



 **ABSA**
Today, tomorrow, together.

Delivering sustainable growth

Integrated Report 2012

Our integrated reporting journey

Absa Group's 2011 Integrated Report was well received and stakeholders provided us with valuable feedback to enhance our 2012 report.

To keep our stakeholders familiar with Absa's integrated reporting process, this report is similarly structured around the three cardinal principles of reporting as described by the AA1000 standard, namely inclusivity, materiality and responsiveness. We seek to present a clear, uncluttered report. Lengthy disclosures can be found online. We continue to work on providing balanced and transparent information to all stakeholder groups.

Our Integrated Report is the Group's primary reporting vehicle. Our reporting website (2012.absair.co.za) supports these disclosures and includes detailed reports on our five material issues: sustainable financial viability, process and systems effectiveness, customer experience, our people and economic equity. The website also gives further detail on governance, remuneration and our full financial statements and risk disclosures. The Global Reporting Initiative (GRI) index (2012.absair.co.za\gri) allows interested stakeholders to navigate our sustainability information.

Our journey is gaining momentum, each year bringing new insight on how to improve our reporting to stakeholders. This report's layout and appearance has remained largely the same as that of 2011. We have aimed to keep it informative

and accessible, and we welcome feedback on its design and content. Comments and questions can be directed to investorrelations@absa.co.za.

The Board approved the report for release on 28 March 2013.



Garth Griffin
Group Chairman

Maria Ramos
Group Chief Executive

Scope and boundary

This report covers the period 1 January to 31 December 2012, with available information up to 15 March 2013, as well as certain forward-looking statements and targets. We cover our 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 with a bias to the South African operations which generate the majority of the Group's earnings.

	2012 Integrated Report	Annual Financial Statements	Sustainability Reporting
Contents	Refer to the contents on page 1.	Full financial statements Risk disclosures, Director's report GACC report, Auditors report.	Further disclosures of our material issues, environment review, governance and remuneration navigable through our GRI Index at 2012.absair.co.za\GRI
Audience	All stakeholder groups, with an emphasis on shareholders and investors.	All stakeholder groups, with an emphasis on shareholders and investors.	All stakeholder groups.
Distribution	Printed and posted to shareholders. Also available at 2012.absair.co.za	Available at 2012.absair.co.za\financials.	Available at 2012.absair.co.za.
Key governance and regulatory framework	Companies Act JSE Listings Requirements King III International Integrated Reporting Committee paper	IFRS Companies Act JSE Listings Requirements King III	King III International Integrated Reporting Committee paper GRI
Assurance	Selected sustainability disclosures and our BBBEE performance has been independently verified (see page 33).	Audited	Selected sustainability disclosures (refer to 2012.absair.co.za\assurance).

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Report navigation aid



Sustainable growth in targeted markets.



Balance sheet optimisation and proactive risk management.



Simple, streamlined Group for customer delivery.



Customer- and people-centred organisation.



Further reading within this report.



Web link provides reference to online disclosures.



Assured indicator.

Audited

Audited as part of the Group's annual financial statements.



Verified indicator.

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.

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Please note that the notice to the AGM and condensed financial results are available in a separate booklet titled, **Shareholders' information 31 December 2012**.

Introducing Absa . . .

Absa Group

Absa has been listed on the JSE Limited since 1994 and is one of South Africa's largest financial services groups. Barclays Bank PLC owns 55,5 % of the Group.

We operate primarily in South Africa and have majority stakes in banks in Mozambique and Tanzania, representative offices in Namibia and Nigeria; and bancassurance operations in Botswana, Mozambique and Zambia.

Our banking and financial services businesses work together to provide customers and clients the best offerings in:

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

Our purpose

To be partners in growing prosperity for all our stakeholders

Our vision

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

The values that we live by

- 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 stakeholder engagement . . .

We create value through our relationships. Various engagements we determine the issues that are important to our long-term success. These inform our strategy and material issues.

Customers

- Keep improving service levels
- Product choice and cost of banking services

Shareholders

- Rest of Africa opportunities
- Improve revenue growth
- Return surplus capital
- Are credit provisions adequate

Employees

- Improve engagement
- Reward and recognise performance
- Job security
- Find a balance between compliance and serving customers

Government and regulators

- Twin peaks model to be introduced in South Africa
- Higher Basel III liquidity requirements
- Concerns regarding unsecured lending

Community

- Support socio-economic development in South Africa
- Access to opportunities

Executing our One Absa strategy



Sustainable growth in targeted markets

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

Headline earnings	↓	9%
Non-interest income growth	↑	6%
Return on average equity	↓	13,6%
Return on average risk-weighted assets	↓	2,07%
Pre-provision profit	↑	3%



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

Cost-to-income ratio	↓	55,2%
R206 million invested in delivery footprint	↑	32%
Five-year CAGR for operating expenses	↓	7%
Staffed outlets ¹	↓	972
ATMs ¹	↑	9 929

Informs our material issues

Sustainable financial viability

Generating sustainable growth for all stakeholders

Process and systems effectiveness

For simple streamlined customer service delivery

Customer experience

Ensuring that customers stay at the centre of everything we do

Our people

Ensuring a motivated and engaged work force

Economic equity

Ensuring that our shareholders, employees, suppliers and customers are representative of the communities in which we operate



Read about our stakeholder engagement and material issues on page 33.

Balance sheet optimisation and proactive risk management

Maintaining a strong balance sheet that can withstand economic and financial shocks



- 17,4% ↑ Total capital adequacy ratio
- 3% ↑ Risk-weighted assets of R438 billion
- 1,59% ↑ Credit loss ratio
- 37% ↑ NPL coverage

Customer- and people-centred organisation

Delivering leading-edge customer service, enabled by the most talented and motivated people



- 10%^{1,2} ↓ Banking customer-base of 10,9 million
- 2%¹ ↑ Internet banking users totalling 1,2 million
- 32% ↑ Cellphone banking customers totalling 4,2 million



- 9 319 cents ↑ Net asset value per share
- 26,6% ↓ Long-term funding ratio

- 2 ↓ Severity 1 incidents
- 10,1 tonnes CO₂ ↓ Carbon emissions per employee

- 44 ↑ Customer satisfaction index
- 1,77%^A ↓ Complaints as a percentage of South African customers

- 14,6%^A ↑ Employee turnover
- 75% ↑ Internal promotion and transfer

- 5,8 million ↓ Entry-level customers
- Level 4^V ↓ dti BBBEE status
- R8,5 billion ↑ Affordable housing loan book
- R680 million^V ↓ Enterprise development
- R91,5 million^V ↓ CSI and financial education

Notes

¹Includes African operations.

²Decrease mainly attributable to ensure only active accounts are reported.

^VVerified indicator.

^AAssured indicator.

Looking forward – moving to One Africa

2013 is going to be a watershed year for our One Africa strategy. In 2012, we consolidated our Barclays Africa and Absa operations into a single management structure in Johannesburg. In 2013, subject to the receipt of regulatory approvals, the majority of Barclays Africa businesses and Absa will be combined into one legal entity.

The One Africa strategy focuses on broadening Absa's services in leading markets and investing in new geographies. Absa is a well-capitalised and strong bank with significant scale in South Africa. Barclays Africa is a leading, well-established Africa franchise. The combination of Absa with the Barclays Africa operations will create a leading Pan-African financial services business with a compelling platform for further growth. The transaction aims to accelerate Barclays and Absa's One Africa strategy for the benefit of shareholders, customers, colleagues and communities.

As part of the Barclays Group, Africa played a significant role in evolving the goal, purpose and values of the Group. This underpins our One Africa strategy which focuses on strategic themes outlined below which sets us on the path to become the 'Go-To' bank across Africa.

Our goal

Looking to 2013 and beyond, our goal is to build not only a sustainable, trustworthy business, but a business which customers and clients consider as the first choice for answers and solutions – their 'Go-To' bank. Customers and clients will benefit from our focus on doing business in the right way, putting them firmly in the centre of all that we do.

Our purpose

Helping people achieve their ambitions – in the right way

Values and behaviours

- Respect
- Integrity
- Service
- Excellence
- Stewardship

Our strategic themes for Africa

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

How we will measure ourselves

Going forward, our material issues will be contextualised within our balanced scorecard:

- Customers and clients
- Colleagues
- Citizenship
- Conduct
- Company



Read about One Africa on page 102.

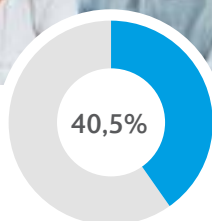
Our businesses

The objective of our One Absa strategy is to deliver long-term sustainable value for shareholders and other stakeholders. We do so by delivering the functions of a bank and financial services company to our customers and clients for which we receive fees and/or interest income. We serve our customers and clients through three main business segments Retail and Business Banking (RBB), Corporate, Investment Banking and Wealth (CIBW) and Financial Services.



Contribution to Group

Headline earnings
R3 436 million



Retail Markets

Scope of business

Offers a comprehensive suite of retail banking products and services to individual customers, from those needing basic banking services to those requiring sophisticated financial solutions. Our distribution includes an extensive branch and self-service terminal network, relationship managers, call centre agents and electronic and mobile phone channels. We focus on providing a consistently superior experience across each of its channels, matched closely to the needs and expectations of each customer segment.

Best Retail Bank in Africa and in South Africa – 2012 Asian Banker International awards



For further information **see page 50**

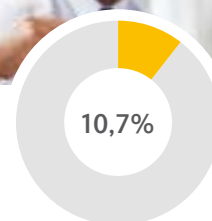
We continue to report Retail Markets and Business Markets separately.

Our scale, diversity and being part of a global group allows us to build sustainable businesses by investing in innovations and driving efficiencies. We believe we are differentiated by being both a local and global bank and are able to meet a wide range of customer and client needs across different locations.



Contribution to Group

Headline earnings
R910 million



Business Markets

Scope of business

Offers a comprehensive range of commercial banking products and specialised services, ranging from off-the-shelf transactional products to complex customised financial solutions to commercial customers with an annual turnover of between R20 million and R500 million, and enterprise customers with an annual turnover of less than R20 million. Our commercial clients are served by dedicated sales, product and support teams, while enterprise customers have a proactive and a branch-based service offering to cater for the diverse needs of this customer segment.

Empowerment Funding Award – Annual Oliver Empowerment Awards



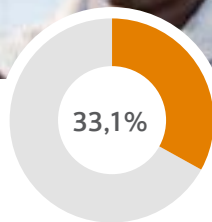
For further information **see page 51**

Absa banking and financial services businesses work together to provide customers and clients the best offerings across our chosen markets.



Contribution to Group

Headline earnings
R2 810 million



CIBW

Scope of business

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, we are able to deliver comprehensive international and local solutions to global and regional clients.

Overall Best Fixed Income and Currency House and Best Bond House in the JSE Spire Awards

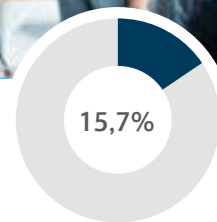


For further information see page 52



Contribution to Group

Headline earnings
R1 338 million



Financial Services

Scope of business

Offers insurance, fiduciary and non-banking related investment products and services to retail, commercial and corporate customers and clients. We provide these through a well-established and 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.

Absa *idirect* voted leading short-term insurer 2012 TGI Icon Brands survey



For further information see page 53

Experience and expertise

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 King III). The Chairman of the Board is an independent director.

The Group Executive Committee (Group Exco) is chaired by the Group Chief Executive and comprises the Group Executive directors and other members of executive management.



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Our Board

- Colin Beggs (64)**
 BCom (Hons); CA(SA)
Independent director (appointed in 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 PricewaterhouseCoopers (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 a member of the Accounting Practices Board. Colin is a non-executive director of Sasol Ltd.
- Yolanda Cuba (35)**
 BCom (Statistics); BCom (Hons); CA(SA)
Independent director (appointed in 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 Holdings. She was later appointed as Deputy Chief Executive Officer and, in July 2007, was appointed as Chief Executive Officer of Mvelaphanda Group Limited. She joined the South African Breweries Limited as Executive Director: Development and Decision Support in September 2011 and was subsequently appointed as Executive Director: Strategy and Business Support.
- Shauket Fakie (59)**
 BCom; CA(SA)
Independent director (appointed in 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. He also serves as Executive Director on a number of MTN subsidiary boards.
- Garth Griffin (63)²**
 BSc; FIA; FASSA, CERA
Group Chairman
Independent director (appointed in 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.

5. **David Hodnett (43)**
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.
6. **Mohamed Husain (52)**
BProc
Independent director ([appointed in 2008](#))
Mohamed has been an attorney for 28 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 International Commonwealth Lawyers Association. Mohamed was one of the advisors to the Constitutional 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. **Antony Jenkins (51)³**
Masters in Philosophy, Politics and Economics; MBA
Non-executive director ([appointed in 2009](#))
Antony was appointed Group Chief Executive of Barclays on 30 August 2012. Prior to that, he had been the Chief Executive Retail and Business Banking since November 2009 and Chief Executive of Barclaycard since January 2006. He joined the Barclays Executive Committee in November 2009.
8. **Robert Le Blanc (56)**
MSc; MBA
Non-executive director ([appointed in 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.
9. **Peter Matlare (53)**
BSc (Hons) (Political Science); MA (South African Studies)
Independent director ([appointed in 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 particularly in Europe.
10. **Thoko Mokgosi-Mwantembe (51)¹**
BSc; MSc (Medical Chemistry); Dip (Ed)
Independent director ([appointed in 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. **Eduardo Mondlane, Jr (55)¹**
Political Science Extension Student (UCLA)
Independent director ([appointed in 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 Guinness 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. **Trevor Munday (63)**
BCom
Independent director ([appointed in 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. Trevor is also a director for Reunert Limited, Illovo Sugar Limited and Life Healthcare Holdings Limited.
13. **Brand Pretorius (64)**
MCom (Business Economics)
Independent director ([appointed in 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. Brand is currently a director of Tongaat Hullett Limited, Italtile Limited and Reunert Limited.
14. **Maria Ramos (53)**
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.
15. **Ivan Ritossa (51)⁴**
BCom (Hons)
Non-executive director ([appointed in 2011](#))
Ivan was the Managing Director and Head of Latin America, Central and Eastern Europe, Middle East and Africa at Barclays Capital (appointed in June 2011), and 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. Ivan resigned from Barclays on 31 December 2012.
16. **Louis von Zeuner (51)¹**
BCom
[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. Louis retired as Deputy Group Chief Executive at the end of 2012 and is now a non-executive director.
17. **Johan Willemse (58)¹**
BCom (Hons) (Economics); MCom (Economics); PhD (Agricultural Economics)
Independent director ([appointed in 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.

Notes

¹Retires 2 May 2013.²Retires 31 March 2013.³Resigned 28 February 2013.⁴Resigned 31 December 2012.

Group directors and management



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New Board appointments in 2013

18. Patrick Clackson (48)

BSc (Hons); ACA

Non-executive director

Appointed to the Board: 1 March 2013

Patrick is the Chief Executive of Barclays Corporate and Investment Banking in Europe, the Middle East and Africa. He joined Barclays in December 1998 where he was Chief Financial Officer of the investment bank for 10 years and the Chief Operating Officer of the corporate and investment bank until 2012. He was previously the Chief Financial Officer for Sumitomo Bank's London and Asian investment banking activities, as well as a senior manager at PricewaterhouseCoopers.

19. Wendy Lucas-Bull (59)

Group Chairman

BSc

Independent director

Appointed to the Board: 1 April 2013

Wendy is a founder of empowerment investment company Peotona Group Holdings Proprietary Limited. She was previously Chief Executive of FirstRand Limited's retail business and prior to that an executive director of Rand Merchant Bank. She has served as an independent director on several major public companies and state-owned enterprises including Telkom, Eskom and the Development Bank of Southern Africa. Wendy is currently a director of Anglo American Platinum Limited and is also a member of the President's Advisory Council on Black Economic Empowerment.

20. Ashok Vaswani (52)

Chartered Accountant (CPA); Company Secretary (India)

Non-executive director

Appointed to the Board: 1 March 2013

Ashok is the Chief Executive of Barclays Retail and Business Banking. He joined Barclays in 2010 and was the Chief Executive of Barclays Africa from October 2010 to September 2011. Before joining Barclays, he was a partner at Brysam Global Partners LLC, a New York City based private equity firm focused on building retail financial services businesses in emerging markets. He spent 20 years in a number of senior roles at Citigroup.



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Other Group Exco members

21. Kennedy G Bungane (38)

BCom; MBA and AMP (Harvard)
[Joined Absa in 2012; appointed to Exco in 2012](#)
 Kennedy is Chief Executive: Barclays Africa and Head of Absa Group Strategy. Kennedy has extensive experience in financial services, having served in the position of Chief Executive of Corporate and Investment Banking at Standard Bank of South Africa since 2009. He started his career in retail at Standard Bank in 1991 and held a variety of senior positions. Kennedy is responsible for all operational and business activities outside South Africa for both Barclays and Absa and leads business strategy across Africa for Absa and Barclays.

22. Philip Freeborn (49)¹

BSc Mechanical Engineering; AKC; ACA (UK)
[Joined Absa in 2011; appointed to Exco in 2012](#);
 Philip is the Chief Operating and Integration Officer and Acting Human Resources Executive. He first started his career in 1988 at PricewaterhouseCoopers, where he qualified as a Chartered Accountant and acted in numerous consulting roles. His career in financial services started in 1993, and he has held senior positions at S.G. Warburg, Swiss Bank and UBS. Philip has been with the Barclays Group since 2006, and has been responsible for technology, operations, sourcing and real estate in various key parts of the Barclays business.

23. Willie Lategan (44)

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 and 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.

24. Bobby Malabie (52)

BCom (Accounting); MBA; MDP (Harvard)
[Joined Absa in 2010; appointed to Exco in 2010](#)
 Bobby is the Chief Executive Marketing, Communications and Public Relations and prior to that he was 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.

25. Jan Lubbe (41)

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.

26. Nomkhitha Nqweni (38)

BSc; Postgraduate Diploma (Investment Management)
[Joined Absa in 2010; appointed to Exco in 2011](#)
 Nomkhitha is the Chief Executive Wealth and Investments, Africa. Her role is to oversee the Wealth and Investments businesses in Africa for both Absa and Barclays. She spent 13 years with Alexander Forbes, performing different functions in multi management, retirement fund consulting and group strategy. Prior to joining Absa, Nomkhitha was the Managing Director of Alexander Forbes Financial Services Holdings Limited.

27. Stephen van Coller (46)

BCom (Hons); HDip Acc; CA(SA); CMA(UK)
[Joined Absa in 2006; appointed to Exco in 2009](#)
 Stephen was appointed Chief Executive Corporate, Investment Banking and Wealth for Barclays and Absa in Africa in October 2011. Prior to that, he held the position of Chief Executive of Absa Capital, with local responsibility for Absa Wealth. Before joining Absa Capital in 2006, Stephen worked at Deutsche Bank in Johannesburg for 10 years.

New appointments to the Group Exco in 2013

28. Craig Bond (51)

B.Com; LLB; H.Dip. Tax; SEP (Harvard)
[Joined Absa and appointed to Exco on 14 January 2013](#)
 Craig is the Chief Executive of Barclays Africa and Absa Retail and Business Banking (RBB). Craig is the former Chief Executive of Standard Bank Asia and Industrial and Commercial Bank of China strategic partnership. Prior to his 12-year tenure at Standard Bank, he was the Managing Director of Tourvest Investment Corporation Limited and Head of Personal, Private and Branch Banking at Nedbank and Peoples Bank.

29. Sarah Louw (47)

HDip (Labour Relations); Dip (Personnel Management) (IPM)
[Joined Absa and appointed to Exco on 15 March 2013](#)
 Sarah joined Absa as Group Human Resources Executive, Africa. She was employed at Anglo American Plc for 31 years, and most recently held the position of Head of Human Resources: Other Mining and Industrial Businesses.

30. David Skillen (59)

Dip (Programming Technology)
[Joined Absa in 2011; appointed to Exco on 1 March 2013](#)
 David is the Africa Chief Operating and Integration Officer. He joined Barclays in 2006 and became the Chief Executive of Barclays Africa and Chief Executive of Africa Retail and Business Banking in November 2011. Prior to his appointment at Barclays, he was the Chief Operating Officer, Global Cards at Citibank NA.

31. Charles Wheeler (48)

BA; LLB; HDip (Tax)
[Joined Absa and appointed to Exco on 1 March 2013](#)
 Charles joined Absa as the General Counsel, Africa. Prior to his appointment to the Group, he worked as legal consultant for Webber Wentzel, as Group Executive: Commercial Legal at MTN Group Limited and as Director: Legal Services at Standard Bank.

Note

¹Resigned 28 February 2013.



Reviewing our 2012 performance



Looking at the issues influencing our business

Strategic pillars discussed



Key points

- Barclays Africa transaction approved by minority shareholders and progressing through regulatory approvals
- Strong focus on risk and control matters
- Review of our remuneration policy and disclosures
- Strong relationship between the Board and Barclays

Garth Griffin, Group Chairman



The Chairman's primary role is to provide Board leadership, creating the conditions for overall Board effectiveness and ensuring that Absa satisfies legal and regulatory responsibilities. In this review, Garth provides his views on the operational, regulatory and risk environments and reflects on various aspects of our governance.

Outlook

- Maintaining a healthy capital position, providing some future options
- Driving new behaviours through our new purpose and values
- Refining focus on our corporate citizenship through the pillars of our Citizenship plan
- Governance structure to be updated, factoring in the Barclays Africa transaction

Introduction

The context for Absa's 2012 Integrated Report is an environment that lived up to the cautious tone of our 2011 report. Uncertainty continued to prevail throughout the year on many important fronts, with few answers to the mounting number of pressing issues, including:

- the Eurozone crisis;
- the US fiscal cliff;
- the implications for the global economy of a change in focus, from external to internal, in China;
- the longer-term effects of the large monetary stimulus being provided by the central banks of the major western economies;
- the direction of national policy initiatives in South Africa, covering the future of the National Development Plan as the preferred framework for South African economic and social policy developments;
- local capacity for economic growth and the investment appetite of South African corporates; and
- continued high levels of personal debt in South Africa.

I would like to make two specific observations, relating to the South African context.

National Development Plan

As evidenced by well-reported communication from business leaders to government in December, the National Development Plan (NDP) has significant support within the private sector as a visionary policy framework for South Africa. This is not because it is 'private sector friendly' – indeed, it will demand much of the private sector. What it does, is to provide a logical and structured framework that should bring some consistency to policy decision-making, while being fundamentally aligned to the many pressing social imperatives in South Africa.

It has been pleasing to see the acceptance of the NDP by our political leadership, as evidenced by the President's comments in his State of the Nation Address and the Budget Speech by the Minister of Finance in February. Our political leadership should not underestimate the local and international importance of having taken this clear and unambiguous position on the NDP.

However, a challenging road lies ahead. It is vital that the NDP imperatives guide, and be seen to guide, future policy making, and

It has been a privilege to serve on the Board of Absa and to work alongside very talented and respected colleagues over the years. The Group has overcome many challenges, building a solid foundation and positioning the Group for future growth. I'm confident that the Group will continue to reap the benefits of its clear strategy and the expanded relationship with Barclays.

that proposed new policy initiatives be evaluated against the NDP framework via a process as robust as any budgetary or financial review undertaken by the Treasury. Various players, including the private sector and organised labour, need to be fully engaged; this will demand consistent, quality communication from government. It is also important that the focus on the NDP be maintained, and that it be refreshed as appropriate, over time.

The NDP can be the catalyst for channelling the available creative energy aimed at building the future we seek for all South Africans and we look forward to playing our role. It will also have a positive impact on the willingness of South African corporates, as well as foreign investors, to take long-term investment decisions.

Chairman's statement

Unsecured lending and personal debt

A key issue highlighted by the events in 2012 was the impact of the growing level of personal indebtedness on take-home pay, or real disposable income, particularly amongst lower income earners. This is not a new phenomenon – the growth in unsecured lending has been a concern for both the formal banking industry and the South African Reserve Bank.

The National Credit Act was designed to regulate these activities and the National Credit Regulator has been prominent in reviewing the activities and processes of those licensed to grant credit. By its nature, this is a difficult industry to control with many opportunities for so called 'fringe activities' to exploit regulatory arbitrage. Participants who take current regulatory requirements seriously can find themselves at a disadvantage, through no fault of their own, as a result of the activities of those who provide credit in a less responsible fashion.

At a macro level the problem is less of a financial one as there is unlikely to be a systemic risk to the banking system due to losses on unsecured lending, but it is of great social significance. Creative and bold responses to the issue are required, including improved consumer education, much more stringent vetting and regulation of credit providers, especially those not subject to banking supervision, a review of payment and collection mechanisms and the disclosure of information to and by credit providers on the granting of new debt. More effective use of credit bureau information should also be explored. I would encourage the key role players, including the Banking Association of South Africa and the Regulator, to work together to find appropriate responses to the issue, covering all credit providers.

While access to credit is important, taking on debt should be seen as a serious decision, requiring a robust process of screening and regulation. Likewise, the provision of credit should be allowed only by those able to satisfy more stringent regulatory requirements. The advent of the new approach to financial services regulation, the so called 'Twin Peaks' approach, may provide an opportunity to rethink the structure of credit regulation in South Africa.

The Barclays Africa transaction

Against this backdrop, we continued to execute on our One Absa strategy, and to move deliberately and carefully, towards assuming the responsibility for the combined African portfolio. The approval by our minority shareholders, on 25 February 2013, of the acquisition of the majority of the Barclays Africa operations, and the change of the name of Absa Group Limited to Barclays Africa Group Limited was a watershed event. We look forward to the finalisation of the transaction once the various regulatory approvals are received.

Absa was created through a merger of a number of well-known South African financial institutions some 20 years ago and so it is perhaps fitting that it now merges again to form a leading Pan-African financial services business. As Barclays Africa Group Limited we will drive our One Africa strategy focusing on broadening services in our existing operations and seeking new opportunities. Africa is an explicit strategic focus area for the Barclays Group, and Barclays Africa Group Limited will reinforce its position as a key roleplayer. We embrace this new

accountability with humility and look forward to working closely with our colleagues elsewhere in Africa.

