557 557