Operational performance

As exciting as the opportunities north of South Africa may be, our local operations remain the major component of the expanded portfolio. While the financial results for 2012 were disappointing, much was done to better prepare Absa for the ongoing challenging environment. The acquisition of the Edcon card book was an important step in expanding our customer base. The review of our Group Chief Executive, Maria Ramos, deals in more detail with our strategic response including some of the key developments within the Group over the year, including a critical re-evaluation of our operating model and some significant changes to operating processes. I am convinced that the meaningful and sustainable adjustment to our overall efficiency and expense levels that resulted from this will stand us in good stead in future.

As noted, the financial outcome for 2012 was below expectations; revenue growth was subdued and impairments rose significantly, while costs were well contained and we benefited from the ongoing low interest rate environment due to our policy of hedging interest rates on our banking book. As a result, our return on equity (13,6%) reduced to just above our cost of equity (13,5%). A detailed analysis of our financial performance is contained in the report of our Group Financial Director, David Hodnett.

Risk and control

The sharp rise in our impairments was also a disappointment. As mentioned at the half-year results and discussed later in this report, these were concentrated in two areas: specific segments of our commercial property exposure and the Home Loans legal book. Both were significant and have received focused attention by management with regular reports to the Board, the Group Risk and Capital Management Committee (GRCCM) and Group Audit and Compliance Committee (GACC). The bulk of these Home Loans advances were originated at least four years ago and we expect to see the benefits of the steps taken in credit and collections management as 2013 unfolds.

In other respects, the risk and control environment remained benign throughout the year. New advances were of good quality and significant progress was made in positioning the Group for the arrival of the Basel III capital requirements, with the new liquidity requirements receiving significant attention. We also focussed on implementing an effective combined assurance model within the Group and made noteworthy progress in this regard. These matters are covered in more detail in the risk summary and the report from the chair of the GACC contained within our full financial statements.

While there may be signs of relief from some of the global issues, the road ahead remains unclear, and we continue to focus on our risk and control processes to both mitigate and better respond to unexpected events.



See our risk summary on page 66.

Capital

We remain well capitalised and with the acquisition of the majority of the Barclays Africa entities and greater clarity from the regulators with regard to Basel III, we now have a clearer view of our future capital requirements. This allowed us to maintain the level of our dividend, in spite of our lower profit performance, leaving some scope for considering various options with regard to capital levels. We expect to reach a conclusion towards the middle of the year, and David Hodnett comments further on this in his report.

Citizenship

An important development during the year was the introduction of our overall citizenship agenda. This encompasses all aspects of our behaviour as a corporate citizen, beyond that of producing returns for our shareholders, and is fundamental to the way in which we are expected to conduct ourselves as a member of the Barclays Group. The initiative is Pan-African in nature and encompasses much of what was previously covered under the sustainability agenda, notably stakeholder engagement, CSI activities, a heightened ethical culture and service levels to our clients and customers. It also falls squarely within the ambit of the newly formed Social and Ethics Committee which is likely to become an ever more important Board committee as our citizenship process matures.

I am of the view that the notion of citizenship is more helpful, certainly for financial institutions, in shaping corporate behaviour than that of sustainability, even though the aspects covered and the desired end result of both are similar. We have embraced this initiative and are in the process of making it a way of life within the Group.

Remuneration

Remuneration within banks remains a contentious issue. Our approach is clearly spelled out in our remuneration summary and we continue to try improve the clarity and transparency of our reporting on this critical issue.



See our remuneration summary on page 76.

In line with the financial performance, our incentive pool for the year was reduced. I would like to draw your attention in particular to the flowchart on page 83 that provide insight into the process we follow for determining an acceptable size of our incentive pool. However, there is more to such a decision than simply a range of financial metrics. We also take into account some of the non-financial achievements for the year, including finalising the Barclays Africa transaction, that demanded great effort from a key group of senior management. In addition, the imperative to retain key employees in an environment of ongoing skills shortage – an area where the local financial services industry is different to our international counterparts – required some proactive steps that had an impact

on the quantum of award, particularly in terms of long-term incentive awards. Examining the detail in our remuneration report will show that senior management, including Maria, bore the brunt of the reduction in short-term incentives, while long-term incentive awards, linked to future performance levels, were focussed on key executives we believe to be critical to our future performance.

These factors need to be taken into account when assessing the incentive awards and overall executive remuneration as disclosed in our report.

Our citizenship strategy is based on three pillars

Contributing to growth

We support economic growth and job creation by operating a strong, profitable business that is focused on helping individuals, businesses, institutions and governments pursue their goals.

The way we do business

Our customers and clients' interests are at the heart of what we do. We seek to reinforce our business integrity every day by striving to improve the service that we provide, making responsible decisions in how we manage the business, and actively managing the social and environmental impacts of what we do.

Supporting our communities

We play a broader role in the communities in which we live and work beyond what we deliver through core business activities. We do this through community investment programmes and the direct efforts of our colleagues.

Through this plan we will:

- Help more individuals, businesses and economies to progress and grow.
- Increase access to the financial system.
- Create commercially viable solutions to help address social challenges.
- Aim to be top tier for customer and client satisfaction in all of our principal businesses.
- Strive to be market leading on disclosure and transparency.
- Proactively manage the social and environmental impacts of our business.
- Empower the next generation with skills to achieve economic independence and security.

Chairman's statement

Governance, ethics and values

Effective governance is critical and must manifest in behaviour and decisions that reflect an appropriate set of values congruent with the highest standards of ethical behaviour. Promoting our values and translating them into ethical behaviour has been a key aspect of the Group's activities. As we move closer to Barclays, there will be an even greater focus on appropriate corporate behaviour. Indeed, a major exercise has been undertaken by Barclays under the direction of its new Chief Executive, Antony Jenkins, and our Absa colleagues have played a significant role in helping define the values set to which we subscribe as a member of the Barclays Group.



Read more in Looking forward – moving to One Africa on page 102.

The process we follow in developing our strategy allows for significant engagement with the Board; our Board programme in 2012 had three points of formal engagement between management and the Board regarding strategy, including a two-day offsite, where business-unit strategies are presented and discussed. This was an extremely useful process. The Board also agreed on a more structured engagement regarding strategy development with Barclays which we believe will enhance the process even further.

We have maintained a well-established governance structure within the Group, with a focus on continuous improvement. Following a thorough annual review of its performance as well as the performance of its committees, I believe that the Board and its committees continue to function well and fully met its obligations to shareholders and other stakeholders over the year.



See our review of governance activities on page 56.

Board structure

As noted in our 2011 Integrated Report, Brian Connellan retired on 18 May. At the end of 2012, we said farewell to Ivan Ritossa, following changes at Barclays. Ivan's contribution will be missed, and I thank him for his constructive engagement with the Group. After year

end, Antony Jenkins stepped down from our Board, following his appointment as Chief Executive of the Barclays Group. Antony made a valuable contribution to our Board deliberations and will still be engaged in Barclays Africa Group affairs as Barclays Group Chief Executive. His impact in his new role at Barclays has been marked, and we wish him every success as he leads the Group in these challenging times. Ivan and Antony were succeeded by Ashok Vaswani and Patrick Clackson from 1 March and we look forward to working with them.

At 31 December, Louis von Zeuner retired as Deputy Group Chief Executive. Louis' contribution to the Absa Group that he served for over 30 years was immense, as was his contribution to the banking industry overall.

The Barclays Africa Group board will be smaller than the current Absa Group Board and will reflect the Pan-African nature of the new Group while retaining a majority of independent non-executive directors. Details of the proposed changes are included in our AGM notice.

As announced last year, I will be standing down from the Board at the end of March. After an extensive search process, we are delighted that Wendy Lucas-Bull joins Absa as my successor, and will take office on 1 April 2013. Wendy brings many years of relevant experience to her new role, and I have no doubt that she will make a major contribution to the future development of the new Barclays Africa Group. I wish her every success.

Relationship with Barclays

The ongoing development of the good relationship we have with Barclays is of utmost importance to the Group. It has matured over the last eight years since Barclays acquired its stake in Absa, and we have benefited significantly from the relationship. We have tapped into the deep banking expertise within Barclays, accessing critical skills from time to time. As a result, Absa has been able to benchmark itself against an acknowledged global leader in banking.

Throughout, however, our Board has been cognisant of its accountability to Absa minority shareholders and ensured that the rights of minorities are respected at all times. Barclays recognises and respects this role and remains committed to structured and regular interaction with the Board, a process we believe is of significant benefit to the Barclays Africa Group, and one that the new board will mirror into its African subsidiaries.

Thanks and acknowledgements

I would like to thank our many clients and customers for their continued support. We recognise our accountability to you and are committed to a relentless quest for new ways to help you achieve your ambitions – in the right way.

Nothing would have been possible without the dedication of our Absa employees, ably guided by the leadership team led by Maria and our Group Exco. It was a difficult year and many demands were placed on our people, often requiring sacrifices to ensure that the desired outcomes were achieved. I thank you all for your contribution.

I also wish to thank our colleagues at Barclays for their ongoing support, even through what was a very difficult year for them as well. They have helped make Absa a better bank and position us to play an important role in the development of the Barclays franchise throughout our continent.

We have benefited from a very constructive relationship with our primary regulator, the Registrar of Banks at the South African Reserve Bank. My thanks go to Mr Rene van Wyk and his team for

their guidance over the year, as well as to the Governor and Deputy Governor for their constructive engagement as we shaped the Barclays Africa transaction.

Finally, my thanks to my current and past colleagues on the Board; it has been a privilege to serve the Group over the past 11 years and to learn so much from my colleagues. I have no doubt that, in its new form as Barclays Africa Group, the Group will go from strength to strength.



Garth Griffin

Group Chairman

28 March 2013

Creating one bank in Africa

Strategic pillars discussed



Maria Ramos, Group Chief Executive



The role of the Group Chief Executive is to lead the Group and execute our Board-approved strategy. In this review, Maria provides her view on Absa's performance and the ambition for our One Africa strategy.

Key points

- Significant changes to business structure completed in 2012
- Well provisioned after substantial clean-up of home loans and commercial property finance books
- One Absa strategy has evolved into our One Africa strategy
- Uniquely placed, as part of Barclays, to serve customers across multiple geographies
- Minority shareholder support for acquisition of eight Barclays Africa businesses presents transformational milestone

Outlook

- Momentum in businesses expected to show in top line growth
- Earnings are well diversified and balance sheet is strong
- Critical focus will be on executing Barclays Africa transaction, backed by Absa's minority shareholders
- Contribution to earnings from rest of Africa expected to rise

Introduction

2012 was challenging and demanding. While our results were disappointing, we made significant strategic progress and important operational changes during the course of the year.

Our One Absa strategy, which we set out in 2009, recognised that the global economy and, thus, the South African economy faced a prolonged period of subdued growth. It was also tailored for a financial services and banking industry looking at a rapidly changing regulatory environment, as well as more demanding customers and clients who expect their needs to be met more conveniently and at lower cost. These trends have been accentuated in 2012.

In this environment, and with an eye on the significant potential in Africa, we evolved our One Absa strategy into our One Africa strategy. Many African countries outside South Africa are experiencing high economic growth rates. In addition, being part of the Barclays Group puts us in a unique position to serve our customers and clients across multiple geographies. Our acquisition of eight Barclays businesses in Africa, which is still subject to regulatory approval, is a critical and transformational milestone in executing this strategy.

Company

Absa saw significant change in 2012 as we changed our business structure, introduced a new operating model and concluded a major review of our businesses.

We successfully completed the integration of our Corporate with our Investment Bank to form Corporate and Investment Banking. Our focus is on leveraging Barclays presence and scale to serve the needs of our largest domestic clients as well as international corporate and financial institution clients across Africa and globally. In this respect, being part of Barclays puts us at a distinct advantage over our competitors. Consequently, we acquired new clients and wrote good quality business last year. Furthermore, we combined Retail and Business Banking, a restructuring exercise that removed inefficiencies and layers of duplication.

We also made significant changes to our operating model as we combined Absa and Barclays Africa operations in Johannesburg, allowing us to begin the process of running core functions in a more integrated and cost-efficient way.

As part of a review of our businesses, we conducted a substantial clean-up of our home loans and commercial property finance books. The result is that we are well provisioned, with our non-performing loan cover increasing from 28% to 37%. In personal loans, even though it remains an important part of our business, we have been prudent in our approach, which puts us in a good position for the next few years. We also exited non-core operations, such as Business Markets equities and closed some short-term insurance activities. In other selected areas, we expanded our business. For instance,

We have made significant advances in building a platform that allows us to sustainably grow our business going forward. Our One Africa strategy, as part of Barclays Group, positions us well *vis-à-vis* our competitors in becoming best in class as the 'Go-To' bank in Africa. Our values and the way we do business will undoubtedly play a pivotal role in achieving this goal.

Absa Financial Services gained access to an entirely new market by extending its presence to Zambia, leveraging Barclays local presence and grew its premiums earned outside of South Africa by 140%.

As a result of these and other changes, we are regaining momentum across the Group. Our card business continued to perform well with a high quality book and being part of the Barclaycard franchise provided us with a solid platform for innovation and growth. Vehicle finance gained substantial momentum, as we focused on building our motor dealer relationships and improving customer processes. Our home loans business was re-energised after we re-entered the mortgage originator channel. CIBW performed very well, increasing earnings by 26%, which included the significant progress in our wealth business. Finally, the re-alignment of our business improved our cost base, with costs increasing by just 2% and our cost-to-income ratio improving to 55,2%.

This momentum was also fuelled by our relationship with Barclays, which has already delivered significant benefits. We have been able to leverage Barclays platforms, adopt innovative products and ideas, as well as realise efficiencies and cost savings in our business. Some areas where we benefit the most:

- Our investment bank is fully integrated with Barclays and is now a leader in those areas that it targets, such as fixed income. Our Africa trading grew 36% last year.
- We have implemented a Barclays global foreign exchange platform which has received international recognition.
- Debt investors know that we have an A- credit rating, two notches above our local competitors, because Barclays is our parent.

Group Chief Executive's review

Throughout this challenging year, we maintained a strong capital base and liquidity ratios. We were able to fund the Edcon deal with internal resources and implement Basel II.5, while still maintaining a steady Core Tier 1 ratio of 13,0%, well above our Board target and regulatory requirements.

The diversification of our business has helped cushion the impact of some of the difficulties we faced and so we continued to create value for our shareholders over time. Our strong capital position allowed us to maintain our dividend at record 2011 levels. This takes the compound growth in our dividend per share to 18% and our net asset value per share to 14% over the past 10 years.

The strategy we are pursuing has allowed us to create the foundation on which we can advance our goal of becoming the 'Go-To' bank across Africa. That means becoming the bank that is the instinctive destination and partner of choice for all our stakeholders – for our customers and clients, colleagues, regulators and the communities in which we work and live. It requires a lasting change in the way we do business. I am convinced that our success is not based just on *what* we do, but importantly *how* we do it and that our values will be instrumental in creating sustainable returns.

The Africa leadership team has participated actively in defining the purpose and the values for Barclays. Our common purpose is to help people achieve their ambitions in the right way. By 'people' we mean our customers and clients as well as our colleagues and all our stakeholders. 'In the right way' defines how we want to do business based on our values, which are respect, integrity, service, excellence and stewardship. These values are underpinned by behaviours that will have to be demonstrated consistently and by which everyone in the Group will be measured.

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



See our Group Financial Director's report 22.

Customers and clients

The bedrock of our business continues to be a relentless focus on customers and clients and we recognise that we still have some way to go. Our focus continues to be on serving our customers and clients, improving the quality of each person's experience every time they interact with us, whatever that point of contact is. For example, we

have made significant improvements to our home loans turnaround time, from 12 days to around four days. We have also rolled out a new customer onboarding process that resulted in the time needed for general customer onboarding being reduced to around 10 minutes.

We also continue to invest heavily in technology. We rolled out Absa Online, launched the 'Pebble' mobile merchant acquiring device and refreshed our ATM network. We launched innovative products, such as Transact and Value Bundles for retail customers, delivering better pricing transparency and our attractive Absa Rewards programme, whose membership increased by 59% in 2012.

Already, the concerted efforts we made in 2012 to better serve our customers and clients have been acknowledged by them. To note just two examples, our retail customers voted us best for service in the Ask Afrika survey and in the Spire Awards, customers voted us first in Fixed Income and Currencies for the fourth consecutive year, as well as Best Bond House.

Another milestone transaction we completed in 2012 was our partnership with Edcon which will allow us to provide our products and services to even more customers going forward. It will have a direct impact on our top-line growth as it increased our customer base by 3,8 million. The Barclays Africa transaction gives us access to another 2,2 million customers.



See our Customer experience material issue on page 40.

Colleagues

We made significant progress in building up talent and further developing a talent pipeline for the Group. Our focus has been on building an organisation that values people, develops their talent and creates opportunities for career development. We have a great team of people, all of them exceedingly capable, committed and passionate.

The Group increased its investment in skills development, spending R790 million on learning activities for colleagues, or 7% of our leviabile payroll. The activities range from learnerships to lifelong learning programmes and our best-of-breed graduate trainee programme.

Admittedly, it was a tough year for colleagues as we restructured the business. This was reflected in the views expressed in an employee survey that was conducted mid-year. It is pleasing to note that a concerted effort to address problems prioritised by colleagues resulted in a marked decrease in the number of disciplinary cases in 2012 compared with previous years. The number of ethical breaches also declined due to an extensive ethics awareness and education programme initiated during the year.

Our focus in the coming year will be on talent mobility across the Group. Our ability to offer career opportunities across geographies gives us a competitive advantage and will ensure we attract the best and the brightest in the industry.

Citizenship

Our commitment to the economic transformation of the communities where we do business remains as strong as ever. However, our role as corporate citizen in society and, therefore, the focus of our citizenship programme cannot be limited to investing money and employee time in community projects. It has to speak to the many ways we can contribute to society as a financial institution. Hence, our 2015 Citizenship plan is built around three pillars: our contribution to growth, the way we do business and how we support communities. We have made good progress in all three of them.

- **Contributing to growth.** As one of our core functions, we helped individuals and businesses to grow by lending more than R500 billion to households and companies and supporting more than 16 000 SMEs through training, business seminars and various other tools. We also continue to increase the accessibility to finance and are now serving about six million entry-level banking customers. Our affordable housing unit, designed to assist low-income earners, grew its loan book by 13% to R8,5 billion. Finally, we continued to extend our support for black businesses through our procurement policies, with R12,6 billion spent on products and services provided by 2 585 empowerment accredited suppliers.
- **The way we do business.** Our common purpose and our values are at the centre of the way we do business. By helping people achieve their ambitions 'in the right way' we aim to be top tier for customer and client satisfaction – in essence to become the 'Go To' bank. While more work remains to be done, we reduced customer complaints by 40% in the fourth quarter, revamped central customer processes, and launched new services and products such as paperless and remote account opening services for savings and transmission accounts. We also managed our environmental impact, reducing the Group's carbon emissions by 22% since 2010.
- **Supporting our communities.** Our focus has been on meeting the development needs of young people through enterprise and finance skills as well as life skills. Besides investing more than R90 million in high impact programmes, our employees invested their time; more than 5 000 of our staff supported community programmes in 2012. We were able to reach more than half a million people who benefitted from these programmes in the last year. Our financial literacy programme, for example, reached 18 million individuals since 2007, with an investment of R80 million.



See our economic equity material issue on page 47.

Looking forward

Though 2012's results certainly were disappointing, it is important to acknowledge the progress we have made during the year in building a platform that allows us to grow our business sustainably going forward. The momentum we have created should become evident in our top-line growth this year, which we expect to improve from last year's modest growth. Our earnings are well diversified and our

balance sheet is stronger. We continue to maintain a well-balanced funding mix, as well as high liquidity and capital ratios.

We expect a noticeable improvement in our return on equity in 2013. With our continued focus on efficiency, our costs are expected to grow less than our revenue again reducing our cost-to-income ratio. We also expect our credit loss ratio to improve significantly from the elevated levels we saw in 2012.

One Africa

Our One Africa strategy positions us well *vis-à-vis* our competitors to become the 'Go-To' bank across Africa. Our values and the way we do business will undoubtedly play a pivotal role in achieving this goal. As we are determined to expedite our ambition of building a leading Pan-African franchise, a critical focus of our work over the next 12 months will be to execute the deal backed by Absa's minority shareholders in late February.

This transaction will transform our business, diversifying our earnings base across geographies that are experiencing dynamic economic growth. By combining our operations under one legal entity, we will create one of the largest banks in Africa by customers and a branch network with over 1 300 branches in 10 countries. We anticipate that the transaction will result in an increased contribution from the rest of Africa to Absa's earnings to between 15 and 20%, the highest amongst local banks.



See Looking Forward on page 102.

Thanks and acknowledgements

I would like to thank our colleagues for their hard work and resolve in a challenging year. We have achieved a great deal and have much to be proud of. In particular, I want to thank Louis von Zeuner for his contribution to the Group during his 30 years of service. His energy, understanding of the practical issues that make things work in a large institution and involvement with people, both colleagues and customers, will be missed. However, we are delighted that Louis will be staying on as a non-executive director of Absa Bank, and that we will continue to benefit from his insight and experience.

I wish to thank members of the Board for their valued counsel and support during the year. On behalf of the Board and the executive team, I thank Garth for his significant contribution to Absa over many years and wish him a happy and healthy retirement.

I would also like to welcome Wendy as our incoming Chairman and look forward to her leadership.

Maria Ramos

Group Chief Executive

28 March 2013

Understanding our numbers

Strategic pillars discussed



David Hodnett, Group Financial Director



Key points

- Our 2012 performance disappointed, as RoE declined to 13,6%
- Large impairments on our property-related books and writing down our Business Markets equities portfolio impacted our results materially
- Revenue growth was modest, but we started building momentum in the second half
- Costs remained well contained, as we restructured our business
- We announced two important acquisitions that will enhance our growth

[View our full financial statements online](#)

Our Group Financial Director manages our financial performance and supports decision-making, while also being responsible for our treasury, group secretarial and investor relations. In this review, David discusses our financial performance in 2012 and the key drivers behind our results.

Outlook

- We expect better revenue growth in 2013, given our improving business momentum and acquisitions
- Continued focus on efficiency should allow us to achieve positive JAWS again
- Our credit loss ratio should improve materially off elevated levels, but remain above through-the-cycle levels
- Together with optimising capital, these drivers should increase our RoE significantly in 2013

Overview of 2012

Our 2012 performance was disappointing, as headline earnings decreased 9% to R8 807 million, reducing our RoE to 13,6%. Modest 2% top-line growth was below expectation, although our revenue remains of a high quality, with a significant annuity component. Moreover, as we implemented our operating model changes, we reviewed our businesses thoroughly, which resulted in large property-related credit impairments and write downs in our Business Markets investment portfolio. Positively, our costs remained well contained, as we continue to streamline the Group. As a result, our pre-provision profit increased 3% to R21 billion. Our diversified portfolio of businesses helped to partially offset 29% lower RBB earnings, given CIBW's 26% growth. Our balance sheet remains strong, as we improved our funding mix and liquidity, while maintaining high capital ratios.

Salient features

	2012	2011	Change %
Diluted HEPS (cents)	1 224,6	1 350,0	(9)
DPS (cents)	684	684	0
Revenue (Rm)	46 852	45 832	2
Net interest margin (%)	3,87	4,11	
Non-interest income (Rm)	22 741	21 403	6
Non-interest income to total income (%)	48,5	46,7	
Operating expenses (Rm)	25 874	25 458	2
Cost-to-income ratio (%)	55,2	55,5	
Pre-provision profit (Rbn)	21,0	20,4	3
Credit impairments (Rm)	8 290	5 081	63
Credit loss ratio (%)	1,59	1,01	
Loans and advances to customers (Rbn)	528,2	504,9	5
Deposits due to customers (Rbn)	477,4	441,0	8
RoE	13,6	16,4	
RoRWA (%)	2,07	2,35	
RoA (%)	1,09	1,32	
NAV per share (cents)	9 319	8 690	7
Absa Group Core Tier 1 ratio	13,0	13,0	

Factors impacting our performance

Our results were influenced by several challenges that we dealt with appropriately, while at the same time building business momentum towards the end of 2012.

Subdued revenue growth

We cautioned last year that 2011's 1% lower customer loans would constrain our ability to grow net interest income. Although our customer loans grew 5% in 2012, we chose not to participate in the

Having dealt with the issues identified in 2012, and with signs of regaining momentum in our core South Africa operations, plus the prospect of concluding our Barclays Africa transaction, the year ahead looks promising.

significant industry growth in personal loans, and had continued run off in our large property lending books.

In personal loans, we continued to focus on our own customers, granting over 90% of loans to our existing customers. After very high industry growth rates, our market share fell to 10% from 21%, despite our 14% compound growth between 2008 and 2012. This cautious strategy meant we did not participate in substantial related fee and bancassurance revenue, leaving personal loan revenue at a relatively low 4% of our Group income.

A structural industry shift from secured to unsecured consumer lending was very evident last year. Its impact was amplified by our decision in 2010 to originate mortgages through our own channels, which reduced our share of new business to 16% in the first half of 2012. Despite improving our new business volumes noticeably in the second half, monthly run-off of R2,5 to R3,0 billion meant our Home Loans declined 4% last year. Our decision to reduce our concentration risk to CPF saw this book decline 9% last year, which also dampened our revenue.

Our underlying net interest margin decreased slightly last year, as marginally lower loan pricing and deposit margins and higher liquidity premiums outweighed a more favourable loan mix. July's 50 bps rate cut also reduced our income by about R200 million.

In addition to our moderate loan growth, our flat bancassurance revenue reflected high fourth quarter claims, our exit from low return short-term insurance activities and a transfer to policyholder liabilities to strengthen reserves.

Our retail fees and commissions decreased 1% to R10,4 billion, which is 46% of our total non-interest income, from 51% two years ago. We have flagged pressure on retail fees for some time, given rising competition, increased consumerism and changing customer behaviour. Customers continue to migrate away from traditional channels like branches and ATMs, where we are the largest in

Group Financial Director's report

Summarised report from the GACC

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 engaged extensively outside of the committee meetings with internal and external audit, Group compliance and other members of management.

During 2012 the Group reacted strongly to the emerging effects of the economy and the more recent experience of write-offs in the Home Loans book. The Group updated and revised its models to deal effectively with Home Loan credit impairments and effected appropriate measures in its valuation of loan and equity financing of commercial property. The GACC is satisfied with our level of impairments and commercial property valuations at the reporting date and that ongoing controls over these aspects are adequate.

The GACC is satisfied that, in all other respects, our financial and internal controls are adequate and that no material breakdowns took place that resulted in material loss to the Group and that the committee has complied with all statutory duties and duties given to it by the board under its terms of reference.



Further details of the committee's activities are described in the full GACC report within the full financial statements at 2012.absair.co.za/financials

South Africa, to electronic channels with lower fees. For example, our ATM fees declined 5%, while telephone and cellphone banking fees grew 8%. Our leading market share of primary customers also declined slightly to 32%, although we stemmed this attrition in the second half of the year.

AllPay

Our revenue decreased when AllPay, our social grants business, unexpectedly lost its contract with the South African Social Services Agency from April last year. As a result, its revenue fell by R434 million and its earnings dropped 93% to R15 million.

Reducing our Business Markets equity portfolio

Our Business Markets equity portfolio lost R1,15 billion pre-tax last year, mostly in commercial property investments. We built the portfolio during the peak period for commercial property between 2007 and 2009. Starting 2012 with a portfolio of R5,2 billion, after disposals of R240 million and investments of R200 million, plus R1 billion of negative fair value adjustments, our portfolio declined 20% to R4,2 billion. We believe that our valuations are appropriate and we are managing this portfolio together with our private equity book, both of which we plan to exit in an orderly manner.

Significant credit impairments

The substantial increase in our credit loss ratio to 1,59% reduced our headline earnings by 20%. Our credit impairments in Home Loans and Business Markets more than doubled to over R6,5 billion, almost 80% of our total charge. Excluding these, our remaining impairments fell 14%, due entirely to a material decrease in vehicle finance, as collections improved.

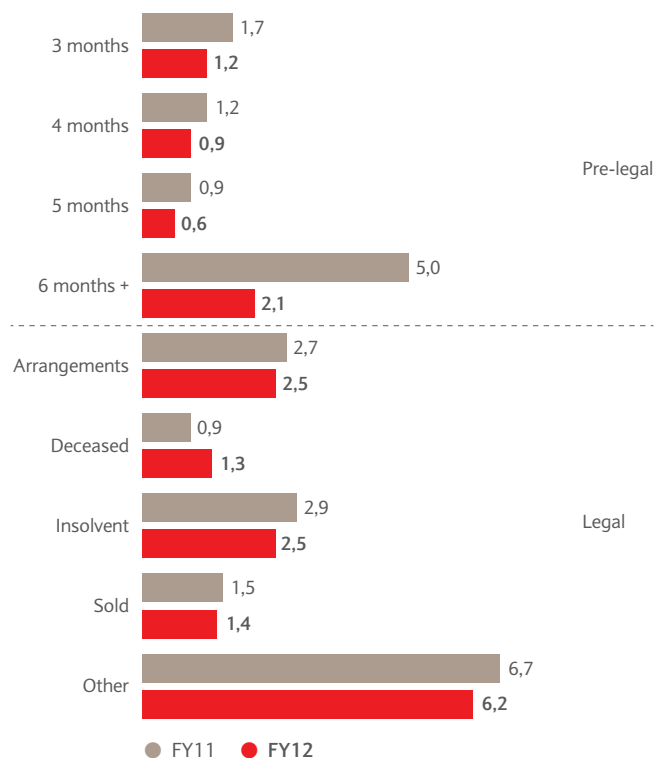
Our Home Loans charge grew 106% to R4,5 billion, well above 2009's high of R3,9 billion. This increased our NPL cover to 29% from 17% in 2011 and 23% last June. Importantly, the mix of our mortgage NPL book has improved and NPLs and early arrears continue to improve.

Trying to accelerate the workout of our legal book in the second quarter led to high write-offs. In response, we thoroughly reviewed our mortgage provisioning and collections processes. We improved our provisioning models' granularity and adjusted for more recent data where appropriate. This resulted in a loss given default on our mortgage legal portfolio of 43%. In particular, we raised our cover on insolvencies to reflect the increased time and cost to recover these.

We restructured our mortgage collections, introducing new operational strategies to reduce recovery time and collection costs and enhance voluntary sales. Our improved process managed to slow the ageing of our legal portfolio in the second half. The benefits of these changes will, however take some time to manifest as improvements in our overall loss expectation.

We also revised our mortgage restructuring policy to reduce the potential for rehabilitated accounts re-defaulting. As a result, we raised a R145 million portfolio provision against performing accounts.

Mortgages NPLs (Rbn)



Our 2012 performance

Business Markets' credit loss ratio increased to 2,28%, as its impairments more than doubled to R2,1 billion. We also reviewed our collections processes here and took a more rigorous and earlier approach to managing distressed assets. This included revising valuations and changing various policies and processes. As a result, our Business Markets NPLs increased 44% to R6,5 billion, although cover on our NPLs improved to 40% from 35%.

Our CPF provisions rose sharply from R219 million to R978 million, with a single exposure accounting for roughly a third of this charge. Valuations for vacant land, in particular, are under pressure, although we have a diverse portfolio and our average CPF loan to value is 47%.

We also experienced more voluntary liquidations and failed business rescues, particularly in the mining and construction sectors. Nonetheless, the risk distribution and probability of default across our Business Markets book improved last year.

Rest of Africa losses

The loss in our rest of Africa operations widened to R241 million, reflecting higher impairments, costs and interest in suspense. We expect our subsidiaries in Mozambique and Tanzania to perform better in 2013 following their recapitalisation.

Building business momentum

In response to these challenges, we continued to streamline the Group, maintained our strong focus on customers, improved our new business volumes in the second half of the year and announced two important acquisitions that enhance our growth prospects. At the same time, we continued to deliver in our target growth areas, while de-risking our operations.

Sustainable cost containment

With modest revenue growth, particularly in retail fees, we contained costs well. Our core costs fell slightly last year, allowing us to achieve 3% underlying positive JAWS and improve our cost-to-income ratio to 55,2%. This is a result of making sustainable structural changes to our business to position us appropriately for our future operating environment. We continue to benefit from integrating further with Barclays Group, which should allow us to be more efficient than our local competitors. We integrated operationally with Barclays Africa as we moved towards our One Africa vision.

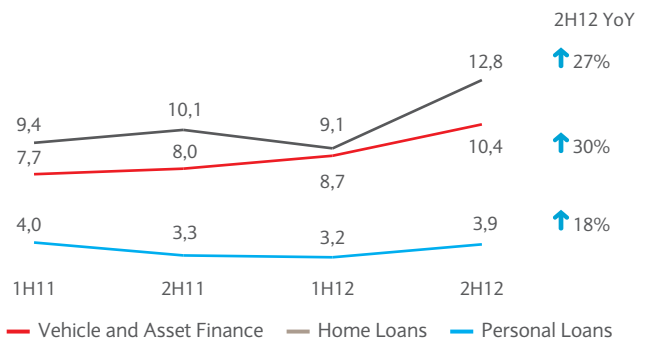
Importantly, we continue to invest in growth initiatives. For example, about 20% or R1 billion of our total IT-related spend was on investments, such as our new Absa Online platform and refreshing our ATMs. We have invested over R4,5 billion in the past five years.

Improving sales volumes

We increased our new lending volumes in the second half in most categories. In mortgages we returned to originators last year and improved our processing to cut our turnaround times materially. Consequently, Home Loans' second half sales grew 40% on the previous six months. Although our Home Loans book declined 4% in 2012, given substantial run-off, this quality new business improved

our Group margins. Improved processing and turnaround times also increased second half sales in Personal Loans and VAF by 18% and 30% respectively from the previous year.

Retail new business (Rbn)



Growing non-interest income in target areas

We also grew in target areas where we invested in recent years. For instance, our card merchant income increased 11% to R2 billion, after solid 14% growth in our merchant base. Business Markets also grew its fee income 11%, by launching new products and reducing revenue leakage. Corporate Banking's fee income increased 6% to R1 billion, with electronic banking up 9% after rolling out new products and acquiring new mandates. Markets' net trading revenue increased 19%, as fixed income and Africa trading grew 35% and 36% respectively and foreign exchange rose 11%. Although still comparatively low, Absa Life's embedded value of new business increased 38% in the second half. Investments' assets under management grew 14% to R192 billion last year, with a bias to equity related products.

De-risking our revenues

We have de-risked our business over a number of years, to limit the volatility of our revenues. Our margin hedging strategy continued to add value in a low rate environment, as we released R2,1 billion from our cash flow hedge reserve into the income statement in 2012. Nonetheless, this reserve increased to R2,4 billion post tax, which should flow into our income statement over its remaining life, if rates remain at current levels.

We will continue to reduce non-core activities with low returns, such as private equity and our Business Markets investment portfolio. Last year we exited short-term insurance products with inadequate returns, including guarantees, corporate and commercial fleet. We also de-risked our Financial Services shareholders' funds to limit earnings volatility in recent years, although this reduced our 2012 earnings as we did not fully participate in the strong equity market gains.

Anticipating regulatory changes, we refocused our Investment Bank three years ago to be a client-centric flow business. So we scaled down our proprietary trading activities, exited highly structured on balance sheet lending and reduced our private equity portfolio. While our Markets revenue has grown strongly, our DVaR has declined, which illustrates that our trading is client-driven. Despite implementing Basel II.5's additional stress VaR capital requirement, CIBW's returns improved in 2012.

Group Financial Director's report

Two important acquisitions

Despite our strong internal focus, as we restructured the Group and reviewed our businesses, we announced two important acquisitions that will improve our growth. These equal 21% of our total capital base at the end of 2012.

Our strategic partnership with Edcon, South Africa's largest clothing retailer, became effective in November. We acquired Edcon's R8,7 billion store card portfolio, which helped our gross card book grow 54% to R32,8 billion and gave us the leading market share in cards. The acquisition increased unsecured lending to 18% of our total retail loans, close to our medium-term target of 20%. We expect a high teens RoE over time from this acquisition, excluding any additional synergies from our partnership.

We also announced a transformational deal to combine with the majority of Barclays operations in the rest of Africa. The eight countries generated revenue of R8,0 billion last year, up 17%. The deal would increase our proportion of revenue from outside of South Africa to 17% on a *pro forma* basis. Excluding deal costs, the combination would have enhanced our 2012 headline EPS by 1,7%. Subject to obtaining regulatory approval, the Barclays Africa operations should improve our medium-term growth prospects and are a crucial part of accelerating our One Africa strategy.

Analysing our 2012 results

Our diluted HEPS declined 9% to 1 224,6 cents. Higher credit impairments, particularly in retail mortgages and commercial property finance, were the principal reason. Pre-provision profit grew 3% to R21,0 billion, largely due to continued focus on sustainable cost management. Our RoE decreased to 13,6%, marginally above our internal cost of equity, while our RoA declined to 1,09% from 1,32%. Absa Group remains very well capitalised with a Core Tier 1 ratio of 13,0% and a total ratio of 17,4%. We maintained a DPS of 684 cents, after considering regulatory changes, our strong capital position, strategy, growth plans and near-term business objectives.

Segment performance

Our diversified portfolio of businesses partially offset RBB's lower earnings. Diversity was also evident within business units, particularly Retail Markets, which still accounted for 39% of Group earnings despite Home Loans' R1 billion loss. CIBW produced 32% of earnings and Business Markets' contribution fell to just 10%, after its earnings decreased 51%.

Headline earnings	2012 Rm	2011 Rm	Change %	Split
RBB	4 346	6 106	(29)	49
Retail Markets	3 436	4 243	(19)	39
Business Markets	910	1 863	(51)	10
CIBW	2 810	2 230	26	32
Financial Services	1 338	1 375	(3)	15
Group centre	313	8	>100	4
Total	8 807	9 719	(9)	

Retail Markets

Headline earnings fell 19% to R3,4 billion, due to 53% higher credit impairments of R6,1 billion. However, pre-provision profits grew 6% to R11,1 billion, as 2% revenue growth exceeded 1% lower expenses. Retail Markets' cost-to-income ratio improved to 54,0% from 55,6%. A R4,5 billion credit impairment produced a R992 million loss in Home Loans, despite its 6% lower costs and improved margin. Vehicle and Asset Finance earnings grew 96%, due to far lower credit impairments and 24% higher non-interest revenue. Card earnings increased 19% to R2,1 billion and represented 24% of Group headline earnings, with Edcon contributing R141 million. Personal Loans earnings declined 18%, reflecting lower revenue. Lower costs helped Retail Bank's headline earnings increase 46% to R0,9 billion. Retail Markets' return on regulatory capital (RoRC) decreased to 20,1% from 27,5%. We maintained our leading share of retail deposits, customers, branches and ATMs.

Business Markets

Headline earnings dropped 51% to R910 million. The decline reflects a R1 152 million pre-tax loss on our equity investment portfolio, lower commercial property finance advances and significantly higher credit impairments in commercial property and the rest of Africa. Customer loans and advances declined 3%, largely due to 9% lower gross CPF balances. In line with our strategy, net fees and commissions increased 11% and deposits 4%. Although underlying local costs rose only 2%, Business Markets' cost-to-income ratio increased to 67,9% from 58,8%, due to the impact of CPF revaluations. RoRC declined to 8,2% from 15,6%.

CIBW

Headline earnings grew 26% to R2,8 billion, as 10% higher net revenue was well above expenses growth. Markets revenue increased 19% to R3,8 billion largely due to growth in Fixed Income and Credit and the Africa desk. Corporate net revenue decreased 2%, as increased impairments in trade and working capital solutions offset growth in cash management, payments and liquidity revenue. Investment Banking's net revenue increased 8% to R1,4 billion. Private Equity and Infrastructure revenue grew 25% to R397 million, given revaluations on improved underlying company performance. Wealth's net revenue increased 9%, mainly on improved investment management and advisory activities. Containing cost growth to 2% improved CIBW's cost-to-income ratio to 54,1% from 58,8%. CIBW's RoRC increased to 20,1% from 18,0%.

Financial Services

Headline earnings decreased 3% to R1,3 billion, due mainly to lower life and short-term insurance earnings. Net operating income declined 7% to R1,6 billion. Life premiums grew 12%, but due to strengthening policyholder reserves, profits declined 7% to R676 million. Net short-term insurance premiums grew 5% while short term insurance profit for the period decreased 16% to R254 million. However, our South African operations' underwriting margin of 4,3% is considered satisfactory in a year where the industry was impacted by significant weather and fire-related claims. Absa Investments' assets under management grew 14% and its profit for the period increased 6% to R331 million. Our rest of Africa net premium income increased 140% to R369 million and net operating income was R27 million. Financial Services' RoE declined to 28,2% from 32,0%.

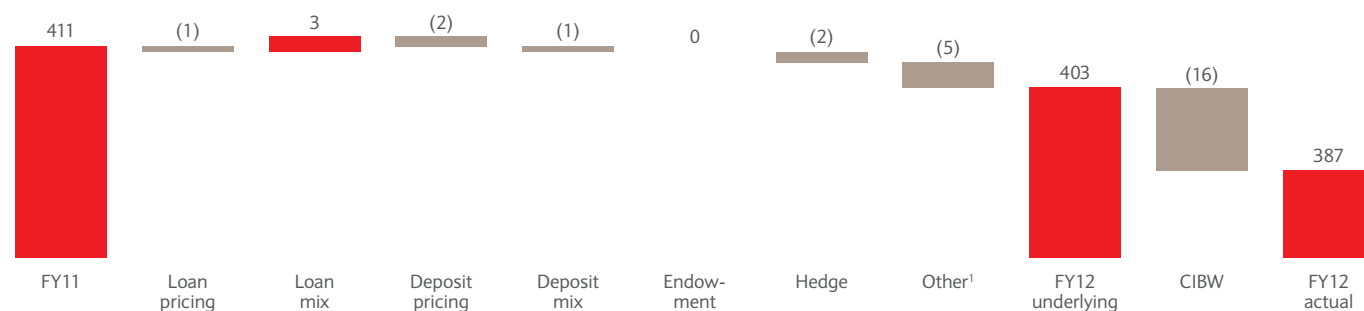
Income statement analysis

	FY12 Rm	FY11 Rm	Change %
Net interest income	24 111	24 429	(1)
Non-interest income	22 741	21 403	6
Total revenue	46 852	45 832	2
Credit losses	(8 290)	(5 081)	63
Operating expenses	(25 874)	(25 458)	2
Other impairments and indirect tax	(819)	(1 123)	(27)
Associates	249	40	>100
Profit before tax	12 118	14 210	(15)
Taxation	(3 377)	(4 026)	(16)
Profit after tax	8 741	10 184	(14)
Minorities and preference shares	(348)	(510)	(32)
Headline adjustments	414	45	>100
Headline earnings	8 807	9 719	(9)

Moderate revenue growth

Our net interest income decreased 1% to R24,1 billion, despite 5% higher average interest earnings assets. The reason was a decline in our net interest margin to 3,87% from 4,11%. This was largely due to higher average foreign currency loans and reverse repos with banks in CIBW, which have narrow and negative margins. These were compensated for by related foreign currency hedging gains in non-interest income. Our underlying margin was broadly stable, although deposit margins decreased slightly and liquidity costs increased. These outweighed an improved margin from loan mix and better Home Loans pricing. The impact of lower average interest rates on our deposit and capital endowment was offset by higher volumes. Our hedge contributed slightly less than in 2011.

Change in net interest margin to average interest-bearing assets (bps)



Note

¹Includes reset risk, liquidity premiums, funding term and liquid assets.

Group Financial Director's report

Our non-interest income increased 6% to R22,7 billion, 48,5% of our total revenue, despite low 1% growth in net fee and commission income. Retail Markets' non-interest income was flat, with slightly lower fee income on increased competition and changing customer transactional behaviour. Excluding AllPay, its non-interest income increased 4%, with 11% growth in Card and 24% in Vehicle and Asset Finance. Our bancassurance revenue grew marginally, despite 8% higher net premium income, because of higher claims and strengthening policyholders' liabilities. Negative equities revaluations in Business Markets offset our private equity gains. As highlighted, we produced good growth in target areas, including Business Markets' fee income, card merchant income and trading, in particular. Our burden (non-interest income over costs) improved to 88% from 84%.

Costs tightly controlled

Our operating expenses increased 2% to R25,9 billion, reflecting our efficiency efforts. Excluding transaction costs for our proposed Africa deal and R408 million of fair value adjustments on investment properties, our costs declined slightly. Staff costs decreased 4%, reflecting 23% lower bonuses and natural attrition following our structural changes. Non-staff expenses grew 8%, due to 13% higher property costs and a 49% rise in other operating expenses. The latter included R150 million for our proposed Barclays Africa transaction,

Edcon integration costs and higher frauds and losses. Total IT-related spend, which declined 7% to R5,1 billion, accounted for 20% of Group costs. Amortisation of intangible assets decreased 12% to R255 million.

Large credit losses

Credit impairments rose 63% to R8,3 billion, resulting in our credit loss ratio increasing to 1,59% from 1,01%. Our significant Home Loans and Business Markets' charges, which drove this increase, were discussed above. Vehicle and Asset Finance's credit loss ratio improved to 0,64% from 1,88%, due to improved collections. Although Personal Loans and Card increased to 4,68% and 1,65% respectively, these remain below through-the-cycle levels, particularly the latter. Early arrears continue to improve across most portfolios, although some early pressure in the unsecured portfolios is evident in the first quarter of 2013.

While our total NPLs decreased 11%, or by R4,1 billion, to R31,5 billion and Retail Markets' NPLs fell by 20% to R24,0 billion, there is still substantial scope to improve this ratio, as it remains well above our historical average. Our total NPL cover improved to 37,0% from 27,8%, given the significant rise in our mortgage cover. NPLs as a percent of customer loans and advances improved to 5,8% from 6,9% in December 2011 and 6,4% last June, despite a large increase in Business Markets' NPLs.

	Credit loss ratio		NPL coverage ratio	
	FY12 %	FY11 %	FY12 %	FY11 %
RBB	1,98	1,16	36,4	27,2
→ Retail Markets	1,89	1,23	35,5	26,0
– Mortgages	2,08 ¹	0,97 ¹	28,5	17,1
– Instalment credit	0,64	1,88	48,9	48,2
– Credit card	1,65	1,05	67,0	64,6
– Personal loans	4,68	3,87	65,3	60,5
– Other	1,39	1,33	63,7	75,9
→ Business Markets	2,28	0,93	39,7	35,2
CIBW	0,12	0,05	56,4	52,0
Group	1,59	1,01	37,0	27,8

Lower taxation

Our direct taxation declined 16% to R3,4 billion and our effective tax rate decreased to 27,9% from 28,3%. The lower effective rate was mainly due to replacing secondary tax on companies with dividend withholding tax. We expect a medium-term effective tax rate of 26% to 27%.

Other items

Associate income increased significantly to R249 million, as the current period includes a cumulative correction of earnings from previous reporting periods for Bankserv and SBV that did not require restatement of comparative numbers. Increased losses in our subsidiaries in the rest of Africa were the principal reason for the 77% drop in our minorities line.

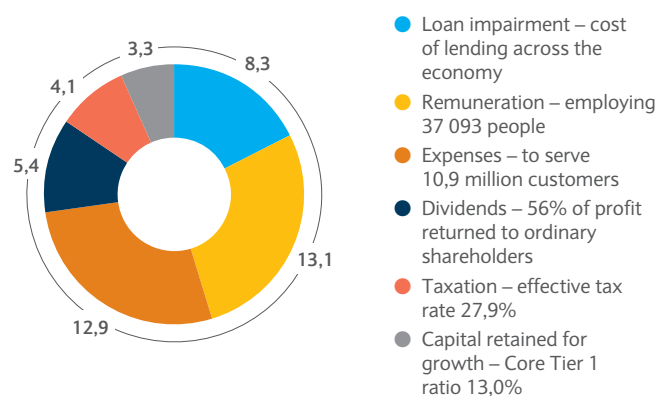
Note

¹Home Loans credit loss ratio.

Value added statement

We continue to make a substantial contribution to all our stakeholders and contributed materially to the economy in 2012. Out of our R46,9 billion in revenue, we spent R13,1 billion on our colleagues, including R852 million on training costs and post-retirement benefits. Non-staff costs to serve our 10,9 million customers were of a similar quantum and we paid government about R4,1 billion in taxation last year. We declared R5,4 billion in dividends to our preference share and ordinary shareholders and retained R3,3 billion in capital to fund our future lending to retail customers, small businesses and larger clients. Our cost of risk last year exceeded R8,3 billion. These figures exclude paying our depositors and debt holders R26,7 billion in interest and our policyholders R3,6 billion in claims and benefits.

2012 revenue allocated to: (Rbn)



see our value added statement at 2012.absair.co.za/materialissues

Balance sheet analysis

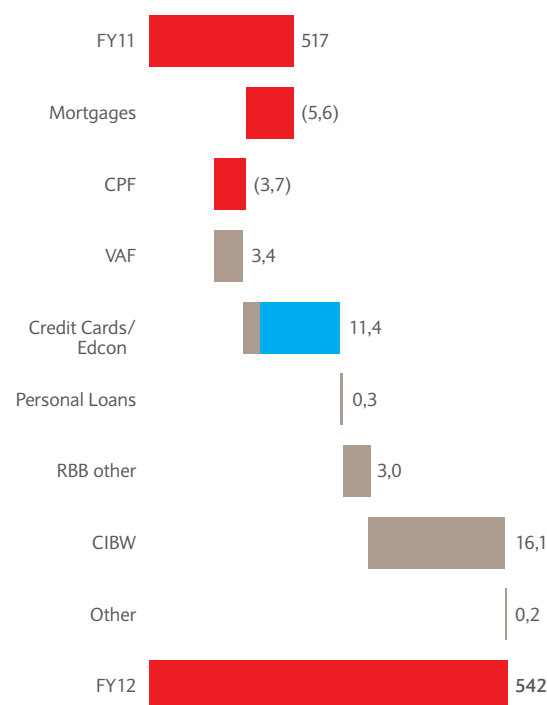
Our total assets increased 3% to R807,9 billion. Solid R37 billion growth in customer deposits was our main source of new funding in 2012. We also added R4,4 billion of equity and R3,9 billion in borrowed funds. Our other funding declined, as debt securities in issue fell by R22 billion. We deployed these funds into R5,5 billion higher liquid assets and R23 billion of customer loans. Our interbank loans declined 23% in the second half of the year, reducing other assets. This picture is very different from last June, when our interbank loans grew 87% and trading assets 68%, while customer loans were flat.

Loans and advances

Our gross loans to customers increased 5% to R542 billion, with almost all the growth in the second half. Although we wrote 27% more Home Loans new business in the second half, compared to 3% less year on year in the first, substantial run-off reduced our Home Loans by 4% (net). And reducing our concentration risk to CPF resulted in a 9% decline in this book. Consequently, our gross property-based loans, 55% of our total book in 2011, fell by almost R10 billion last year. Our conservative Personal Loans strategy meant we did not participate in the substantial industry growth here either.

Outside these three areas, our loan growth was solid, with 9% growth in retail vehicle finance, 10% higher Business Markets term loans and strong 54% growth in Card, after buying Edcon's book. Our large growth in CIBW's loans was largely in overnight finance, although we also had solid growth in target sectors, such as energy and resources.

Change in gross customer loans (Rbn)



Customer deposits and liquidity

Our deposits due to customers increased 8% to R477 billion, after solid growth in cheque accounts across all divisions. Retail fixed deposits grew 7%, although demand was lower among business clients, who wanted more liquidity. 'Notice deposits' increased considerably after launching new structured notice products in CIBW.

Our funding mix has improved materially since 2009, with deposits representing 77% of funding from 63%, and debt securities in issue 17% from 30%. At the end of December, 29% of our funding was long term, from 25% the previous year. We benefited from new rules allowing money market funds to invest for longer terms. The weighted average life of our wholesale funding at 31 December 2012 was 17,6 months from 15,3 a year before. We issued R6,7 billion of senior unsecured debt last March and R5 billion of subordinated debt in November to strengthen our funding profile.

We also increased our surplus liquid assets to R38 billion in anticipation of Basel III. The recent changes to Basel's liquidity requirements could increase our liquidity cover ratio by about 10%. These include phasing in the LCR by 2019, reducing some outflow assumptions and broadening the definition of high quality liquid assets.

Group Financial Director's report

Capital and risk-weighted assets

Our Group Core Tier 1 ratio remains high at 13,0%, despite implementing Basel II,5 and acquiring Edcon's book, which reduced our ratio by 67 and 24 bps respectively. Dividends also took 116 basis points off our ratio during the year.

Moving our wholesale book to the advanced internal rating-based approach added 89 basis points to our ratio, slightly more than we expected. Moreover, despite lower earnings, we remain very cash generative, adding 177 basis points to our ratio.

We issued R5 billion of old style Tier 2 capital, which will be phased out over 10 years. So our total Group capital increased to 17,4%, well above our Board target.

Following the SARB's capital guidance last October, Basel III should reduce our Group Core Tier 1 ratio by around 70 basis points. Our resulting ratio of 12,3% is almost R6 billion above the 11,0% top end of our Board guidance. We are now in a position to consider capital optimisation.

Looking forward

Last year was a tough one, as we had to deal with a number of challenges, while restructuring our Group in a competitive operating environment and a disappointing economic backdrop. Yet we dealt with our credit impairments and equity investment write downs appropriately, started regaining business momentum in the second half and announced two large deals that will enhance our growth prospects.

Substantial scope to improve our returns

	FY07	FY08	FY09	FY10	FY11	FY12
Revenue to average RWAs	10,2	11,1	11,0	10,6	10,8	10,9
Cost-to-income ratio	51,7	49,2	49,6	56,2	55,5	55,2
Credit losses to revenue	6,7	13,6	21,3	14,0	11,1	17,7
Operating margin ¹	26,1	23,2	18,1	18,8	21,2	18,8
RoRWA ²	2,7	2,6	2,0	2,0	2,3	2,0
Financial leverage ³	10,2	9,1	7,8	7,6	7,1	6,7
RoE	27,2	23,4	15,5	15,1	16,4	13,6

Notes

¹Operating margin is headline earnings/total revenue.

²Simple average.

³financial leverage is average RWAs/average shareholders' equity.

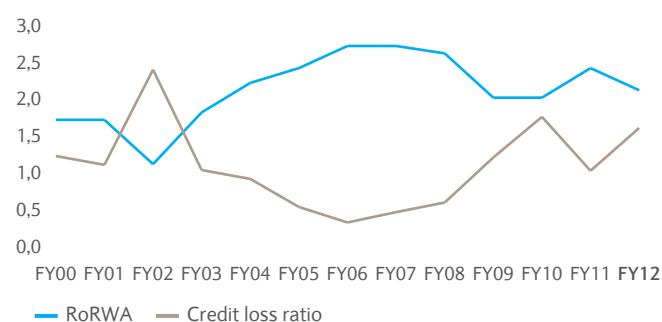
Decomposing our RoE highlights some of the levers to improve our returns significantly over the medium term. Although our revenue generation improved marginally last year, we see scope to increase it further by growing non-interest revenue and exiting less attractive non-core activities.

Despite our cost-to-income ratio improving slightly, we aim to reduce it further to around 52% over the medium term, by consistently achieving positive JAWS. Our level of credit losses

should improve materially from last year's elevated charge. Moreover, achieving our through-the-cycle credit loss ratio last year would have reduced our impairments to about 11% of revenue and increased our RoE to 17%. Note that our Edcon book will increase our through-the-cycle credit loss ratio to 1,2% from 1,0%, although its wider margin more than compensates for this.

These three drivers should improve our operating margin from 2012's low level and raise our RoRWA closer to our target of 2,5%. Also, our financial leverage is excessively low at just 6,7 times. Adding just one multiple to this leverage would have improved our RoE by over 2% last year. Note that our 2012 RoRWA was in line with our average since 2000, although our credit loss ratio is considerably higher than the 1,1% average over this period.

RoRWA sensitive to credit loss ratio (%)



What to expect in 2013

We believe that our improving business momentum will become more evident in 2013, which should increase our revenue growth from last year's modest level. We expect strong contributions from our two acquisitions and mid single digit loan growth.

On the cost front, we will continue to optimise our property and IT running costs, but we expect higher growth in some areas, such as specific product marketing and investment spend. However, staff costs should remain well contained, allowing us to achieve positive JAWS again this year.

We expect our credit loss ratio to improve materially from last year's elevated level, although it is unlikely to return to our through-the-cycle level in 2013, as consumers remain stretched and our economic recovery is prolonged.

Together with optimising our capital levels, these three drivers should underpin a noticeable improvement in our RoE this year.

Having dealt with the issues we identified in 2012 and with signs of regaining momentum in our core South African operations plus the prospect of concluding our Barclays Africa transaction, the year ahead looks promising.

David Hodnett

Group Financial Director

28 March 2013

Five-year financial summary

for the year ended and as at 31 December

Our 2012
performance

	Five-year CAGR ^{1,2} %	2012 Rm	2011 ³ Rm	2010 ³ Rm	2009 Rm	2008 Rm
Interest and similar income	(1,6)	50 766	51 191	54 241	65 247	76 260
Interest expense and similar charges	(6,0)	(26 655)	(26 762)	(30 901)	(43 393)	(54 154)
Net interest income	5,0	24 111	24 429	23 340	21 854	22 106
Impairment losses on loans and advances	27,8	(8 290)	(5 081)	(6 005)	(8 967)	(5 839)
Net interest income after impairment losses on loans and advances	(0,8)	15 821	19 348	17 335	12 887	16 267
Non-interest income	6,3	22 741	21 403	19 474	20 232	20 821
Operating income before operating expenditure	3,0	38 562	40 751	36 809	33 119	37 088
Operating expenses	7,0	(25 874)	(25 458)	(24 070)	(20 857)	(21 114)
Other impairments	14,3	(113)	(52)	(108)	(1 457)	(18)
Indirect taxation	(0,1)	(706)	(1 071)	(771)	(913)	(724)
Share of post-tax results of associates and joint ventures	27,8	249	40	(9)	(50)	73
Operating profit before income tax	(3,0)	12 118	14 210	11 851	9 842	15 305
Taxation expense	(3,6)	(3 377)	(4 026)	(3 262)	(2 340)	(3 988)
Profit for the reporting period	(2,7)	8 741	10 184	8 589	7 502	11 317
Non-controlling interest – ordinary shares	(14,6)	(53)	(226)	(151)	(241)	(194)
Non-controlling interest – preference shares	(1,2)	(295)	(284)	(320)	(421)	(457)
Profit attributable to ordinary equity holders	(2,6)	8 393	9 674	8 118	6 840	10 666
Headline earnings adjustments	17,9	414	45	(77)	781	(701)
Headline earnings	(1,3)	8 807	9 719	8 041	7 621	9 965
Consolidated statement of financial position						
Assets						
Loans and advances to banks and customers	2,4	572 840	562 424	537 170	560 231	577 712
Total assets	4,7	807 939	786 719	725 957	721 641	773 316
Liabilities						
Deposits from banks and due to customers	6,9	513 462	479 299	403 004	403 751	437 820
Total liabilities	4,2	735 145	718 314	663 808	665 151	720 023
Equity						
Capital and reserves attributable to ordinary equity holders	12,2	66 883	62 308	56 290	50 547	47 607
Non-controlling interest – ordinary shares	80,0	1 267	1 453	1 215	1 299	1 042
Non-controlling interest – preference shares	0,0	4 644	4 644	4 644	4 644	4 644
Total equity	11,3	72 794	68 405	62 149	56 490	53 293
Total liabilities and equity	4,7	807 939	786 719	725 957	721 641	773 316
Loans-to-deposits ratio (%) ⁴		90,2	88,4	92,3	96,0	97,0

Notes

¹CAGR: Compound annual growth rate.

²Unaudited.

³Comparatives have been reclassified, refer to note 23 of the condensed financial results.

⁴These ratios have been calculated by management based on extracted audited information contained in the financial statements.

Five-year financial summary

for the year ended and as at 31 December

	Five-year CAGR ^{1,2} %	2012 Rm	2011 ³ Rm	2010 ³ Rm	2009 Rm	2008 Rm
Financial performance (%)						
Return on average equity ^{4,5}		13,6	16,4	15,1	15,5	23,4
Return on average assets ^{2,4}		1,09	1,32	1,10	1,00	1,38
Return of average risk-weighted assets ^{2,4}		2,07	2,35	1,99	1,97	2,62
Operating performance (%)						
Net interest margin on average interest-bearing assets ²		3,87	4,11	3,94	3,65	3,81
Impairment losses on loans and advances as % of average loans and advances to customers ²		1,59	1,01	1,18	1,70	1,19
Non-performing advances as % of loans and advances to customers		5,8	6,9	7,6	6,8	4,1
Non-interest income as % of total operating income ⁵		48,5	46,7	45,5	48,1	48,5
Cost-to-income ratio ⁵		55,2	55,5	56,2	49,6	49,2
Effective tax rate, excluding indirect taxation		27,9	28,3	27,5	23,8	26,1
Capital adequacy (%)²						
Absa Group		17,4	16,7	15,5	15,6	14,1
Absa Bank		17,5	16,2	14,8	14,7	14,0
Share statistics per ordinary share (cents)						
Basic earnings		1 169,6	1 349,6	1 133,3	986,7	1 578,5
Headline earnings		1 227,3	1 355,9	1 122,6	1 099,4	1 474,8
Dividends per share relating to income for the reporting period		684	684	455	445	595
Dividend cover (times) ^{5,6}		1,8	2,0	2,5	2,5	2,5
Net asset value per share ⁵	11,0	9 319	8 690	7 838	7 038	6 998
Share statistics						
Number of ordinary shares in issue (thousands):						
→ Weighted average		717,6	716,8	716,3	693,2	675,7
→ Weighted average diluted		719,2	719,9	720,7	711,5	702,8
→ End of the year		718,2	718,2	718,2	718,2	680,3
→ End of the year (excluding treasury shares)		717,7	717,0	716,6	715,8	677,0
Dividend yield (%) ²		4,2	4,9	3,2	3,5	5,5
Earnings yield (%) ²		7,1	9,6	8,1	8,6	13,6
Price earnings ratio (times) ²		6,7	10,4	12,5	11,7	7,3
Share price (cents per share) ² :						
→ High		16 620	14 682	14 295	13 075	11 999
→ Low		13 220	12 319	12 000	7 690	7 900
→ Closing		16 400	14 100	14 000	12 850	10 815
Closing price/net asset value per share ²		1,76	1,62	1,79	1,83	1,55
Volume of shares traded (millions) ²		438,0	317,0	363,3	545,3	551,4
Value of shares traded (R millions) ²		64 345,3	42 837,8	48 266,8	59 151,4	54 635,7
Market capitalisation (R millions) ²	9,4	117 786,4	101 267,6	100 549,4	92 290,0	73 572,1
Employee statistics						
Number of total permanent employees ²	(1,8)	33 717	35 200	36 770	36 150	37 828

Notes

¹CAGR: Compound annual growth rate.

²Unaudited.

³Comparatives have been reclassified, refer to note 23 of the condensed annual consolidated financial statements.

⁴Ratios calculated using headline earnings.

⁵These ratios have been calculated by management based on extracted audited information contained in the financial statements.

⁶Dividend cover is calculated using headline earnings per share and dividends per share.

Managing our stakeholder engagement and material issues

Introduction

Five key material issues impact significantly on our future sustainability:

- sustainable financial viability
- process and systems effectiveness
- customer experience
- our people, and
- economic equity.

In determining these material issues, we begin by looking at our operating and competitive environment where developments have an impact on our business. We engage with a wide range of stakeholders including employees, customers, government, regulators, community partners and, where appropriate, we also consult with industry peers and thought leaders. From these engagements a significant number of issues, concerns and opportunities arise. We then assess these matters and the regulatory environment that legislates how we should respond to some of these concerns. Finally, we summarise the risks raised in each of these environments and describe how we manage them.

Independent assurance

Within this section selected indicators (marked with an ^A) have been assured on a limited assurance basis by PwC and E&Y. The full assurance statement including the scope of work and conclusions can be found at 2012.absair.co.za/assurance.

The summarised sustainability information as set out in the material issues review in this Integrated Report have been extracted from the 2012 online Integrated Report. PwC and E&Y have provided assurance over selected sustainability information contained in the 2012 online Integrated Report in which they express an unmodified conclusion on the identified sustainability information. For a proper understanding of the Group's sustainability performance, as well as the scope of the assurance process, the extracted sustainability information in this report should be read in conjunction with the full 2012 online Integrated Report (2012.absair.co.za) containing the assurance report.

BBBEE verification

In line with the requirements of the dti Codes of Good Practice, our BBBEE performance is independently verified by a registered agency, NERA. These selected indications are marked with a ^Y.



Our full verification certificate can be found at 2012.absair.co.za/assurance

In this section, we list the major stakeholder groupings defined by the Absa Group Board, how we engage with them, we summarise their key concerns and provide a reference to our response. In building our relationships and resources, these are the stakeholders that matter the most to us, and are most affected by our operations. This is borne out by the components of our value added statement, which shows how the income from our customers is distributed to our employees, government and industry bodies, community (including suppliers) and shareholders.

We then outline our material issues and our performance in managing these through the year. In 2012, we have been through a process of evolving our strategy and the way in which we will measure ourselves.



Further information relating to our material issues can be found at 2012.absair.co.za/materialissues

From 2013, these material issues will be contextualised within a scorecard covering Customer and Clients, Colleagues, Citizenship, Conduct and Company.



Read more about this framework in the section Looking forward – moving to One Africa on page 102.

The role of the Social and Ethics Committee

Our SEC was established in 2011 and met three times during 2012. The SEC is chaired by an independent director, Mohamed Husain, and consists of four independent directors as well as two executive directors. Collectively, the members have the requisite experience, skill and expertise to discharge the responsibilities as envisaged in the Companies Act. As a new development in governance, the functioning of this committee will evolve over time as experience in this area is gained.

During the year, the committee reviewed comprehensive reports relating to all its statutory functions in terms of the Companies Act, including:




- stakeholder and sustainability management;
- overall corporate citizenship strategy and performance;
- performance against BBBEE targets, in particular EE;
- human resource performance and ethics management;
- Treating Customers Fairly (TCF) developments;
- health, safety and environmental issues;
- OECD recommendations on corruption; and
- our standing in terms of the ILO Protocol on Labour and UN Global Compact.



Our material issues on the pages that follow, encapsulate key aspects of our performance against the matters considered by the committee.

Stakeholder engagement

Reviewing our stakeholders' concerns

The table below outlines how we have engaged with our stakeholders, some of the key issues raised as well as providing reference to our responses to these issues.

How we engage with them	Key issues raised	Link to our response
Customers and clients We segment our customers and clients according to their profiles and needs and engage with each through the most appropriate channels. The most significant channels are listed below.		
<ul style="list-style-type: none"> → Customer experience programme, including surveys and focus groups → Complaints management process → Face-to-face interaction → Customer forums → Relationship managers → Marketing, sponsorship and advertising 	<ul style="list-style-type: none"> → Cost of banking services → Level of customer service → Access to credit → Financial inclusion → Increase ease and convenience of banking 	 <p>For further information</p> <ul style="list-style-type: none"> → Group Chairman's statement → Group Chief Executive's review → Our material issues <ul style="list-style-type: none"> – Systems and process effectiveness – Customer experience – Our people
Shareholders (and analysts) Barclays is our majority shareholder while minorities account for 44,5% of our shareholders.		
<ul style="list-style-type: none"> → JSE SENS → Financial results → Roadshows and conferences → Management meetings and calls → Investor days → AGM → Integrated report 	<ul style="list-style-type: none"> → Subdued revenue growth, particularly fee income and lower margin → Are credit provisions adequate → Is cost containment sustainable → Returning surplus capital → Management changes → Rest of African opportunity 	 <p>For further information</p> <ul style="list-style-type: none"> → Group Chairman's statement → Group Chief Executive's review → Group Financial Directors' report → Our material issues <ul style="list-style-type: none"> – Sustainable financial viability → Governance summary
Employees (and trade unions) We recognise the trade union, Sasbo, representing 66,64% of our employees. We also recognise the Absa Advisors Association (AAA), representing 53% of our financial advisors on our payroll. Tanzania and Mozambique also have similar collective agreements. All employees engage with the company through the channels listed below:		
<ul style="list-style-type: none"> → Interactions through human resource business partners → Employee opinion survey every two years → Leadership blogs and newsletters → Intranet site → Employee contact centre → Television broadcasts → E-mail communiqués → Monthly employee magazine (Abacus) → Corporate specific and other training interventions, including Learning@Absa 	<ul style="list-style-type: none"> → Reward and recognise performance → Streamlining the business threatens job security → Finding a balance between compliance and serving customers → Modern job and society stresses → Transformation → Improve engagement 	 <p>For further information</p> <ul style="list-style-type: none"> → Group Chairman's statement → Group Chief Executive's review → Our material issues <ul style="list-style-type: none"> – Our people – Economic equity → Remuneration summary

How we engage with them	Key issues raised	Link to our response
<p>Government, regulators and industry bodies</p> <p>Our engagement with government takes place largely through our involvement in organised business interest groups, such as the AHI, BLSA, BUSA, BMF, FABCOS, NAFCOC, NBF and SACCI.</p>		
<ul style="list-style-type: none"> → 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 	<ul style="list-style-type: none"> → Maintaining the stability of the financial system → Executing employment equity and wider BBBEE objectives → Compliance with laws and regulations, including Treating Customers Fairly and the 'Twin Peaks' framework → Remuneration disparities → Personal lending environment 	 <p>For further information</p> <ul style="list-style-type: none"> → Group Chairman's statement → Group Chief Executive's review → Group Financial Director's report → Our material issues <ul style="list-style-type: none"> – Our people – Economic equity → Governance summary → Risk summary → Remuneration summary
<p>Community (civil society, suppliers and media)</p> <p><i>Communities:</i> The interests of our entry-level market and of communities around South Africa and the continent are closely linked. Emergence from poverty to vibrant economic growth relies on effective, appropriate financial services and we are deeply engaged through the channels listed here to understand the issues to which we should respond.</p> <p><i>Suppliers:</i> Outsourcing continues to grow, as does the importance of engagement, particularly with SMMEs.</p> <p><i>Media and civil society:</i> The conversation between media and civil society is becoming more interactive, demanding that we engage and respond to concerns, both topical and of long-term interest.</p>		
<ul style="list-style-type: none"> → 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 	<ul style="list-style-type: none"> → Support employment, education, medical, infrastructural and other socio-economic priorities → Access to procurement opportunities → Efficient response to media queries → Clearer position on climate change → Sponsorship of community, cultural and sporting activities. 	 <p>For further information</p> <ul style="list-style-type: none"> → Our material issues <ul style="list-style-type: none"> – Sustainable financial viability – Systems and process effectiveness – Economic equity

Awards

One way we received feedback from various stakeholders is through awards. Below is a selection of recognition awards we received during 2012:

- 1st in the banking industry category – Ask Afrika's 2012 Orange Index Service Excellence Awards.
- Best use of technology in Absa Value Bundles – Celent 2013 Model Bank Award.
- Best Retail Bank in Africa; Best Retail Bank in South Africa and Best Credit Card Management – 2012 Asian Banker International Excellence in Retail Financial Services Awards.
- Best Retail Bank in Africa category – 27th Annual Retail Banker International (RBI) Awards.
- Top Retail Bank and Top Short-Term Insurer – 2012 in the TGI (Target Group Index) SA Icon Brands survey for Rapport and City Press.
- 1st in SA investor relations across all sectors – International Extel 2012 Survey.
- Absa Life the top credit life company (based on a peer ranking review) – PWC Strategic and Emerging Issues in South Africa Insurance 2012.
- Winner of Empowerment Funding Award – Annual Oliver Empowerment Awards.
- Best e-FX platform for Corporates Award – the 2012 e-FX Awards in New York.
- Absa Online is Best Consumer Internet Bank in South Africa – 2012 Global Finance's World's Best Internet Banks 2012 Awards.
- Five awards for The Absa/Springboks Team of Millions Campaign – 34th Annual Loerie Awards for advertising excellence.
- Best Debt House in South Africa (2nd year in a row) – Euromoney 2012 Award for Excellence.
- #1 Bank (3rd consecutive year) – 2012 Risk South Africa Rankings Survey.
- Best Fixed Income House and Currency House (4th consecutive year), Best Bond House, Best Market Making Team (Government Bonds), Best Team (Inflation Linked Bonds), Best Team (Credit Bonds), Best Sales Team (Cash Bonds), Best Market Making Team (IR Derivatives), Best Market Making Team (FX), Best Onscreen Market Making Team (IRD Volumetric), Best Sales Team (IRD), Best Sales Team (FX), Best Research Team (FX), Best Research Team (Technical), Best Structuring Team – JSE Spire Awards.

Material issues

Our performance against our material issues



Sustainable financial viability

Generating sustainable growth for all stakeholders

Sub-issues	Performance				
	Indicators	2012	2011	2010	2009
Growth					
→ Business environment	HEPS growth (%)	(9)	21	2	(25)
→ Legislative and political environment	Dividends per share (cents)	684	684	455	445
	Economic profit (Rm)	87	1 417	562	750
Cost management	JAWS income vs cost growth (%)	0,6	1,3	(13,7)	(1,0)
→ Business environment	Return on risk-weighted assets (%)	2,07	2,35	1,99	1,97
→ Cost of compliance	Return on equity (%)	13,6	16,4	15,1	15,5
Return on investment	Core Tier 1 capital adequacy ratio (%)	13,0	13,0	11,7	11,5
→ Return on equity	Surplus liquid assets (Rbn)	38	27	17	4
→ Return on risk-weighted assets	Credit loss ratio (%)	1,59	1,01	1,18	1,70
Balance sheet strength	Non-performing advances as a percentage of loans and advances (%)	5,8	6,9	7,6	6,8
→ Credit quality	Total transactions reviewed in accordance with the Equator Principles (number) ¹	16 ^A	21 ^A	7 ^A	12
→ Liquidity					
→ Adequate capital to sustain the business					
Responsible lending					
→ Social and environmental					

Notes

¹ Driven by lower return on equity.

² Total number of project finance transactions that have been reviewed for environmental and social risks as per the Equator Principles.

^A Assured indicator.

Introduction

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, credit impairments, profitability and balance sheet optimisation, as well as a detailed review of the factors that impacted on our 2012 performance. In this section, we discuss our position in terms of responsible lending, including our indirect impact on the environment through lending practices. Providing credit responsibly is a cornerstone of economic growth as it influences confidence to borrow and invest. We have committed to lending that positively contributes to the long-term health of individuals and companies.



View our Group Financial Director's report on page 22.

Responsible lending

Economic recovery is slow and unemployment and household debt levels remain high. While access to credit is important, taking on debt should be seen as a serious decision, requiring a robust process of screening and regulation. South Africa has seen an extraordinary rise in unsecured lending, undoubtedly benefitting many people previously denied the opportunity to borrow in the traditional banking environment. However, recent data and surveys support our concern that too many individuals are succumbing under the weight of their debt burden (47% of credit active consumers have impaired credit records as at Q3 2012 according to the National Credit Regulator).

While there are currently no systemic risks related to unsecured (or secured) lending, the risk to society at large cannot be underestimated. Invariably, the poor are the most vulnerable as the debt burden, when added to an insecure employment environment, only exacerbates the sense of inequitable impoverishment.

In October 2012, Absa and representatives of major retail banks, the Banking Association of South Africa (BASA), the National Treasury, the South African Reserve Bank and the FSB, reached an agreement to improve responsible lending and prevent households from being caught in a debt spiral. The accord called for several measures to be taken, including a review of loan affordability assessments, appropriate relief measures for distressed borrowers, reviewing the use of debit orders and limiting the use of garnishee orders.

Further, we at Absa are working hard to develop a better understanding of our customers, to cultivate a closer relationship whereby they are encouraged to call on our assistance.

We are committed to assist customers through financial hardship as far as possible. Our Debt Solutions Helpline assists customers examine their financial circumstances and indebtedness across multiple products. Through our debt management solutions, customers benefit from assessment of income and expenditure; tools and guidelines for budgeting and, where qualifying, extended payment terms on their loan accounts; and new manageable payment plans, or payment plans that will reduce monthly instalments. We also support customers in need of help through a debt counselling process.

Our debt counselling portfolio increased as a result of our decision to reinstate previously terminated accounts where customers who have demonstrated the ability to pay are in line with the accepted proposals, or court orders. The inflow of new accounts into debt counselling continues to decrease.

Another aspect of responsible lending, indeed, of responsible banking itself, is the implementation of Treating Customers Fairly across our operations.



See our customer experience material issue on page 40.

Managing the indirect environmental impact of our lending practices

We recognise that our most significant impact on the environment is the indirect impact of our lending, investing and procurement practices. As an Equator Principles Financial Institution (EPFI), our policy is to provide loans only to those project sponsors that are able and willing to undertake developments that are environmentally and socially responsible. Robust assessment, internally and externally controlled, ensures this. This year we screened 16 Equator Principles transactions across various sectors and referred 57 other sensitive transactions for environmental and social risk review and advice.

Absa can play an important role in encouraging the move to a sustainable, low carbon economy. We require our suppliers to meet all environmental legislative requirements, and as an example, our green vehicle financing product incentivises small car ownership through discounted financing.

By conducting our business responsibly, we can also take advantage of opportunities to win business. We were proud to participate in the signing of the Power Purchase and Implementation Agreements for Renewable Energy Projects, which will open up opportunities for private, independent power producers in South Africa to develop large-scale power projects. Our involvement has included playing a role in resolving bankability issues related to the Power Purchasing Agreements; introducing many international investors to the market, in collaboration with Barclays; and hosting events bringing together investors, government, Eskom and developers.

We participate in the JSE Social Responsibility Index and the Carbon Disclosure Project (CDP), and following our first submission of the Dow Jones Sustainability Index questionnaire, we have been included in the Emerging Markets Index.



See our environmental review at 2012.absair.co.za/environment

Priorities for 2013

We will continue to evolve our approach to responsible lending to include:

- general lending to individuals and companies;
- specific practices to reduce our indirect environmental impact; and
- conclude the BankSeta training course to enhance our employees' knowledge on environmental and social risks in lending.

Material issues



Process and systems effectiveness

for simple streamlined customer service delivery

Sub-issues

Quality of our IT infrastructure

- Maintenance
- Drive to innovate

Streamline customer processes

- Improve process and controls
- Simplify and enhance products

Supplier management

- Governance of service level agreements
- Timeous payments

Absa's direct impact on the environment

- Carbon emissions

Performance

Indicators	2012	2011	2010	2009
Cost-to-income ratio (%)	55,2	55,5	56,2	49,6
Direct IT spend (Rm)	2 134	2 241	2 085	1 753
Total IT spend	5 103	5 283	5 045	4 419
Core network availability (%)	99,7	99,9	99,8	99,8
Severity 1 incidents (number) ¹	2	6	10	20
Total carbon footprint (tonnes CO ₂) ²	350 909 ^A	394 317 ^{RA1}	450 624 ^A	443 355 ^A
Carbon footprint per employee (tonnes CO ₂) ²	10,1	10,6 ^R	11,3 ^R	11,2 ^R

Notes

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

² Total of Scope 1, 2 and 3 carbon dioxide emissions (according to the GHG Protocol), limited to South African operations, covering:

^A Scope 1 – Direct combustion of fuels and company-owned vehicles including functional/fleet vehicles (captured from vehicle mileage) and electricity from gas combustion (metered);

^A Scope 2 – Purchased electricity from Eskom (metered and calculated); and

^A Scope 3 – Business travel including local and international flights; car hire (captured from service providers) and employee kilometre claims.

^R – Restated based on GHG Protocol version 4_4 release. The more accurate, updated carbon conversion factor for supplied electricity in South Africa is larger than in the GHG Protocol v4.3 release and has been backdated to 2009. There have been no other material changes to the carbon calculation methodology.

^{RA1} – Assurance was provided over the total carbon footprint figure in 2011 – (this number is different due to being restated as per discussion in ^R above).

^A – Assured indicator.

³ Based on total headcount.

Introduction

Banks are highly dependent on technology to deliver products and services to customers in an efficient, dependable and secure manner. Both Absa and its customers require robust systems to enable a straightforward but flexible and risk-free banking experience.

Banking steps into the future

Our new Branch of Tomorrow, Today at the Clearwater Mall in Johannesburg offers Absa clients a futuristic and innovative banking experience. Ensuring that the customer's voice remains the driving force behind banking initiatives, we use this 'test lab' concept branch to test prototype technology, to streamline processes and test strategically placed interactive media in a live environment with immediate customer feedback.

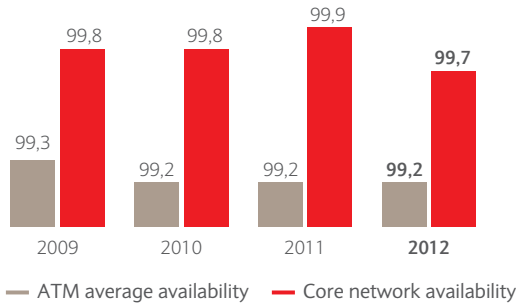
Quality of our IT infrastructure

In 2012, our key focus was to align our technology projects with strategic business initiatives while designing innovative technology solutions to meet our customers and clients' needs. Other areas of focus included ensuring on-time delivery of top projects; stabilising IT employee turnover; and defining replacement plans for ageing technology platforms.

Our IT governance processes were further streamlined by applying cross-functional services such as common systems architecture, and risk and infrastructure services. We established a forum to focus on the key risks associated with non-availability of IT systems; inadequate design and system security; and testing of new IT solutions.

More than 400 projects were successfully implemented through software releases this year, providing the business with new and enhanced IT capabilities, as well as managing the migration to the global Barclays HR solution.

ATM and core network availability



In recent years, we have put in place initiatives to improve the resilience of our core banking IT systems. This has successfully reduced the number of Severity 1 incidents (those which have a significant impact on our clients and customers) from 28 in 2008 to six in 2011 and only two in 2012, both related to internet banking. We maintained IT systems availability for core functions (point-of-sale, internet, branch, cards, payments) consistently above the agreed service levels.

We continue to invest in growth initiatives, such as refreshing our ATMs and our new Absa Online platform. Our total IT-related costs, although declining 7% to R5,1 billion in line with the reduction in total employee numbers, still accounted for 20% of Group costs.

Streamline customer processes

Streamlining initiatives were aimed at making it much faster and easier for our customers to open accounts, make payments, or get a loan approved. End-to-end account opening illustrates the benefits of these initiatives. We have seen the turn-around time for home loan applications reduce from 12 days to four days and new account opening times from 40 minutes to 10 minutes. Estimates suggest that these initiatives will result in a saving of approximately five million sheets of paper a year.

In the 2011 AT Kearney global procurement survey, our supplier selection, contracting and post-contract management processes were found to be world class.

Direct environmental impact

Absa's Citizenship plan commits us to reducing our absolute carbon emissions by 12,5% by 2013 against the 2010 base year and to offset the remainder. This target is three times that of Barclays' global target, owing to high carbon factors prevalent in the South African economy, such as coal-fired electricity generation and private commuting by car.

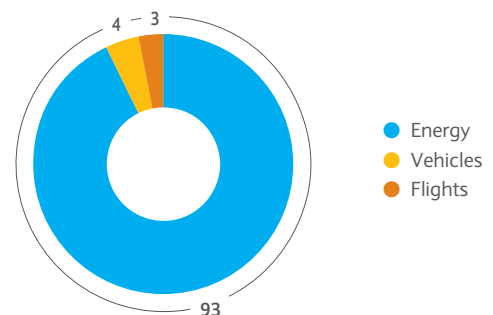
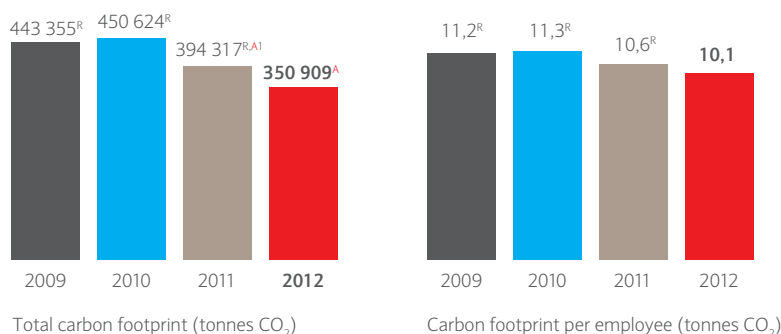
Through various initiatives, our absolute carbon footprint dropped 22% in 2012 compared with the 2010 baseline year (almost double our 2013 target). Our intensity measured against total employees decreased 10,6% to 10,1 tonnes CO₂ per employee from 11,3 in 2010.

Our main focus is on energy management, but we also measure our travel footprint, paper consumption and recycling, and implement waste management at selected buildings.

This year we implemented a number of projects. Nearly two thirds of our 390 buildings now have smart metering capacity. Energy walk-through audits were performed at 190 buildings, and 180 of our Retail buildings were selected for energy management by controlling non-essential lighting and HVAC loads, resulting in a saving of 22 million kWh. We installed over 17 000 light fittings and 3 450 occupancy sensors in 120 buildings, and installed nearly 5 000 LED down-lighters in 80% of Absa's branches. We are also focussed on improving the measurement of our travel footprint, a component of our energy footprint, enabling us to set reduction targets.

We saw a slight increase in paper usage to 2 260 tonnes from 2 246 tonnes in 2011, however, we are pleased to see an increase in our total paper recycling, up by 6%. We have intensified the recycling of paper, glass and polystyrene, creating 28 permanent jobs.

Carbon footprint



Material issues

Treatment of suppliers

Healthy relationships with our suppliers are vital in maintaining our operations and our ability to serve our customers and clients while effectively managing costs. We select new suppliers in accordance with our strategy and policies, and encourage supplier transformation in line with the dti Codes of Good Practice. Efficiencies delivered real savings of R826 million in 2012.

Working closely with Barclays, several committees oversee alignment with our global procurement strategy, as well as our progress against financial and non-financial objectives. A supplier relationship management forum ensures a consistent approach to how we manage our suppliers across the Group while risk and financial benefits are managed through local as well as global supplier committees. Large deals are overseen by a global procurement committee.

Priorities for 2013

- Balance the need for a stable bank with ongoing technology innovation to better serve clients and customers.
- Manage execution risk and prioritise investment spend.
- Leverage capabilities across the Group through our global procurement programme to save costs.
- Implement a single front-end system for all agents in the contact centre to improve customer experience.
- Continue launching of new digital solutions to streamline customer services.
- Rollout our best-in-class fraud detection and prevention system to help mitigate the risk of debit card and credit card fraud.
- Improve the accuracy of measurement of water consumption and waste.
- Purchase at least 75% of certain commodities locally, including consulting services, stationery and office equipment, in accordance with the Local Procurement Accord, a New Growth Path initiative.



Customer experience

Ensuring that customers stay at the centre of everything we do

Sub-issues

Value proposition

- Products and services
- Cost of banking
- Trust and safety
- Accessibility

Treating customers fairly

- Responsible banking
- Fulfilling promises to customers
- Supporting financial literacy

Performance

Indicators	2012	2011	2010	2009
Total banking customer base (millions)	10,9	12,1	11,8	11,7
Total number of South African banking customers (millions) ¹	10,2 ^A	11,3 ^A	11,1 ^A	11,0
Outlets ²	972	990	1 007	1 062
Self-service terminals including ATMs ²	9 929	9 541	8 963	8 945
Internet banking customers ('000)	1 178	1 148	1 094	10 052
Cellphone banking customers ('000)	4 237	3 210	2 513	1 670
Customer TCF outcome index	61,6	60,0	not available	
Number of complaints as a percentage of our South African banking customers (%) ³	1,77 ^A	2,29 ^A	1,74 ^A	1,19
Customer satisfaction index ⁴	44	43	44	44
Average days taken to resolve complaints	4	5	3	2
Net promoter score (%) ⁴	11	16	19	18

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, Edcon, 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.

⁴ Correction to numbers reported in 2011.

^A Assured indicator.

Introduction

Our customers are at the heart of our business. Achieving positive customer experiences is our top priority, especially as the financial industry works to restore confidence and trust following the global financial crisis.

We are determined to become the 'Go-To' bank in the eyes of all our customers and clients – the bank to go to when you want to do banking business. The pursuit of this goal will drive our thinking, our decisions and our actions, for it is applicable across all our areas of operation and across all geographies.

Becoming the 'Go-To' bank for our customers matches our customer-centric reporting framework closely. We recognise two important issues that together provide our customers with the optimum banking experience:

- providing a competitive value proposition in terms of product, service, costs, reach and accessibility, trust and safety; and
- treating our customers fairly, through responsible lending, fulfilling promises to our customers and supporting financial literacy.

Our customers and clients have a choice in how they wish to do their banking with access to 972 outlets, internet, cell phone banking, 9 929 ATMs, as well as in-store banking.

Value proposition

Ensuring customers receive excellent value in terms of choice, convenience, security and affordability is our top priority – all the more so with rising consumer consciousness, policy reforms such as the CPA and increasing customer expectations driven by rapid technological advances.

We have focused on making products and fees simpler, easier to use and more transparent and were complimented on this in the recent Finweek and Solidarity pricing surveys.

The length of time banking processes take to complete has a significant impact on customers' perceptions of our service. Turnaround time is therefore a key focus area for us, and a number of initiatives aimed at accelerating process completion have been implemented. We have made significant improvements to our home loans turnaround time, from 12 days to around four days. Our new customer onboarding process has resulted in general customer onboarding being reduced to around 10 minutes.

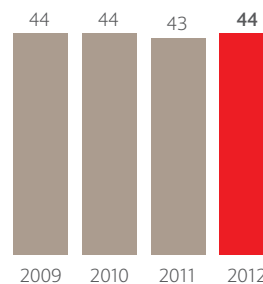
We also continued to innovate, launching new products and capabilities throughout 2012. These included:

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

Our customer satisfaction score (CSM) is 44 and remains short of our target of 50 and the current industry best practice of 46. Research conducted during 2011 identified a number of opportunities to improve service, and we are making use of our customer councils to improve the culture of customer service in our business.

Vehicle and Asset Finance, Home Loans and Card improved their CSM ratings significantly, and CSM was implemented in our corporate bank. There was a decline in the net promoter score (NPS) score on the back of a number of restructuring initiatives and some media exposure. However NPS improved slightly towards the end of the year in our branch environment. We recognise that to improve customer satisfaction, we need to responsibly migrate our customers towards more efficient channels.

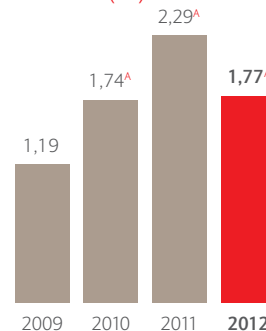
Customer satisfaction measurement (CSM) index



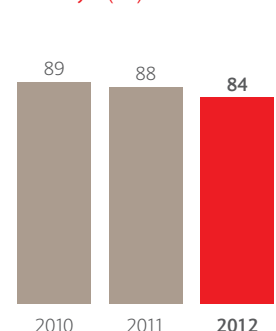
How we respond to complaints

The number of complaints received and their resolution time are key indicators of customer service satisfaction. Following an analysis of the increased complaints received in 2011, we concentrated on a number of initiatives: distinguishing between complaints and queries, reviewing our first point of resolution target, and revisiting the way we handle disputed debit orders. Complaints reduced by 29% in 2012 and on average, complaints are resolved in four days (2011: five). We also received 23% more complaints.

Number of complaints received (%)



Complaints resolved in ≤ 2 days (%)



Material issues

Fair and just complaint resolution forms part of the Treating Customers Fairly initiative, and appropriate 'Gesture of Goodwill' standards were created to assist with consistent application across all business units. Our close engagement with the offices of the various ombudsmen and regulators has resulted in speedy and effective resolution of the bulk of complaints.

In Retail, some system limitations hamper TCF outcomes, however, solutions are in various stages of implementation and are tracked for delivery and potential benefits. Our promise to Business Markets customers is to ensure that all our employees deliver a better customer experience supported by an operating model structured to improve sales effectiveness and efficiency. We acknowledge that continuing effort is required to correct recurring service failures.

Trust and safety

Financial crime exposes our customers to financial loss and risk to their personal safety, and exposes us to losses, penalties and reputational damage. For customers, financial crime risk areas include ATM and branch security (for example, card skimming and robberies), card fraud and online security risks such as spyware and computer viruses.

We have robust systems in place to protect our customers from financial crime. Awareness, however, is the first line of defence and we aim first of all to educate our customers about the risks they face. A thorough description of the types of crime and how to protect against these is available on our website as well as through ATM screens, communications on statements and in the general media.

Our fraud risk management team manages the risk of fraud across the Group, and 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 Services to further reduce the risk of fraud.

Treating Customers Fairly

In the financial services industry, providers of products and services are usually far better informed than their customers. This imbalance results in the potential for customers to be treated unfairly. Possible consequences include:

- Inappropriate products being sold to customers.
- Underperformance or even failure of financial products and services.
- Unsuitable financial advice being given to customers.
- Ambiguous communication about products.

To prevent these and similar occurrences, the Financial Services Board launched the Treating Customers Fairly (TCF) initiative in 2010. The TCF aligns with the new Consumer Protection Act (CPA), which strengthens consumer rights and has driven a tighter focus on consumer rights and our current customer policies at Absa.

Our subscription to the Code of Banking Practice also contributed to better alignment to the CPA. During the year we increased awareness training for employees dealing with customers and we edited our customer documentation to make it easier to understand.

Our customers can expect the following from us:

- Fair treatment of our customers.
- Products and services marketed and sold in the retail market which are designed to meet the needs of our consumer groups.
- To be kept appropriately informed with clear information before, during and after the point of sale.
- Where our consumers receive advice, the advice is suitable and takes account of their circumstances.
- Products that perform to expectation and associated service of an acceptable standard.
- Consumers do not face unreasonable post-sale barriers to changing product, switching provider, submitting a claim or making a complaint.

We have had to overcome a number of challenges in order to achieve a TCF culture truly fair to customers. We investigated customer feedback on TCF and are monitoring readiness by implementing the FSB self-assessment tool and driving TCF governance issues. In particular:

- TCF reports dealing with customer issues and the actions that business units take to improve them, are now mandatory.
- Management assurance was tasked with assessing TCF practice.
- Customer research was undertaken to establish how customers currently rate Absa on the six TCF outcomes. These indicators are now part of quarterly reporting on customer issues to Exco.
- In a number of business units, the six TCF outcomes have been implemented in customer experience re-designs.
- In AFS, a new customer experience framework has incorporated TCF to improve every step of its customer processes.

We implemented a Customer TCF outcomes index, a research tool, which traces how our customer and clients perceived us in delivering against these outcomes. Through the actions outlined above we have seen an improvement in this index to 61,6 from 60,0 in 2011.

Priorities for 2013

- We will roll out behavioural change programmes to all branches in our quest to become the 'Go-To' bank for our customers.
- Our complaints management framework will be aligned to form a One Africa complaints resolution process and we are revising our root cause analysis capability to be more effective.
- Deliver innovative payment solutions such as person-to-person payments via mobile.
- Ongoing drive to innovate easy-to-use digital solutions such as our banking app, online student loan application and our 'payment pebble' for small businesses.
- Launch of our new Private Bank proposition.
- Establish a 'branch-on-the-move' which offers full banking services.



Our people

Ensuring a motivated and engaged work force

Sub-issues

Attracting and retaining talent

- Talent management
- Recruiting young talent
- Performance and reward

Developing our people

- Investing in skills development
- Sales and service training
- Developing leaders

Employee engagement

- Assisting employees to adjust to change
- Employee perception
- Representation

Health and wellness

- Access to services and financial management

Ethics management

Performance

Indicators	2012	2011	2010	2009
Total permanent and non-permanent employees	37 093	39 659	43 239	42 796
Total permanent and non-permanent employees (SA) (number) ¹	34 725	37 293 ^A	39 782 ^A	39 531
Permanent employees	33 717	35 200	36 770	36 156
Percentage of employees covered by collective bargaining agreements (%) ²	66,6	65,8	56,0	58,0
EOS perception of business unit leadership (%)	57	—	61	—
EOS customer focus (%)	75	—	77	—
Permanent employee turnover rate for South Africa (%) ³	14,6^A	11,9 ^A	10,1 ^A	12,3
Internal promotions and transfers (%) ⁴	75	55	36	28
Absenteeism rate (%)	1,8	1,7	1,8	1,8
Grievances as a percentage of the total employee base (%)	1,3	1,2	0,6	0,9
Training spend (SA) (Rm) ⁵	606^A	526 ^A	372 ^A	282
Regretted losses as a percentage of highly rated employers (%)	10,9	8,5	6,7	7,2

Notes

¹Number 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 the 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. Please note that this number is no longer part of the independent assurance scope.

²Excludes managerial positions.

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

⁴As a percentage of total appointments.

⁵Training 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. In 2012, we have started to include full training operational costs to reflect the full cost of this function bringing the training spend to R790 million. We will however only assure this element from 2013.

^AAssured indicator.

^VVerified indicator.

Introduction

In dealings with customers, business partners and broader society, every employee represents Absa, and it is only through their efforts that we can achieve our ambition of becoming the 'Go-To' bank in Africa.

The important challenges we need to deal with in order to achieve this ambition are to:

- Attract and retain talent.
- Develop employee skills.
- Engage employees in our customer-centred culture.
- Look after employees health and wellness.
- Entrench ethical behaviours.

In response to these challenges, our three-year strategy is to:

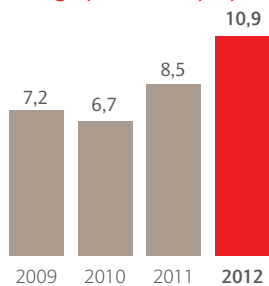
- Embed our client and customer-centred culture.
- Attract and retain, and develop and reward our employees competitively.
- Promote an environment conducive to engaged, motivated and empowered employees.

Absa employs a total of 37 093 people (2011: 39 659), of whom 94% work in South Africa. The 6,5% decrease was a result of streamlining our business through various integration measures, reducing the number of temporary employees and leaving non-critical positions vacant.

Material issues

Our permanent employee turnover rate in South Africa has increased to 14,6% (2011: 11,9%), while turnover of employees with good to exceptional performance ratings ('regretted losses') has risen to 10,9% from 8,5% in 2011.

Regretted losses as percentage of highly rated employees (%)



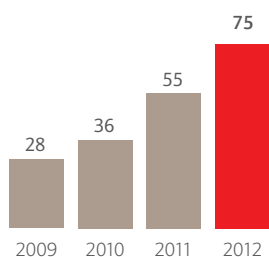
Attracting and retaining talent

To build up a stable work force of talented and passionate people, our talent management approach focuses on five areas: talent mobility, succession planning and promotion from within, recruitment, performance management and remuneration and building future leadership.

This year we focussed on rotating employees between business units and between Absa and Barclays businesses in Africa. This included short- and longer-term assignments, participation in leadership events and exploiting other opportunities for leadership development and mentoring.

Extensive searching for internal talent has resulted in an increase in internal promotions and transfers to 75% (55% in 2011). At the senior level, internal promotions decreased to 54% in 2012 (63% in 2011).

Internal promotions and transfers (%)



We implemented a new, market-leading eRecruitment system, Taleo, across the business, resulting in significant savings in external recruitment spend. In 2013, we aim to further shorten the time required to fill vacancies. This year, our graduate programme was extended to include graduates from Tanzania, Mozambique and Zimbabwe. Our 2012 graduate programme intake comprised 107 graduates, of whom 90% were black. Graduates are appointed

as permanent employees at the start of the programme, and receive on-the-job training and coaching throughout the year.

In addition to our internal programmes, we spend R24 million per annum on bursaries for high potential candidates in our industry.

Formal performance reviews are conducted twice a year, and are now aligned to the Barclays Group, allowing performance comparison and increased transparency. Employees are eligible for performance incentives based on the financial and non-financial performance at Group, business unit, team and individual level. Senior employees with performance incentive schemes above a specific threshold receive some of their remuneration in the form of phantom shares, which are deferred over a period of three years. Some employees may participate in business-specific incentive schemes, such as sales incentive plans.

All Absa remuneration is market-related, but with some flexibility in the allocation of selected benefits.



See our remuneration review on page 76.

Absa employees participate in a number of Absa and Barclays recognition programmes over the course of the year. Special recognition programmes include: Service Heroes, Ruby programme for exceptional contributions by frontline employees, the One Chief Executive Recognition Awards, the Barclays Citizenship Awards, and the Barclays Woman of the Year Awards.

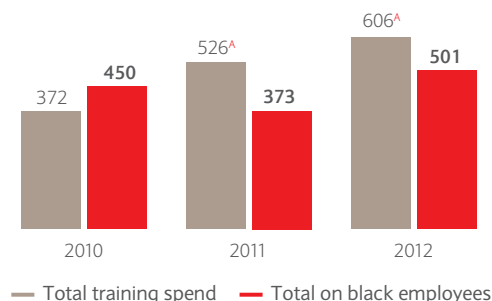
Building our leadership capacity at middle and senior management levels remains a critical focus for Absa, while simultaneously providing an opportunity to enhance employee work experience. Following a successful pilot in 2011, 154 candidates were put through the Absa Middle Management Programme (iLead), to gain a better understanding of their own and other business areas. Other programmes include the Absa Development Initiative (ADI), the Accelerated Leadership Development (ALD) programme, the Africa Integrated Leadership Development Programme and the newly launched Global Management Fundamentals training programme.

Developing our people

In pursuing our mission to build the 'Go-To' bank in Africa, we spent more than R790 million (including R184 million training related operational costs) on training initiatives, of which R501 million was focussed on our black employees. More than 90% of our 1 431 learnership positions were taken up by black candidates, mostly in the areas of finance, debt recovery, IT and HR, contributing significantly to building the pool of skilled resources in the financial services sector.

Learning@Absa, our online learning management system, has enhanced training both in South Africa and in other African countries, including Mozambique and Tanzania, and significant user interactions are recorded daily. Currently, 81% of all training in South Africa takes place online, benefitting flexibility, cost effectiveness and consistency.

Training spend (Rm)



We also provide targeted training such as Treating Customers Fairly, FAIS compliance training, financial planning through Absa's Adviser Academy, our a 'Matric to Masters' talent-development initiative, the National Certificate in Financial Markets programme (75 learners in 2012), and the UCT Professional Sales Management Programme (25 graduates in June 2012).

Our academy is launching a new NQF 5 Sales and Service qualification in 2013, for which 400 employees have already registered.

Employee engagement

A fundamental set of values now provides the basis on which we engage with our employees.

In 2012, we agreed a single cross-business purpose for all Barclays Group companies, and five core values which underpin it. These are a product of extensive business-wide input and consultation, involving Absa employees from various levels including our Executive Committee and the senior leadership group.

Our Purpose is 'helping people achieve their ambitions – in the right way'. This means 'how we do it' becomes as important as 'what we do'. We will not compromise our values of Respect, Integrity, Service, Excellence and Stewardship.



Read more on our new values on page 103.

In 2012, over a thousand colleagues across Barclays, including from Absa, workshopped these values so that they can explain their importance to every single colleague in the bank and ensure they are embedded at every level of the business.

We will also measure and reward individual and business performance according to how these values are lived. Performance assessment will be based not just on what we deliver, but on how we deliver it.

In pursuit of our goal of becoming the 'Go-To' bank of all Africa, in 2012 we reorganised some business units, amalgamated our Retail and Business Banking units, and consolidated shared services such as HR, IT, communications and marketing.

In dealing with the impact of this reorganisation on employees, we consulted widely and in line with labour relations best practice. Two thirds of employees affected by the changes found new positions within Absa, or opted for other external opportunities voluntarily. Consequently, only a small number of employees eventually exited the company involuntarily as a result of the restructuring. All employees affected were offered professional counselling.

In addition to other forms of engagement, Absa participates alongside Barclays in an employee opinion survey (EOS) administered by an independent international research firm. The survey, last conducted in 2010, measures employee engagement and their perceptions about their work environment. The challenges and changes experienced by our employees in 2012 were reflected in the lower scores achieved.

	2012 results %	2010 results %	Target 2012 YE %
Overall EOS score	66	70	75
Business unit leadership	57	61	61
Commitment	74	75	75
Customer (focus)	75	77	72

As a result of the survey, we have identified a number of key actions and focus areas to address employee concerns in 2013. These include:

- bolstering leadership accountability for business delivery at all levels, in particular as we intensify our 'One Bank in Africa' journey;
- improving customer service levels;
- reinvigorating our citizenship agenda, including ethical business conduct, social development and volunteerism; and
- developing our people, in particular our top talent.

To ensure a fair balance in our relationship with our employees, we subscribe to the spirit of (and conform strictly to) the requirements of the South African Labour Relations Act, and have a recognition agreement with the trade union, Sasbo. Membership currently stands at 66,64% (2011: 61%).

We formally recognise Absa Advisers Association (AAA) which currently represents 53% of financial advisors employed in our Financial Services cluster. The recognition agreement with AAA is currently under review.

NBC, Tanzania engages with two recognised trade unions – FIBUCA (57% membership) and TUICO (8% membership). Barclays Bank Mozambique has a collective workers agreement with the trade union SNEB to which 53% of employees are affiliated.

Absa leadership engages with employees via road-shows, conferences, general team engagements and special channels such as Absa TV.

We have also introduced a number of activities to provide employees with opportunities to connect on a personal and social level. These include the Absa Choir Festival and the One Africa At Work initiative.

Material issues

Absa employees making a difference

Make a Difference Day is an annual Absa and Barclays volunteering campaign that encourages employees to give their time and skills and build on their existing community activity. Projects support communities in a way that contributes to sustained growth and focus mainly on developing entrepreneurial and financial skills.

Health and wellness

Our comprehensive wellness programme, *Live Well, Work Well*, helps employees take responsibility for their own health by making available a range of services such as wellness assessments, health education initiatives, disease and lifestyle management tools and nutrition, and physical fitness initiatives. All employees belong to a medical scheme subsidised by Absa, and employees have access to nine Wellness centres offering a range of primary healthcare services and executive medical assessments.

Employees made extensive use of our health programmes in 2012, with the total interactions double the previous year and significantly higher than the financial industry average. The employee absenteeism rate has increased slightly from 1,7% to 1,8% but remains stable over the medium term.

We have continued with our internal HIV counselling, testing and management campaign, launched in 2011. By the end of 2012, we had tested 17 126 employees (54% of the total workforce) for HIV. This is three times higher than the number tested in 2011.

Absa offers its employees financial and banking solutions that provide support and tools to help employees manage their financial affairs in a responsible way. Free or discounted rates apply for transactions, borrowing and insurance services. We also assist employees with financial education.

Ethics management

Our values underpin our code of ethics and form the backbone of our reputation as a trusted financial services provider. Our code of ethics, presented in easy-to-understand language, covers confidentiality, conflicts of interest, gifts and courtesies, company resources and combating dishonesty and financial crime.

We have developed a deep understanding of the underlying factors that can result in ethical breaches. These can be grouped into four categories:

- Opportunity in the work environment to commit ethical breaches due to lack of management oversight, controls, processes and policies.
- Motivation and rationalisation to commit ethical breaches such as fraud and abuse of company property, for example greed and indebtedness.

- Consequence management is the degree to which we manage consequences and apply formal sanctions consistently.
- Ethics management capacity to lead the way in driving a high standard of ethics in the organisation.

We have implemented a structured programme aimed at changing the behaviour of all our employees.

We launched both a management fundamentals course for all middle managers to improve their ability to manage their teams and a mandatory online training module on our Code of Ethics. Our Code of Ethics is integrated into employee onboarding and all employees must complete an annual attestation to confirm their understanding of the Employee Compliance Conduct Guide (ECCG) that contains summaries of relevant policies and procedures.

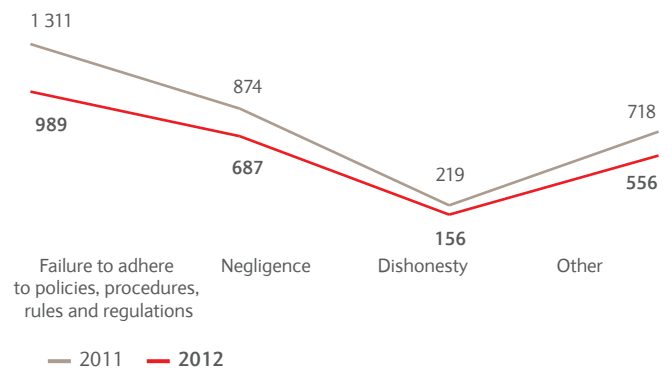
Our HR policies have been consolidated and streamlined in consultation with Sasbo to ensure better understanding of HR guidelines.

We have a comprehensive communication campaign including thematic communication about the importance of behaving ethically as well as regular communiqués naming employees and ex-employees found guilty of fraud and other ethical breaches.

As a result of ongoing awareness and education, ethics has improved across the board. Not only did we achieved an overall 24% reduction in the incidence of ethical breaches, but the incidence of disciplinary cases fell 18% to 6,4% of total employees (2011: 7,9%). Grievances increased slightly, from 1,2 per 100 employees to 1,28, though more than half related to performance and remuneration issues. Improved controls, combined with awareness and education measures, saw losses to internal fraud decrease by 76,7%.

We participated in the 2013 National Business Ethics Survey conducted on behalf of the Ethics Institute of South Africa. The findings will focus on national trends in the business ethics orientation of companies and business persons and will be released in the first half of 2013.

Disciplinary cases



Priorities for 2013

- Achieve a succession ratio of three potential candidates to each critical role.
- Develop an integrated Africa recognition programme supporting One Africa business strategy.
- Extend our graduate, learnership and bursary programmes to Barclays Africa.
- Increase customer service training.
- Increase range of learning channels.
- Continue targeted campaigns to communicate and educate our employees on ethical behaviour.



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

Performance

Indicators	2012	2011	2010	2009
BBBEE status ^v	Level 4	Level 3	Level 3	Level 4
Procurement points ^v	17,9	19,6	18,5	15,4
Percentage of employees that are disabled (%) ²	1,01	1,13	1,04	0,91
Percentage of female employees (%) ²	65,7	65,1	65,2	65,5
Percentage of African, Coloured and Indian employees (%) ²	66,3	65,2	64,2	61,7
Number of entry-level and inclusive banking customers (millions)	5,8	7,4	7,2	6,9
Affordable housing – volume of new home loans extended (Rbn)	1,6	1,5	1,6	1,0
Total socio-economic development (SED) spend in South Africa (Rm) ^{v,3}	91,5	96,4	83,4 ^A	114,6
Financial literacy initiatives – number of consumers reached ⁴ (000s)	123,8	348,4	356,12	386,8

Notes

^vIndependently confirmed through our BBBEE verification process.

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

³Socio-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.

⁴Classroom-based learning interventions.

In previous years we have disclosed and assured the number of new small business loans approved. We do not include these here due to changes in the definition of small business, combined with the fact that this indicator will be redefined in line with our citizenship plan.

Introduction

Developing the South African economy, indeed the entire continent, is closely aligned with empowering historically disadvantaged people. Our One Africa strategy commits us to creating long-term value for our customers, communities and other stakeholders across Africa. Developmental challenges, similar to those we have faced in South Africa, include disparities in financial needs between rich and poor and the potential for further disenfranchisement if business is pursued irresponsibly.

An exciting development is our 2015 Citizenship plan for both Absa and Barclays which sets out our intention to contribute to sustainable economic growth in a way that also creates value for society and in a manner that is consistent with the highest standards of integrity.

Material issues

Economic empowerment of the unbanked and economically disenfranchised

A major challenge for the South African banking sector is that more than a third of its citizens remain unbanked. Obstacles to entry include a generally poor understanding of financial services, as well as practical barriers such as the cost of transportation to banking outlets. Progress in rising to this challenge will, from 2013, be measured against the Financial Sector Code (FS Code) gazetted on 26 November 2012.

As part of the One Absa strategy, we aim to find innovative and cost-effective ways to provide real value to the entry-level market. We are focussing on products and services, innovative delivery channels and consumer education. We believe market penetration will be driven by simplicity, cost effectiveness, convenience and security.

Unfortunately, the government's decision not to renew AllPay's contract, a decision we are challenging through the courts, has impacted severely on our social grant payment services and thus our relationships with entry-level market customers. As a result of this, and the closure of dormant accounts, the number of entry level customers dropped 12% from 7,4 in 2011 to 5,8 million in 2012. Until the end of the first quarter of 2012, AllPay paid on average 2,1 million grant beneficiaries every month.

Notwithstanding this, over 40 000 new accounts were opened in 2012 through more than 250 paperless tablet devices. The new technology has reduced the processing time for new accounts to as little as 10 minutes and cards are issued in real time. Almost 150 000 transactions totalling more than R29 million have been processed through our new in-store banking channel, and more than R1 billion (71% up from 2011) was transferred through our mobile CashSend money transfer system.

We continued to launch products that allow customers to choose how they bank. In addition to our Transact account – a simple affordable transactional product – we launched Value Bundles which have simplified pricing structures so customers understand exactly what they are paying for. Each Value Bundle includes an unlimited number of debit and stop orders, electronic account payments, fund transfers and debit card purchases, as well as five free Absa ATM withdrawals and deposits per month. Unused transactions are rolled over for use in the next month.

Affordable housing

The demand for affordable housing stock continues to outstrip supply. Absa has development projects in six provinces and we have managed the construction and delivery of over 9 100 housing units in partnership with all levels of government in provinces such as Gauteng, Mpumalanga, Eastern Cape and Northern Cape.

An additional 1 100 subsidised housing units were handed over to beneficiaries with a further 640 under construction in the Klarinet development in Mpumalanga. A further 400 bonded (open market) affordable housing units are in the process of being sold and constructed. The construction of the first secondary school in Klarinet has also commenced.

We grew the loan book for customers earning less than R16 500 per month by 13% to R8,5 billion from R7,4 billion in 2011.

Black Economic Empowerment and the generic Codes

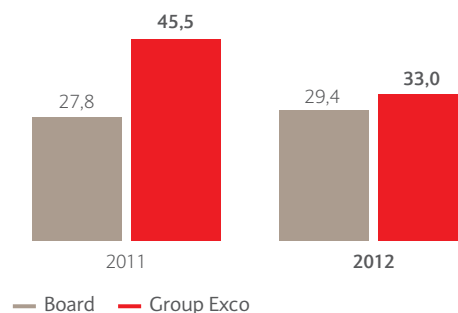
Absa's performance has declined from a Level 3 (75,38 points) to a Level 4 (72,77 points) BEE Contributor status due to the impact of the higher generic Codes targets that came into effect from 2012.

Equity ownership

Having been the first of the big four banks to provide 10% ownership in the company to black partners (through Batho Bonke) in 2004, it follows that this deal has been one of the first to be unwound, unlocking substantial value for Batho Bonke's participants. South Africans from all walks of life benefitted from the broad-based empowerment transaction, community trusts, women's groups, BEE companies, stokvels, small and medium businesses as well as individuals.

Management control

Black representation (%)



Note

The proportions of women and black women have increased marginally.



More on directorate and management on page 6.

Employment equity

We believe employment equity is a priority to further entrench inclusivity in the workplace culture. It is a critical component of our business strategy and integral to employee relations and our talent management initiatives. Nonetheless, employment equity across the South African economy remains a challenge. While more than a quarter of our permanent employees are now African women, we are making slow progress towards our employment equity targets.

The permanent employee turnover rate for our black employees in South Africa remains 4% higher than the average turnover rate, although this margin has reduced by half. While 78% of new appointments and promotions were black, this group also accounted for 68% of all resignations.

Five-year targets, in alignment with the Department of Labour EAP and the CoGP, have been set from top to junior management and our talent pipelines are aligned with these goals. Our targets are monitored by our Group Exco and our Board's Social and Ethics Committee.

Our pipeline of middle and junior black managers continues to grow and we have achieved increasing proportions of black employees at these levels over the last three years.

Skills development

Our focus is to develop the skills of black employees with qualifications and behaviours necessary to serve the customers we are targeting among emerging markets in South Africa and as we grow into other African countries.

In 2012, we spent R790 million (including R184 million on training operational costs) on learning activities of which R501 million (4,4% of our leviabile payroll) was spent on our black employees.



View Our people material issue on page 43.

Preferential procurement and enterprise development

Our weighted spend on products and services was R12,6 billion procured from 2 585 BBBEE accredited suppliers in 2012. These include black owned and black women owned small and medium enterprises. We aim to assist our existing suppliers to transform, while also sourcing products and services from new suppliers that embody the principles of BBBEE.

We focus our enterprise development on three areas. We are improving access to markets for SME suppliers to corporate buyers and have 8 000 SMEs registered on our newly launched Procurement Portal. We have increased access to funding through our Procurement Finance Programme, a non-traditional funding mechanism, and we are improving access to business support through our nine Enterprise Development Centres located throughout the country.

We recently launched the Absa SME Index aimed at providing valuable information on the current state of SMEs in the country and the level and challenges of employment in South Africa. This information will allow SMEs to make informed decisions, policy makers to make relevant policy decisions and encourage individuals with business ideas to start their own businesses.

Community investment

Our CI strategy recognises that skilled young people – the 'next generation' – are essential to healthy communities and a successful economy. Guided by government's various development plans, particularly those that address skills amongst youth, we partner with

non-profit organisations that achieve development goals through enterprise, financial and life skills. We aim to empower youth aged between 10 and 35 years with the skills they require to become economically independent and secure. In 2012 we spent R91,5 million on programmes benefiting over 400 000 individuals.

Despite various challenges, employees spent 4 202 work hours and 721 personal hours volunteering through our matched giving programme and the payroll giving programme. A highlight was the Banking Association's Teach Children to Save campaign, linked to the Nelson Mandela International Day, where 890 employees volunteered.

Financial education

We recognise financial literacy as a key life skill and our financial literacy activities are mostly aimed at reaching previously disadvantaged communities and unbanked individuals, while also creating an emerging market and potential growth platforms for Absa and South Africa at large.

Since 2007, we have spent over R80 million on financial education and reached over 18 million individuals. In 2012, our face-to-face initiatives reached 123 839 consumers, 600 000 consumers were reached through educational newspaper articles published in the Consumer Fair newspaper, and 17,7 million consumers were reached through edutainment information displayed on soccer pitches and live television during the Absa Premier Soccer League games.

Priorities for 2013

- Expand remote account opening and in-store banking services.
- Design a true branchless banking transactional product for the unbanked and the under-banked.
- Launch access to banking programme for informal markets – spaza shops.
- Provide R250 million of new funding to black owned SMEs that normally do not qualify for funding.
- Develop a funding model for agricultural co-operatives.
- Establish intra-Africa SME Business forum to create business linkages.
- Continue to build our talent pipeline.
- Focus on improving our accommodation of the disabled.
- Deliver against the existing skills development plan and transformation targets.
- Build strong relationships with fewer non-profit partners to achieve greater community impact.
- Increase employee volunteering.
- Reach an additional 130 000 consumers in classroom-based financial literacy interventions.

Business review

Retail Markets

Business profile

Retail Markets offers a full range of transactional, payments and savings products, as well as providing both secured and unsecured loans.

Strategy

Our strategy is to offer simple and relevant products that meet the needs and expectations of each customer segment, while providing a consistently superior sales and service experience across all our channels. We reorganised in 2012 to enhance customer ownership in our business model. All key leadership positions have been filled and experienced management teams are running all businesses.

Our 2012 performance

Salient features

	2012	2011
Revenue (Rm)	24 855	24 334
Headline earnings (Rm)	3 436	4 243
Attributable earnings (Rm)	3 447	4 243
Cost-to-income ratio (%)	54,0	55,6

Lower non-interest income, increased credit impairments for mortgages, and a 4% lower Home Loans book depressed headline earnings by 19%.

This decline marks the improvement in our underlying operational performance. Pre-provision profits increased 6% to R11,4 billion, as 2% revenue growth exceeded the 1% growth expenses growth. The deterioration in our credit loss ratio to 1,89% from 1,23% was mainly due to our higher impairments on our mortgages legal portfolio.

Loans and advances to customers increased 3% to R329 billion driven largely by acquiring the Edcon portfolio and a 13% growth in VAF. Customer deposits grew 4%.

Business units performance varied as Home Loans, Personal Loans and AllPay's headline earnings fell. VAF grew 96% due to solid loan growth and significantly lower credit impairments. Strong positive JAWS and including Edcon increased Card's headline earnings 19%. Lower costs increased Retail Bank's headline earnings which rose 46%.

We took significant steps to make the lives of our customers much easier. We improved multi-channel access and innovated in areas such as Absa Online, our ATM network upgrade, in-store banking and CashSend remittance.

Our goal is to become the 'Go-To' retail bank by making our customers' lives much easier.

Home Loans and VAF attracted applications by returning to mortgage originators and expanding VAF risk appetite while we reengineered processing to improve our turnaround times. Personal Loans book grew in the second half. We continued to lend predominantly to existing customers given concerns about stretched consumers. Our loans were well within appetite and appropriately priced.

Retail Markets emphasised transaction account retention and cross-selling but also selective new account origination. We had early success with the launch of Value Bundles, opening 120 000 accounts in 2012. Our Rewards programme signed its one millionth member during the year.

In Africa, we introduced and embedded new banking products including mobile and Islamic banking products.

Retail Markets maintained its leading market share of individual deposits, retaining our 'Savings Bank of the Nation' reputation in tough economic conditions.

We improved our collections processes which reduced NPLs, particularly in mortgages where NPLs fell 20%. In addition, our property in possession portfolio decreased during 2012.

Our priorities for 2013

- Drive sustainable growth by completing our Retail transformation and restoring top-line momentum.
- Continue to develop new, solutions to meet our customers' needs, simplify transactional offerings and be the benchmark for customer onboarding.
- Enable high quality digital and direct capabilities to meet evolving customer needs and support migration towards an optimal channel shape.
- Achieve smarter, integrated channel delivery to align cost to serve with value and remove unnecessary network cost.
- Capture future pockets of growth through optimised segmentation strategies and sales processes.
- Developing opportunities in our Edcon and WFS partnerships.
- Continue to establish a robust control environment with improved collections capabilities and a robust impairments methodology.

Business Markets

Business profile

Business Markets offers a comprehensive range of commercial banking products and specialised services, ranging from off-the-shelf transactional products to complex customised financial solutions. We provide these products and services to commercial customers with an annual turnover of between R20 million and R500 million and enterprise customers with an annual turnover of less than R20 million.

The commercial segment proposition is based on a relationship model where customers are serviced by dedicated teams of sales, product and support staff that provide customised solutions. Our key business areas include debt, investment and transactional products.

Strategy

Our strategy is to develop a Pan-African franchise that will serve new and existing customers across Africa. Further, we will continue to reduce our exposure to equity investments.

Our 2012 performance

Salient features

	2012	2011
Revenue (Rm)	8 998	9 180
Headline earnings (Rm)	910	1 863
Attributable earnings (Rm)	514	1 810
Return on average risk-weighted assets (%)	0,84	1,56
Return on average regulatory capital (%)	8,2	15,6
Credit loss ratio (%)	2,28	0,93
Cost-to-income ratio (%)	67,9	58,8

Business Markets' headline earnings decreased by 51% to R910 million (2011: R1 863 million), mainly due to negative fair value adjustments on equities and increased credit impairments. Total revenue (excluding Equities) increased by 3% from 2011. Fee and commission income showed solid growth of 11% due to enhanced transactional capabilities, the introduction of new products and reduced revenue leakages.

Credit impairments more than doubled to R2 092 million (2011: R903 million), primarily driven by CPF and Africa. Lower property valuations and unfavourable market conditions resulted in negative fair value adjustments on the equities portfolio.

South African operating expenses (excluding Equities) were contained to a marginal increase of 2% to R4 956 million (2011: R4 871 million) as Business Markets continued to focus on efficiencies.

We provide customised business solutions to our diverse base of commercial and enterprise clients.

Loans and advances to customers declined by 3%, driven by a 9% reduction in the CPF book (equating to 45% of the total book). Gross loans and advances to customers (excluding CPF) increased by 4%. Customer deposits grew by 4% benefiting from an enhanced product offering to attorneys, an increase in deposits from Agri business.

Africa's operational performance was hampered by a decrease in the central bank lending rate. Competition for liquidity pressure on interest margins slowed growth in deposits.

While strategic marketing initiatives grew term loan balances by 10%, the high run-off experienced on the existing CPF book resulted in a net decline in loans and advances to customers.

We repositioned the CPF and CAF businesses and achieved increased production volumes.

The re-launch of an improved electronic banking offering to Business Markets' customers, combined with an active marketing campaign to promote the migration of transactions from physical to electronic channels, resulted in an increase in transaction volumes and a proportionate increase in fee income.

Our priorities for 2013

- We aim to improve our offering, delivery model and execution to deliver a better customer experience.
- We will continue to identify opportunities to increase quality advances and improve the way solutions are provided to meet customers' day-to-day financing and transaction needs.
- We will strengthen our current value proposition to attract and retain high value customers in the Agri sector.
- We will develop a Pan-African franchise to facilitate Africa-wide business for existing and new customers.
- We will improve our ability to serve customers across multiple channels.
- We will improve turnaround times with our newly enhanced customer onboarding and operating processes.
- We will continue to reduce our exposure to equity investments.

Business review

CIBW

Business profile

CIBW offers corporate, investment banking and wealth management services. Its primary business is to act as an intermediary between, and adviser to, suppliers and users of various forms of capital. The business model centres on delivering specialist investment banking, financing, risk management, advisory and corporate solutions across various asset classes to corporates, financial institutions, public bodies and high net worth individuals.

These capabilities are delivered through a client-centric approach emphasising the origination and distribution of risk. Our key business areas are investment banking, corporate and wealth.

Strategy

Our strategy is to develop the 'Go-To' CIBW offering in Africa by combining with the Barclays Africa businesses we are acquiring. Our strategy will focus on the needs of our customers and clients in Africa.

Our 2012 performance

Salient features

	2012	2011
Revenue (Rm)	8 628	7 822
Headline earnings (Rm)	2 810	2 230
Return on average risk-weighted assets (%)	2,06	1,08
Return on average regulatory capital (%)	20,1	18,0
Cost-to-income ratio (%)	54,1	58,8

CIBW increased headline earnings by 26% to R2 810 million (2011: R2 230 million). This performance reflects robust net revenue growth of 9% and focused cost management. Markets revenue increased by 19% to R3 843 million (2011: R3 224 million), largely due to strong performances from Fixed Income and Credit, which increased income by 35% and our Africa desks, which increased revenues 36%.

Net revenue from Corporate declined marginally by 2% to R2 511 million (2011: R2 568 million) with the positive growth in cash management, payments and liquidity offset by increased credit impairments in trade and working capital solutions.

We are the only South African corporate and investment bank that is able to deliver comprehensive international and local solutions to both global and regional clients.

Investment Banking net revenue increased by 8% to R1 365 million (2011: R1 259 million), with increased revenue from both the margin and fee businesses. Private Equity and Infrastructure Investments revenue improved to R397 million (2011: R317 million) reflecting revaluations on improved portfolio company performance.

Solid non-interest income growth underpinned by growth in investment management and advisory activities drove the 10% growth in net revenue from Wealth. Growth in operating expenses was contained to 2%, which improved our cost-to-income ratio to 54,1% (2011: 58,8%). The return on average regulatory capital of 20,1% (2011: 18,0%) showed an improvement despite the increased capital levels required by the introduction of Basel II.5 regulations.

Our priorities for 2013

- We will continue to put clients at the centre of our strategy and enhance the products and services that we provide to them.
- In Corporate, we will enhance the client experience through product and platform improvement.
- We will integrate with the acquired Barclays Africa business to serve the wider client base in Africa.
- We will apply rigorous risk assessment to all the products and businesses we are considering, especially given the changing regulatory environment.

Financial Services

Business profile

Financial Services provides life and short-term insurance, fiduciary and non-banking-related investment products and services to retail, commercial and corporate customers. We have an established bancassurance operating model that ensures customers have access to our range of products in the channel of their choice, including the branch network, digital platforms, call centres and our wide advisor network.

Strategy

Our strategy is to develop and deliver simple and transparent bancassurance solutions that closely match the needs and expectations of our customers as their financial needs change. To deliver on this goal, our scalable infrastructure enables us to ensure a consistently superior customer experience across all our distribution channels.

Our 2012 performance

Salient features

	2012	2011
Net operating income (Rm)	1 564	1 686
Headline earnings (Rm)	1 338	1 375
Return on average equity (%)	28,2	32,0
Cost-efficiency ratio (%)	22,9	25,2
Assets under management and administration (Rbn) – Absa Investments	192	168
Embedded value new business (Rm)	362	370
Combined ratio (%)	94,9	93,2

Global and domestic economic pressure persisted throughout the reporting period and new lending volumes were thus subdued.

Financial Services achieved headline earnings of R1 338 million (2011: R1 375 million), 3% lower. A net operating income of R1 564 million was achieved, 7% lower than in 2012.

The second half of the reporting period was characterised by a significant improvement in new business volumes in Life, strong net fund inflows in Investments and uncommonly high Insurance claims.

Life experienced a decline in the value of new business of 2% on 2012. Gross and net insurance premiums increased by 14% and 8% respectively.

Premium income for the South African short-term insurance operations increased by a modest 1%, due to the decision to exit non-core products that were failing to make an adequate contribution to profitability (corporate, commercial fleet and guarantees).

Our integrated model enables us to provide an attractive value proposition to Absa and Barclays customers across the continent.

A strong underwriting performance in personal lines, home owners' cover and commercial for the first eight months of 2012 was negatively impacted by significant hail-, flood- and fire-related events during the latter months. Crop claims fell during the second half of 2012, but high claims in the first half of the year resulted in an overall underwriting loss of R8 million.

Investments delivered strong growth in the second half of the year, with net fund flows of R4 billion compared to R0,8 billion in the first half. Profitable growth was evident in our assets under management; net fund flow; institutional sales, equity and balanced funds.

Total operating expenses were well managed and remained unchanged. Excluding operations outside of South Africa, operating expenses declined by 2% from 2011.

The subdued performance of the South African operations was in contrast to the good growth in Africa. African operations performed strongly, with net premium income of R369 million (2011: R154 million) and net operating income of R27 million (2011: R11 million loss). Of particular note was the successful launch of a Life operation in Zambia in August 2012.

Our priorities for 2013

- We will continue to embed our financial services operating model across the African continent.
- We will maintain a focus on profitable growth by enhancing the delivery of customer-centric bancassurance solutions to RBB, in support of the Group's One Africa strategy.
- We will use our ability to understand our customers' unique needs to design and deliver market-leading solutions.
- Our leadership will drive the culture and operational excellence required to integrate successfully with our banking partners.



Managing governance, regulations, risks and remuneration in challenging and changing times



How we govern our business

Introduction

While we maintained the continuous improvement of our overall corporate governance activities as noted later in this section, there were a few areas which received exceptional focus in 2012:

Barclays Africa transaction

1. To ensure that the interests of our minority shareholders were appropriately protected, the Board mandated the Board Finance Committee, excluding the Barclays directors, to engage with management regarding the Barclays Africa transaction. The proposed transaction was announced on 6 December 2012 and approved by the relevant shareholders at the Special General Meeting on 25 February 2013. As noted in the circular to shareholders, the Board is of the view that the transaction is beneficial to all shareholders and that the interests of the minority shareholders were well protected. We await the approval of the various Regulators.
2. Prior to the transaction, Absa had assumed responsibility for various aspects of the management of the Barclays Africa portfolio. Careful consideration was given to the implementation of the agreement which governs this arrangement, by the Group Risk and Capital Management Committee, and care was taken to ensure that focus on Absa specific activities was not compromised.
3. Work is being done under the auspices of the Directors' Affairs Committee (DAC), together with Barclays Corporate Secretariat and executive management, to design appropriate cross-border governance frameworks (in line with regulatory requirements) for the effective and proper engagement with the African subsidiary boards.

Good corporate governance practice is an important ingredient in creating and sustaining shareholder value. We recognise our responsibility to ensure ethical, legal and transparent behaviour, and that our business dealings are conducted for the benefit of all Absa's stakeholders.

Board succession

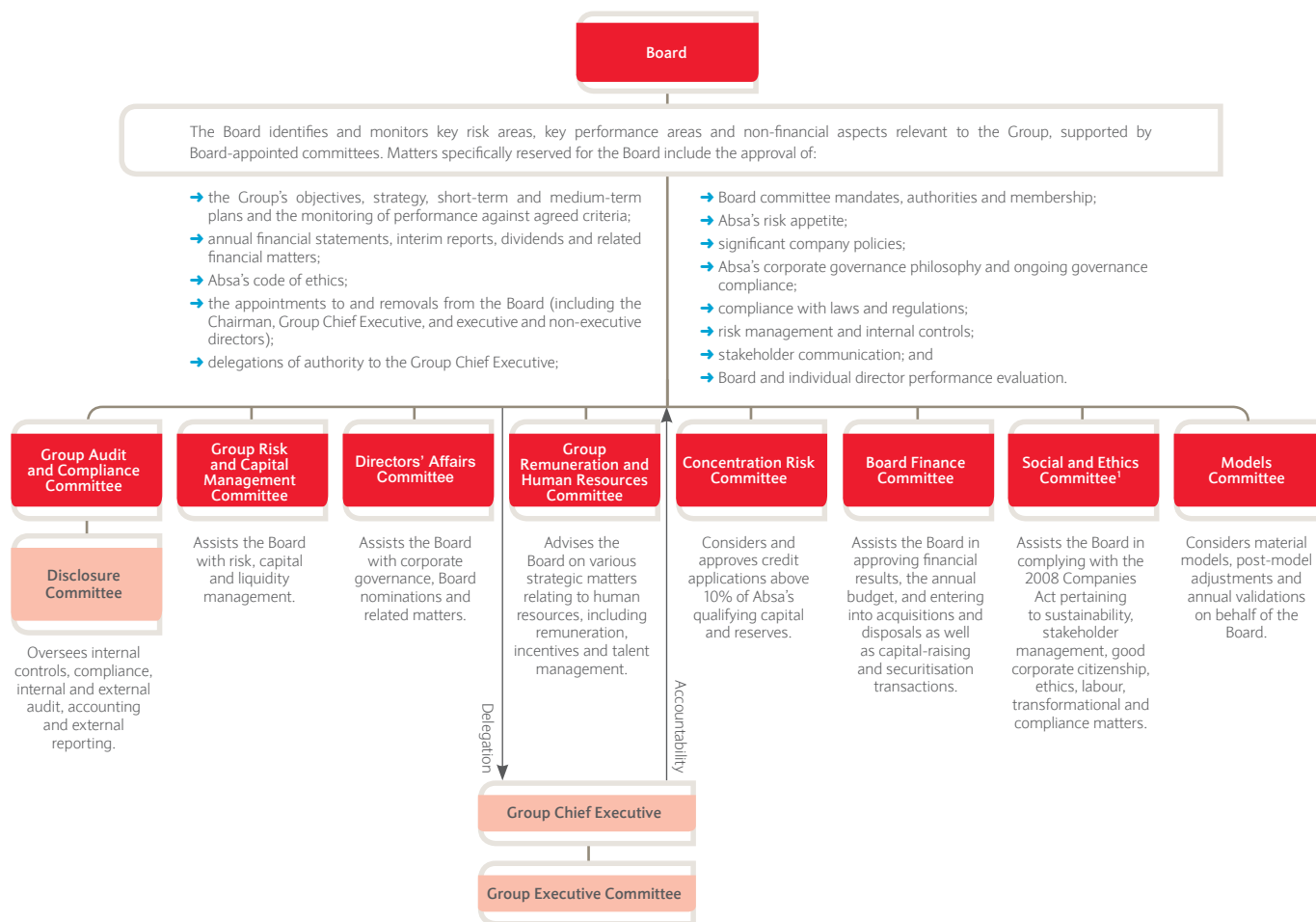
In March 2012 we announced that Garth Griffin would be stepping down as Group Chairman, once an appropriate successor was found. A sub-committee of the DAC, chaired by Brand Pretorius, managed the process of recruitment and appointment of a successor. On 6 November the appointment of Wendy Lucas-Bull was announced.

Absa Board Charter

Our Board Charter, revised and adopted in December 2012, guides our governance practice and is divided into four parts:

- The **summary of our corporate governance practices** provides directors with guidance for promoting the very highest standards of corporate governance in Absa in line with the King Code of Governance in South Africa, 2009 (King III), the Companies Act 2008, the Banks Act, 1990 as amended, the JSE Listings Requirements as well as other good governance practices.
- **Matters reserved for the Board** identifies issues that need to be finally decided on by the Board.
- **Role profiles** defines and clearly separates the roles of the Group Chairman and the Group Chief Executive, as well as the Board's expectations of the chairmen of the Board committees.
- **Terms of reference of Board committees** outlines the approved mandates of each of the Board committees.

Governance structure



Absa has unitary board structures in all its South African companies and the Board has full control over all the subsidiaries and controlled entities in the Group.

Board committees

The membership of our Board committees are set out here. Our Board is of the view that these committees have effectively discharged their responsibilities as contained in their respective terms of reference during the year under review.

In addition to the Board committees noted, certain directors also serve on a number of other committees and forums where their independence and experience could be of value to the Group, such as the IT Steering Committee, as well as some subsidiary company boards. Our Group Chairman has served on the boards of our major financial services subsidiaries, Absa Financial Services Limited and Absa Life Limited, because of his expertise in this field. Eduardo Mondlane, Jr served on the board of Barclays Bank Mozambique.

Committee	Members as at 31 December 2012
Group Audit and Compliance Committee (GACC)	C Beggs (Chairman), SA Fakie, MJ Husain and TS Munday.
Group Risk and Capital Management Committee (GRMC)	C Beggs, SA Fakie, G Griffin, R Le Blanc, TS Munday (Chairman) and BJ Willemse.
Directors' Affairs Committee (DAC)	C Beggs, G Griffin (Chairman), MJ Husain, R Le Blanc, TS Munday and SG Pretorius.
Group Remuneration and Human Resources Committee (GRHC)	YZ Cuba, G Griffin, AP Jenkins, TM Mokgosi-Mwantembe, EC Mondlane, Jr, TS Munday, SG Pretorius (Chairman) and IR Ritossa.
Board Finance Committee (BFC)	C Beggs, YZ Cuba, MJ Husain, G Griffin (Chairman), TS Munday and IR Ritossa.
Concentration Risk Committee (CoRC)	C Beggs, G Griffin (Chairman), DWP Hodnett, TS Munday, M Ramos, LL von Zeuner and BJ Willemse.
Social and Ethics Committee (SEC)	G Griffin, MJ Husain (Chairman), PB Matlare, SG Pretorius, M Ramos and LL von Zeuner.
Models Committee (MC)	G Griffin, DWP Hodnett, TS Munday, M Ramos, LL von Zeuner and BJ Willemse (Chairman).

Governance summary

Directorate

Our Board has a balance of executive, non-executive and independent directors, comprising a majority of independent directors (non-executive directors who are independent as defined in the King III report). Our Chairman is an independent director and has been re-appointed annually as recommended by King III.

The Board as a whole selects and appoints directors, including the Group Chief Executive and executive directors, based on recommendations from the Directors' Affairs Committee (DAC). Where appropriate, these recommendations are supported by the Group Remuneration and Human Resources Committee (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 our 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 as at 31 December 2012

Independent directors: C Beggs, YZ Cuba, SA Fakie, G Griffin¹ (Group Chairman), MJ Husain, PB Matlare, TM Mokgosi-Mwantembe, EC Mondlane, Jr³, TS Munday, SG Pretorius and BJ Willemse.

Non-executive directors: AP Jenkins², R Le Blanc² and IR Ritossa⁴.

Executive directors: DWP Hodnett, M Ramos and LL von Zeuner.

Directors as at 15 March 2013

Independent directors: C Beggs, YZ Cuba, SA Fakie, G Griffin¹ (Group Chairman), MJ Husain, PB Matlare, TM Mokgosi-Mwantembe, EC Mondlane, Jr³, TS Munday, SG Pretorius and BJ Willemse.

Non-executive directors: PA Clackson², R Le Blanc², AV Vaswani⁵ and LL von Zeuner.

Executive directors: DWP Hodnett and M Ramos.

Board changes in 2012 and 2013

As noted in last year's integrated report, Brian Connellan retired on 3 May 2012 and Louis von Zeuner, our Deputy Group Chief Executive, retired on 31 December. Louis became a non-executive director on 1 January 2013.

Barclays' representatives, Ivan Ritossa, resigned effective 31 December 2012, and Antony Jenkins stood down on 28 February 2013, having become Barclays Chief Executive in August 2012. Ivan and Anthony were replaced by Patrick Clackson and Ashok Vaswani from 1 March 2013.

Wendy Lucas-Bull will succeed Garth Griffin as our Group Chairman on 1 April 2013.

As set out in the Notice of AGM, five directors will be retiring from our Board with effect from 2 May, namely Shauket Fakie, Thoko Mokgosi-Mwantembe, Eduardo Mondlane, Jr, Louis von Zeuner and Johan Willemse. Shauket, Thoko and Louis will remain on the Board of Absa Bank Limited while Eduardo and Johan will join the board of Absa Financial Services Limited which is the holding company of the Absa Group's short-term, life, and asset management businesses. They will also continue to play an active role on various committees within the Group.

Independence

The DAC assesses the independence of each director against the criteria in King III, the JSE Listings Requirements, the UK Code and other corporate governance standards. As at 31 December 2012 majority of our Board members (11) were independent non-executive directors. Three non-executive directors were assessed as non-independent due to their association with Barclays and/or our subsidiaries. Eduardo Mondlane, Jr, became an independent director during the year, after his relationship with a Barclays subsidiary entity terminated.

Executive directors

Until 31 December 2012, we had three executive directors on the Board and several executive directors on the boards of the Group's main subsidiaries. Following Louis von Zeuner's retirement and appointment as a non-executive director from 1 January 2013, the Absa Group Board will have two executive members, being the Group Chief Executive and the Group Financial Director.

In appointing executive directors, the Board takes into account the recommendations of our Group Chief Executive, the GRHRC and the DAC. In addition, the GRHRC recommends to the Board for the approval of the remuneration and benefits of our Group executive directors.

Executive directors are required to retire as executive directors from the Board at the age of 60.

Notes

¹Has been on the Board for more than nine years.

²British.

³Mozambican.

⁴Australian.

⁵Singaporean.

Board and Board committee meeting attendance

This table outlines details of Board and committee members' attendance of Board and Board committee meetings for 2012.

Overall Board member attendance was 93% for the year. In addition, Board members were expected to be available for meetings with the regulator, a two-day Board strategy meeting and a further two training sessions.

Name	Group and Bank Board	GACC	GRCMC	DAC	GRHRC	BFC	MC	SEC	Total
Number of meetings held¹	7	6	6	7	6	9	1	3	
Current directors									
C Beggs	7/7	6/6 ²	6/6	7/7	n/a	9/9	n/a	n/a	35/35
YZ Cuba	6/7	n/a	n/a	n/a	2/2	7/9	n/a	n/a	15/18
SA Fakie	7/7	5/6	6/6	n/a	n/a	n/a	n/a	n/a	18/19
G Griffin	7/7	³	6/6	7/7 ²	6/6	9/9 ²	1/1	3/3	39/39
DWP Hodnett	7/7	³	³	³	³	³	1/1	³	8/8
MJ Husain	6/7	6/6	n/a	6/7	n/a	7/9	n/a	3/3 ²	28/32
AP Jenkins	4/7	³	n/a	n/a	3/6	n/a	n/a	n/a	7/13
R Le Blanc	7/7	n/a	6/6	5/7	n/a	n/a	n/a	n/a	18/20
PB Matlare	5/7	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5/7
TM Mokgosi-Mwantembe	7/7	n/a	n/a	n/a	6/6	n/a	n/a	n/a	13/13
EC Mondlane, Jr	6/7	6/6	n/a	n/a	6/6	n/a	n/a	n/a	18/19
TS Munday	7/7	n/a	6/6 ²	7/7	2/2	7/9	1/1	n/a	30/32
SG Pretorius	6/7	n/a	n/a	7/7	6/6 ²	n/a	n/a	3/3	22/23
M Ramos	7/7	³	³	³	³	³	1/1	3/3	11/11
IR Ritossa	6/7	n/a	n/a	n/a	6/6	4/5	n/a	n/a	16/18
LL von Zeuner	7/7	³	³	³	³	³	1/1	3/3	11/11
BJ Willemsse	7/7	n/a	6/6	n/a	n/a	n/a	1/1 ²	n/a	14/14
Past directors									
BP Connellan	2/2	2/2	n/a	n/a	2/2	3/3	n/a	n/a	9/9

Group Executive Committee (Group Exco)

The Absa Group Exco, chaired by the Group Chief Executive, comprises our executive directors and other members of executive management. It meets, as a general rule, twice a month and deals with all material matters relating to implementing Absa's agreed strategy, monitoring performance, considering Group policies and approving significant transactions within its mandate.

Designation	Members as at 31 December 2012	Members as at 31 March 2013
Chief Executive: Absa Financial Services	Willie Lategan	Willie Lategan
Chief Executive: Barclays Africa and Head of Absa Group Strategy	Kennedy Bungane	Kennedy Bungane
Chief Executive: Corporate, Investment Banking and Wealth	Stephen van Coller	Stephen van Coller
Chief Executive: Retail and Business Banking	Bobby Malabie	Craig Bond
Chief Executive: Wealth and Investments	Nomkhita Nqweni	Nomkhita Nqweni
Chief Operating and Integration Officer	Philip Freeborn	David Skillen
Chief Risk Officer	Jan Lubbe	Jan Lubbe
Deputy Group Chief Executive	Louis von Zeuner	—
General Counsel	—	Charles Wheeler
Group Chief Executive	Maria Ramos	Maria Ramos
Group Executive: Marketing, Communications and Public Affairs	Philip Freeborn (Acting)	Bobby Malabie
Group Financial Director	David Hodnett	David Hodnett
Group Human Resources Executive	Philip Freeborn (Acting)	Sarah Louw

Notes

¹Excludes the CoRC, which meets as and when required.

²Denotes committee Chairman.

³Denotes attendance/standing invitee.

Governance summary

Group Exco changes in 2012

Happy Ntshingila, Chief Marketing and Communications Officer and Alfie Naidoo, Group Chief Operating Officer left on 29 February and 31 March 2012 respectively to pursue other interests, while Daphne Motsepe, Chief Executive: Unsecured Lending retired from the Group on 30 April. Kennedy Bungane, Chief Executive: Barclays Africa and Head of Absa Group Strategy, joined on 1 July while Fergus Marupen, our Chief Human Resources Executive, was seconded to BUSA from 31 October. Louis von Zeuner retired on 31 December.

Group Exco changes after 31 December 2012

Craig Bond joined on 1 January 2013, as Chief Executive of Africa Retail and Business Banking and assumes responsibility for RBB Africa which includes South Africa. David Skillen has taken over the role of Africa Chief Operating Officer from Philip Freeborn, who will be returning to Barclays in March 2013. Bobby Malabie became Group Executive: Marketing Communications and Public Affairs. Charles Wheeler joined Absa as General Counsel, Africa effective 1 March 2013 and Sarah Louw has been appointed as Group Human Resources Executive, Africa effective 18 March 2013.

Our Exco reflected above already has management responsibility for those businesses that will ultimately form part of the broader Absa Group after the implementation of the Barclays Africa transaction.

Applying King III principles

During 2012, the Board embedded King III coverage within the Absa culture by assigning specific committees the responsibility for applying King III principles relevant to their jurisdiction. The table below shows the relevant committees that are custodians of specific principles: The Board receives regular reports from the Chairmen of the relevant committees on Absa's compliance with the principles.

King III principle	Committee responsible for monitoring compliance
1. Ethical leadership and corporate citizenship	DAC, SEC, Board
2. Board and directors	DAC, Board
3. Audit committees	GACC
4. The governance of risk	GRCMC
5. The governance of information technology	IT Steering Committee, GACC, GRCMC
6. Compliance with laws, codes, rules and standards	All committees are responsible for compliance relative to their areas of responsibility however the GACC has oversight of the compliance function and compliance in Absa as a whole.
7. Internal audit	GACC
8. Governing stakeholder relationships	SEC
9. Integrated reporting and disclosure	SEC, GRCMC, GACC, GRHRC, Board

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 achieved. Our Board adopted the following practices which, we believe, maintains the required governance standards:

Principle/recommendation	Explanation/alternative arrangement
<ul style="list-style-type: none"> → Establishment of a board IT committee → The board both oversees the value delivery of IT and monitors the return on investment (RoI) from significant IT projects 	<p>Our Executive IT Steering Committee is mandated to improve the overall IT governance, while ensuring that future platforms will meet strategic needs and remain competitive. There are clear management processes for project approvals and the monitoring of the delivery of major IT projects. This committee is attended by a non-executive director, reports on items requiring Board attention including exceptions and delivery failures and also participates in strategy reviews with the Board. IT risk management is aligned to the principal risk framework under operational risk and the GACC and GRMC have oversight of select components of IT governance. Going forward in 2013, a Board IT Committee will be established.</p>
Vesting of share-based incentives should be subject to performance conditions measured over a period appropriate to the strategic objectives of the company	<p>Long-term incentive awards are subject to financial performance conditions, ensuring that a significant proportion of senior executives' remuneration remains contingent on performance measured over three year periods.</p> <p>Deferred bonus awards are not subject to financial performance conditions. The Board believes that the exposure to share price and clawback provisions in the plan provide appropriate links to performance and risk adjustment. This structure is in accordance with the requirements of the Financial Stability Board's principles for sound compensation practices and generally subjects Absa incentive awards to higher levels of deferral than found elsewhere in the local market.</p>

Progress against 2012 corporate governance objectives

Objective	Action and outcome
Review and evaluate the corporate governance structure and arrangements to ensure the structure is operating effectively.	The overall governance process, covering Board and committees was subject to a Board evaluation. The Board Charter was reviewed and all terms of reference were updated. The overall governance structure was reviewed by the DAC. The Board is satisfied that governance structure and arrangements are effective.
Ensure the effective and efficient functioning of the SEC.	Our SEC met for the first time in March 2012. Overlap and relationships with other Board Committees were considered and mandates adapted. A detailed plan was drafted to guide meeting agendas. The SEC covers a wide range of topics such as customer metrics, employee opinion surveys, ethical and conduct trends and citizenship. The committee had six members at 31 December and functions effectively.
Maintain compliance with King III principles and monitor progress on sustainability and related matters, stakeholder relations and good corporate citizenship strategies.	Governance is in place, with coverage in the SEC, GRCMC and GACC annual plans. During the year, Internal Audit completed a review and the Board is satisfied with our King III compliance. We also introduced the Citizenship strategy during the year, covering sustainability, stakeholder relations and other corporate citizenship matters. This enabled a more coherent coverage of these critical aspects of our overall governance mandate.
Ensure that remuneration policies, processes and practices are compliant with the provisions of the new Regulation 39 (16) of the Banks Act.	Our GRHRC commissioned an independent review of our compliance with both local and international remuneration regulatory requirements and frameworks. There are no areas of non-compliance. Due to Barclays requirements, there are areas where we apply more stringent conditions on incentives than our local peers. A special focus was put on the transparency of our remuneration reporting, and we believe we meet best practice standards.
Continue to monitor and improve IT governance.	The interaction with and reporting by the IT Steering Committee, which meets quarterly as an executive management committee with a non-executive attendee, was improved over the year, with the introduction of regular reporting to the GACC and GRCMC. The committee agenda includes, <i>inter alia</i> , an IT scorecard (an overview of IT delivery and performance), IT risks, financials and strategy. There were also two formal interactions with the Board on IT strategy.
Enhance the governance and controls in Group subsidiary companies.	We have embedded a standard legal entity policy to ensure that the level of governance requirements for each entity is consistent with its risk exposure for the Group. The accountable executives for all entities attest to the appropriate level of governance. Given change in the Companies Act, the GACC has direct oversight of the financial statements of all subsidiaries that are public companies. We have undertaken an exercise to rationalise Absa's legal entities. During the year, more than 70 entities were deregistered.

Effectiveness of the overall governance process

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. Following a detailed self-assessment, we concluded that the Board and its committees have access to the information necessary for them to fulfil their various roles and function effectively.

Governance summary

Group Financial Officer and internal audit

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 2012 and found them to be satisfactory.

Group Company Secretary

Nadine Drutman was appointed as Group Company Secretary on 21 May 2012. She holds BCom, LLB and LLM degrees and has wide experience as a former director (tax and legal) of KPMG, and at Absa as the Head of Group Reward, the acting Head of Group Human Resources and Chief of Staff to the Absa Group Chief Executive. Our Board is satisfied that Nadine, as the custodian of governance in the Group, maintains an arm's length relationship with its members.

Interaction between Absa and Barclays

We recognise the role played by Barclays in daily activities of Absa and ensure their input is considered in key strategic decisions; however, this does not dilute the ultimate responsibility of the Absa Group Board to ensure that the interests of all our stakeholders, including our minority shareholders, are respected. Our interactions take into account the regulations, laws, fiduciary responsibilities and industry standards that apply to both groups.

Going concern

The directors are of the opinion that the business will be a going concern in the year ahead. Their statement in this regard is contained in the directors' approval to the financial statements.

Our priorities for 2013

The Board will focus on the following five areas relating to governance during 2013:

- Design and monitor the implementation of appropriate governance frameworks, structures and arrangements to support the Group's African Expansion Strategy including appropriate structures in respect of the boards and committees of Absa Group, Absa Bank and Absa Financial Services.
- Provide the Absa Citizenship team and senior leadership with advice and feedback on the development, review and implementation of our Citizenship Strategy, plan and associated policies. Ensure that the Citizenship agenda addresses key stakeholders and takes a holistic and sustainable view of our Citizenship responsibilities.
- Oversee the control environment process, including the combined assurance approach and the strengthening of financial and non-financial controls.
- Continue to monitor and improve IT governance.
- Improve the efficiency of board and committee functions.

Reviewing our regulatory environment

Introduction

Regulatory reforms, necessary in the wake of financial crisis, have continued in 2012. Absa supports the steps taken by regulators to strengthen the operating environment and prevent another financial crisis. However, these changes are complex and they continue to challenge the way in which we do business.

As a Group, we ensure that our activities comply with the laws, regulations and supervisory requirements of various local jurisdictions and relevant international regulations due to Absa being a member of the Barclays Group. Under direction from the Board, regulatory and compliance risks associated with our business activities are continuously assessed, challenged, managed and reported on to internal and external stakeholders.

The second pillar of our Citizenship plan speaks to the way we do business, placing our clients' interests at the heart of what we do. We view our adherence to laws, regulations and codes as playing a key role in reinforcing our business integrity every day, ensuring that we make responsible decisions in how we manage the business, and sustain ourselves well into the future.

Of critical importance are the roles and responsibilities prescribed by the Banks Act, the Financial Intelligence Centre Act and the Financial Advisory and Intermediary Services Act. We seek to maintain honest, transparent and trustworthy relationships with regulatory bodies and in these relationships we are guided by a framework for prompt and professional communication.

Values and ethics are integral to our operations and the maintenance of a robust compliance culture. We place a high value on our reputation for integrity and fair dealing in the market place and we support the movement towards the 'Twin Peaks' model of regulation which we view as a positive step towards strengthening market conduct. Through various internal awareness and training programmes all employees are made aware of compliance-related policies as well as the conduct expected of them, as described in our Code of Ethics.

2012 in review

In view of the evolving regulatory landscape, Absa's Legal and Regulatory Change Forum continually assesses the impact that new regulations, as well as changes and amendments to existing regulations, will have on the Group's business. Through the forum we monitor and respond to developments regarding specific policy and legislation both nationally and internationally. The most significant regulatory developments of 2012 are discussed below.

Regulatory change continues to increase and significantly impacts the way we do business.

Anti-money laundering, corruption and terrorist financing

Governments and regulators across the world continue to escalate the fight against money laundering, terrorist financing and anti-bribery and anti-corruption. The United Kingdom Bribery Act is considered to be amongst the most stringent extra-territorial anti-bribery and anti-corruption legislation in the world. As part of the Barclays Group, we have world-class systems and processes to minimise these risks. We have a 'zero-tolerance approach' and continuously enhance our control environment to ensure our employees do not engage in activities that may be in breach of legislation.

In support of this initiative is an anonymous reporting process to report instances of unlawful or unethical behaviour. The process is designed to protect whistleblowers from being discriminated against. Allegations are investigated by dedicated specialist teams and any issues and trends are reported to the appropriate levels of management and governance committees.

Another important tool is the Financial Action Task Force (FATF) Recommendations. These are the basis on which all countries should meet the shared objective of tackling money laundering, terrorist financing and the financing of proliferation. The FATF Standards, revised in 2012, address new priority areas such as corruption and tax crime and have been expanded to deal with new threats such as the financing of proliferation of weapons of mass destruction, and to be clearer on transparency and tougher on corruption. Also, there is more flexibility for simplified measures to be applied in low risk areas. This risk-based approach will allow financial institutions and other designated sectors to apply their resources to higher risk areas.

Government policy document: 'A safer financial sector to serve South Africa better'

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

Regulatory summary

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. One of the key strategic elements of the twin peaks framework is to further advance the work of the Competition Commission which was focused on the transparency and level of fees, as well as measures to extend banking services to the unbanked. Several regulatory developments emerged during 2012 in support of the proposed regulatory reform, including a TCF toolkit for self assessments, and various Bills, such as the Credit Ratings Services Bill, Financial Services Laws General Amendment Bill, and various discussion documents on savings/retirement funds. We actively participate in discussions and forums with various industry bodies to ensure that the Group is well prepared to meet any changes imposed.

The Foreign Account Tax Compliance Act (FATCA)

Identification and reporting on US-sourced income – To prevent foreign banks actively marketing tax evasion schemes to citizens and residents of the United States of America, the Internal Revenue Service (IRS) introduced FATCA. This far-reaching legislation requires all foreign financial institutions (FFIs), including Absa, to voluntarily contract with the IRS and implement controls to detect and report on all US persons, as well as their gross proceeds to the IRS. Failure to contract 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). Absa is well positioned to deliver on the requirements, having conducted a full assessment, and having developed a response plan which takes into account the recent time extension granted by the IRS for compliance to FATCA.

Treating Customers Fairly (TCF) discussion paper

Customer treatment in the non-financial services industry – We continuously challenge ourselves to treat our customers in a fair manner at all stages in the product lifecycle, from the design of an offering to marketing and after-sale practices. By virtue of our association with Barclays, we adopted in 2010 a set of group-wide TCF principles similar to those applicable under UK legislation with the aim of enhancing the customer experience. We continue to participate in and share our knowledge on this topic with the various industry bodies and forums involved in the design of a 'best in class' TCF framework for South Africa.



See the Customer experience material issue on page 40.

The Financial Advisory and Intermediary Services (FAIS) Act

The amended FAIS Act aims at improving professionalism in the financial services industry. It requires all our employees who provide financial services on behalf of Absa (FAIS representatives) and key individuals who are responsible for managing or overseeing the activities, to pass prescribed regulatory exams. The initial deadline of

30 June 2012 to have passed the first level regulatory exam has been extended to 31 March 2013. Failure to pass the examination will result in the candidates being unable to continue in their current roles. We implemented a group-wide support programme for our employees to assist with completion of the exams throughout 2012.



See the Our people material issue on page 43.

A new code of conduct has been published for public comment which is expected to come in effect during 2013. The intention from the regulator is to introduce a code of conduct more suitable to the environment of merchant banking, replacing the existing merchant banking exemption in terms of the FAIS Act.

The Competition Commission

Competition in retail banking – There has been no further significant development in 2012 as Absa responded to various recommendations in prior years. One of the key strategic elements of the 'Twin Peaks' framework is to further develop on the work of the Competition Commission around fee levels and transparency and extension of banking services to the unbanked.

Code for Responsible Investing in South Africa (CRISA)

A voluntary code, CRISA encourages institutional investors to formally integrate environmental, social and governance issues into their investment decisions. A key requirement is for institutional investors to disclose the policies underpinning their investment decisions and actions, thus enabling them to be held to account. Absa has adopted the code within our financial services cluster, and in 2013, our focus is to manage and monitor how this code is put into effect.

Cross Border Foreign Exchange Reporting

As part of the South Africa Reserve Bank's responsibility for the day-to-day administration of exchange controls, all authorised dealers and direct reporting entities are upgrading their cross border payment systems to align with the new reporting system being implemented by the SARB's Financial Surveillance Department. Phase one goes live in July 2013 and covers the upgrade of balance of payment customer reporting, balance of payment card reporting, direct reporting and the introduction of reporting of current non-reportable transactions. Phase two goes live in April 2014 and includes the introduction of interbank reporting and an upgrade to non-resident rand as well as bonds and shares reporting. A project has been implemented to address these requirements.

The Code of Banking Practice

The banking industry's customer charter on good banking service – The new code came into effect on 1 January 2012. The main changes include enhancements to the principles of conduct which

are in keeping with existing consumer protection legislation and include information on how banks will market, advertise and promote services and goods to consumers. The code also includes information on switching of transaction accounts and provides consumers with information on what to expect from all parties involved. 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 will apply to all personal information that Absa holds of our employees, customers and suppliers. The underlying principle 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 and will take appropriate steps to implement the requirements of the Bill once it is enacted.

Home Loan and Mortgage Disclosure Act

To promote fair lending practices and disclosure by financial institutions of information regarding the provision of home loans – The Home Loan and Mortgage Disclosure Act (the HLAMDA) requires certain disclosures by South African financial institutions of loans or advances to persons for purposes of constructing, purchasing, renovating or improving in any way such person's home, with the security of a registered mortgage bond or other form of accepted security. Absa provides information – as agreed – to the Department of Human Settlements.

Priorities for 2013

The unprecedented regulatory reform will continue with financial service organisations being placed under greater regulatory scrutiny. We believe that our compliance and programme to combat financial crime is robust and puts us in a strong position to manage regulatory risk in the evolving regulatory environment ensuring we remain a responsible corporate.

Our focus will be:

- ongoing review and assessment of new regulatory developments and the initiation of projects, as required, to minimise regulatory risk, with a focus on Basel III, 'Twin Peaks' and FATCA;
- ongoing support of the socio-economic agenda relating to financial inclusion and responsible market conduct and lending;
- ongoing vigilance in respect of measures aimed at countering money laundering, terrorist financing and bribery and corruption;
- enhancing compliance programmes aimed at preventing and detecting regulatory risk; and
- improving the effectiveness of our processes around Know Your Customer.

Managing risks in challenging times

Strategic pillars discussed



Trevor Munday, *Chairman, Group Risk and Capital Management Committee*



Key points

- Strong capital position maintained
- Strong liquidity risk position
- Credit impairments increased significantly with higher coverage required on the Home Loans legal and CPF portfolios
- The wholesale portfolio of CIBW continued to perform steadily against a backdrop of global economic uncertainty
- Fraud and transaction operations remained the main drivers of operational risk losses



View our full risk disclosures online at 2012.absair.co.za/risk

Outlook

- Continue to balance prudent risk management practices with value and balance sheet optimisation in Retail Markets
- Ongoing reduction in Business Markets' exposure on early warning list
- Remain adequately capitalised post Basel III implementation on 1 January 2013
- Active engagement with industry and the SARB on implementation of the Basel III liquidity framework

Introduction

Following the events of recent years, risk and its mitigation have become even more of a priority in the financial services industry. With the effects of the global financial crisis still evident and the current unsettled sovereign debt crisis creating uncertainties in both the local and global economies, it has become increasingly important to understand and manage risks to create sustainable returns for shareholders. In this light, we continue to uphold and strengthen our commitment to manage risks. Consequently, proactive risk management is a key pillar of our One Absa strategy. Linked to this is our Board-approved principal risks policy (PRP), which provides an integrated risk management framework designed to meet the challenges of the changing risk environment and to ensure that business growth plans are properly supported by effective risk management.

At Absa, we instil a culture where risk management is everyone's business from board and executive level committees down to each business unit manager and their risk specialists. We believe this is a core imperative of risk management. The delegation of risk management responsibilities is structured to ensure risk-reward decisions are enacted at the most appropriate level in line with business objectives, subject to robust and effective review as well as challenge processes. Strategic business decisions are taken within a Board-approved risk appetite with the executive and risk committees closely monitoring risk profiles against this appetite.

At the beginning of the year, we updated our PRP to identify the four principal risks we regard as our most significant potential exposures. This reflects a change in the way we group the risk categories and does not have any impact on the underlying risk types.

The four principal risks are:

- credit risk;
- market risk (includes traded and non-traded market risk and insurance risk);
- operational risk; and
- funding risk (includes liquidity risk and capital management).

2012 in review

In 2012, credit impairments reflected a significant growth, driven by an increase, in provisions required on the home loans legal book and higher credit impairments in Business Markets, primarily attributable to the Commercial Property Finance (CPF) debt.

Management action focused on the reduction in the loss given default (LGD) and management of NPLs. Emphasis was placed on the key

In an environment of continuing uncertainty, we retained our focus on prudent risk management practices across our operations and ensured that both our capital and liquidity were closely managed.

drivers of LGD such as insolvencies, cures and voluntary sales. In conjunction with this, process changes in the collections environment resulted in an enhanced control environment.

We focused on preserving appropriate levels of capital and liquidity as well as effectively managing the risk portfolios. In addition, we closely monitored key areas such as market conditions, the global banking industry, the Basel Capital Accord (Basel) II.5 and Basel III requirements (Basel requirements) and anticipated demands relating to future business growth.

Two changes to our risk management processes were introduced at the beginning of the year. We commenced reporting under the new Basel II.5 framework required by the Banks Act, No. 94 of 1990 (Banks Act). In addition, the wholesale book and statutory reserve and liquid asset portfolio were moved to the advanced internal ratings based (AIRB) approach. These changes resulted in risk-weighted assets (RWA) increasing by 3% during the year, which was less than anticipated.

2012 was a year in which:

- a strong capital position was maintained above Board-approved target ranges;
- a strong liquidity risk position was maintained;
- credit impairments of RBB increased significantly, with higher coverage required on the Home Loans legal and CPF portfolios;
- the wholesale portfolio of CIBW continued to perform steadily against a backdrop of global economic uncertainty; and
- fraud and transaction operations remained the main drivers of operational risk losses.

Risk summary

2012 in review *(continued)*

We maintained our strong capital adequacy position, placing the Group in a healthy position to deal with the implementation of Basel III requirements. Capital levels remained above target ranges for both the Group and the Bank, with the Group's Core Tier 1 capital adequacy ratio remaining stable at 13% and the Bank's Core Tier 1 capital adequacy ratio improving by 40 bps. The acquisition of the Edcon portfolio changed our risk profile, with a resultant increase in RWA. Optimisation remains a key focus area as it lowers the potential need to raise additional capital that we may require in the future under Basel III regulations. R1,5 billion of subordinated debt, qualifying as Tier 2 capital, was called at the first optional redemption date in September 2012. Subsequently, we issued R5 billion of subordinated debt. The issuance is the largest listed Tier 2 subordinated debt raising on a single day in the South African market.

We also reviewed our brand and reputation risk control framework, governance structures and escalation protocols.

We continued to focus on liquidity risk management and maintained a strong liquidity position to comply within the timeframes required by Basel III. Progress was made to comply with the liquidity coverage ratio (LCR), in particular following the SARB announcement in May 2012 that a committed liquidity facility (CLF) will be made available to South African banks to help address the shortfall of high quality liquid assets in the South African market, combined with the announcement made early in January 2013 by the Basel Committee on Banking Supervision (BCBS)

that the implementation timeframes relating to the LCR would be relaxed, with full compliance required only by 2019. The phasing-in approach now proposed in respect of the LCR is more in line with proposals relating to capital requirements and accounts for the need to balance the implementation of global liquidity standards with economic growth. The net stable funding ratio (NSFR) remains a challenge, given the structural features of the South African economy. This will remain a key focus area.

Conditions remained challenging, as signs of the expected economic recovery were less evident than at the end of 2011. In addition, in the wholesale environment, the disappointing supply-side growth momentum observed in the second half of 2011 continued into 2012. Headline consumer price inflation remained stable, though this was not sufficient to positively sway corporate confidence, which remained flat. Impairment performance for the majority of retail portfolios was in line with expectations but credit impairments for mortgage advances increased significantly in 2012 due to the higher coverage required on the legal portfolio. Credit impairments in Business Markets were a key focus area for the year, and various reasonableness tests, deep dives, collateral revaluations and policy changes resulted in a significant increase in the impairment charge.

We maintained our structural hedging programme, contributing positively to the net interest margin and cash flow hedging reserve, against a backdrop of historically low interest rates.

Our approach to risk management

We employ the following five-step process to manage risks:

Risk management process	
Identify	<ul style="list-style-type: none"> → Understand the principal risks fundamental to achieving our strategy. → Establish the risk appetite. → Establish and communicate the risk management framework including responsibilities, authorities and key controls.
Assess	<ul style="list-style-type: none"> → Establish the process for analysing business-level risks. → Agree and implement measurement and reporting standards and methodologies.
Control	<ul style="list-style-type: none"> → Establish key control processes and practices, including limit structures, provisioning requirements and reporting standards. → Monitor controls and adherence to risk direction and limits. → Ensure that risk management practices and conditions are appropriate for the business environment.
Report	<ul style="list-style-type: none"> → Interpret and report on risk exposures, concentrations and risk-taking outcomes. → Interpret and report on sensitivities and key risk indicators. → Agree and operate early warning reporting processes that are used to highlight issues at a Group and business level. → Ensure that processes are in place to operate appropriate reporting and controls to ensure that the risk profile is maintained within risk appetite/tolerance.
Manage/ challenge	<ul style="list-style-type: none"> → Review and challenge all aspects of our risk profile. → Assess new risk-return opportunities. → Advise on ways to optimise our risk profile. → Review and challenge risk management practices.

Risk oversight

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

The 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 the risk profile against the risk appetite. The GRCMC also approves control frameworks for various principal risks and assists in determining capital and liquidity target ranges and monitoring capital and liquidity levels.

The GACC assists the Board with regard to reporting financial information, selecting and properly applying accounting principles and policies, monitoring the Group's internal control systems and various compliance-related matters. Other aspects for which the GACC is responsible include business continuity and the management and governance of our relationship with the external auditors. The GACC deals with any matters referred to it by the GRCMC and ensures that the combined assurance model is applied by internal and external assurance providers and management.

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

Our risk appetite

Our risk appetite is defined as the level of risk we are willing to accept in planning and achieving our business objectives. The risk appetite framework is embedded in 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 our appetite. In particular, the risk appetite framework assists in protecting our financial performance, improves management responsiveness and debate regarding the risk profile, assists executive management in improving the control and coordination of risk-taking across business units and identifies available 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.

The Group's 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
- capacity to grow.

Stress testing

Stress testing is embedded in our risk management processes and informs our 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 units' 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. 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.

Risk appetite key indicators and triggers

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

Priorities for 2013

A sustained focus will be placed on enabling strong proactive risk management in the business and strengthening the effectiveness of the business control activities. This is in line with our drive to embed a risk-aware culture that balances commercial intent and control in the business. Enhancing the level of controls in important business processes on an end-to-end basis will also receive emphasis.

Retail Markets will continue to place attention on value and balance sheet optimisation, balanced with prudent risk management practices. We will remain focused on the quality and profitability of new business and will continue to be selective in the type of business written in the retail portfolios. There will also be a sustained focus on operating model optimisation, model monitoring and validation processes.

Business Markets will continue to reduce its exposure on the early warning list (EWL) and to monitor the portfolio composition. The risk and control framework will be further enhanced and AIRB principles will be firmly embedded in the business.

We are working on maintaining an optimal mix of high quality capital, while continuing to generate sufficient capital to support economically profitable growth opportunities.

Basel III was implemented on 1 January 2013 and its potential impacts have been included in our capital models. As a result of our strong capital position, we will remain adequately capitalised after implementation.

A strong liquidity position will be maintained and we will continue to work with industry forums and the SARB to ensure the optimal implementation of the Basel III liquidity framework. We are well positioned for future growth and will continue to monitor the economic and regulatory environments and enhance risk management processes while exploiting value-adding opportunities.

Risk summary

Credit risk – retail

Definition

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

Strategy

- Support the achievement of sustainable asset and revenue growth in line with our risk appetite.
- Simplify risk management processes.
- Invest in skills and experience.
- Operate sound credit granting processes.
- Monitor credit diligently.
- Use appropriate models to assist decision-making.
- Improve forecasting and reduce variability.
- Continually improve collection and recovery.
- Optimise the control environment.

Key performance indicators

	2012 %	2011 %
Growth in loans and advances	3,00	0,85
NPLs as a percentage of gross loans and advances to customers	7,10	9,20
Credit loss ratio	1,89	1,23
Total credit impairments as a percentage of total gross loans and advances to customers	3,06	2,84

2012 in review

- Credit impairments for mortgage advances increased significantly due to the higher coverage required on the legal portfolio. Contributing factors included high inflows into the legal portfolio, a rapid change in the portfolio composition, with high concentrations of vintage accounts reaching the write-off stage as well as operational issues pertaining to collections. Deteriorating recoveries on distressed property sales and high property management costs compounded the impact and resulted in an increased Home Loans LGD.
- Emphasis was placed on the workout of the legal inventory. Measures taken included new workout strategies and increased credit impairments to provide more appropriate coverage. We became increasingly proactive in encouraging voluntary sales for customers unable to recover financially, thereby improving collections. After workout of the legal inventory, the portfolio stabilised and the quality of new portfolio inflows is good. This resulted in a reduction in NPL stock and flow as well as early cycle delinquencies.
- We conducted a collections review and have since optimised the operating model for collections. We enhanced our operational risk performance indicators on key LGD performance drivers and we are currently optimising key processes and systems. We implemented a new LGD model for home loans (including the review of monitoring and validation processes) and we are reviewing our impairment forecasting models. In parallel, we have enhanced our end-to-end controls to incorporate any lessons learnt.
- A sustained focus on performance and responsible lending resulted in early delinquencies continuing to improve in all portfolios.
- We also engaged with the SARB regarding unsecured lending.
- We acquired the Edcon portfolio of R8,7 billion in net receivables. The book was successfully migrated to Absa on 1 November 2012.

Priorities for 2013

- We continue to focus on value and balance sheet optimisation, supported by a strong risk management culture. Our aim is to increase portfolio growth by defining acceptable risk pockets/products and to improve decision-making processes by continuously assessing market conditions and understanding the impact of economic shifts on the various portfolios.
- We will remain focused on the quality and profitability of new business. We will continue to be selective in the type of business written in the home loans portfolios.
- We will continue to place emphasis on reducing NPLs (especially in the secured portfolios) by optimising the potential value when disposing of assets.
- We will be further refining our operating model and improving forecasting and control of credit impairments. We have reviewed our forbearance policy and are applying stringent affordability criteria.
- We will continue to support the business with pricing optimisation to effectively manage portfolio risk and maximise profitability.
- As the market conditions change, we will continue to monitor the composition of our legal portfolio and adjust our treatment strategies effectively.
- We will continue to apply prudent lending practices in unsecured lending. Our risk appetite has been focused on higher income/lower risk segments and stress testing indicates that our unsecured portfolios will remain profitable, even under severe stress scenarios.

Credit risk – wholesale

Definition

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

Strategy

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

Key performance indicators

	2012 %	2011 %
Growth in loans and advances	7,51	0,43
NPLs as a percentage of gross loans and advances to customers	3,66	2,85
Credit loss ratio	1,17	0,50
Total credit impairments as a percentage of total gross loans and advances to customers	1,96	1,63
Securitisation RWA (Rm)	1 037	1 716
Equity investments RWA (Rm)	22 735	22 168

2012 in review

- Significant volatility in the rand represented an increased risk in all rand-based positions in the trading book, resulting in an increase in the quantum of credit exposure.
- Notwithstanding increased exposure, overall CIBW limits across the wholesale portfolio remained fairly flat, largely owing to weak corporate demand for credit.
- The increase in credit impairments in Business Markets relates primarily to the CPF portfolio. The commercial and CAF portfolios also experienced higher credit impairments.
- The increase in credit impairments was the result of improved rigour and revised valuation assumptions applied to accounts on the EWL rather than the degradation of the underlying risk profile of the portfolio.
- Exposure on the EWL demonstrated no material change compared with 2011. However, a noticeable migration in risk categories was observed from low-risk to higher-risk buckets. Concomitant negative trending on the credit loss ratio became apparent later in 2012.

Priorities for 2013

- Given recent trends in credit impairments in Business Markets, the application of more conservative assumptions around legal realisation periods in these portfolios will continue to receive focus.
- We will also place emphasis on enhancing our risk and control framework and embedding AIRB principles firmly in the business.
- We will continue to focus on coverage ratios across segments, benchmarked against our peers and counterparties exposed to the eurozone.

Securitisation

- In seeking to pool debt, spread risk and fund our loan operations, securitisation may expose us 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.
- In line with our securitisation strategy, we reduced the securitisation portfolio. However, our note holdings in relation to HOMES Series 1 securitisation increased from R37 million in July to R1 231 million as at the reporting date. This increase is related to the 19 July 2012 HOMES Series 1 note redemption and the subsequent purchase of the note.
- We will continue to reduce the level of balance sheet (on-statement of financial position) securitisation exposures.
- We aim to refinance the current note holding during 2013.

Equity investment risk

- We successfully exited selected assets in our equity investment portfolio.
- The CPF equities portfolio decreased due to downward adjustments in fair value and a conscious effort to balance the equity portfolio in line with our risk appetite.
- In future, we will continue to balance the portfolio composition in line with our risk appetite, which may include exiting appropriate assets.

Risk summary

Market risk – traded and non-traded

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.

Strategy

- Ensure traded market risk resides solely in CIBW.
- Facilitate business growth.
- Minimise non-traded market risk.
- Ensure a higher degree of net interest margin stability over an interest rate cycle in the banking book.

Key performance indicators

	2012	2011
Average traded market risk – daily value at risk (DVaR) (Rm)	18,87	23,73
Traded market risk regulatory capital (RC) (at 9,5% of RWA) (Rm)	1 308	794
Banking book annual earnings at risk (AEaR) for a 2% interest rate shock (percentage of net interest income)	<7%	<5%

2012 in review

Traded market risk

- Our trading exposures were carefully managed to ensure efficient use of trading capital with returns above RoRWA hurdles.
- The risk platform and control framework in our Africa operations were expanded to support a broader product range.

Non-traded market risk – interest rate risk in the banking book

- In the low interest rate environment, our structural interest rate hedge programme mitigated the negative endowment impact on equity and structural deposits by contributing positively to the interest margin.
- Cash flow hedge reserves remained strong and will be released to the income statement on an accrual basis over the life of the programme, should market rates remain at current levels.
- We remained exposed to prime-JIBAR basis risk arising from the difference between predominantly prime-linked assets being funded with liabilities that are primarily JIBAR-linked, after hedging.

Priorities for 2013

Traded market risk

- We will respond to regulatory and capital change, while continuing to make efficient use of RWA.
- We will continue to challenge and improve our risk management model, based on business and regulatory trends.

Non-traded market risk – interest rate risk in the banking book

- With interest rates expected to remain low, we will focus on the risk of margin compression and the efficient maintenance of our structural hedge programme.

Market risk – insurance

Definition

The risk that future experience relating to claims, expenses, policyholder behaviour and investment returns differs from the assumptions made when setting premiums or valuing policyholder liabilities.

Strategy

- Pursue profitable growth opportunities.
- Balance exposure between life and short-term insurance to allow for better diversification.
- Grow risk exposures outside South Africa.

Key performance indicators

	2012 %	2011 %
Short-term loss ratio	69,9	67,4
Life new business margin	9,3	7,4

Market risk – insurance *(continued)*

2012 in review	Priorities for 2013
<ul style="list-style-type: none"> → All of our insurance risk types remained well within set risk appetite limits. → We stayed abreast of developments and continued with preparations to adopt the Solvency Assessment and Management (SAM) legislation requirements, once promulgated. → We launched Barclays Life Zambia in August 2012. → Short-term and life insurance underwriting risk utilisation varied in accordance with expectations and in line with underlying business growth and changes in forecasts. → Although not considered material, an increase was seen in agricultural and personal business claims. Affected lines of business remained profitable. 	<ul style="list-style-type: none"> → We will continue with the development of the capital model for the short-term insurance environment. → We will continue to diversify risk between business lines and South African and non-South African risks. → We will enhance monitoring and reporting to maintain good oversight of new non-South African insurance exposures. → We will assess risk management frameworks and governance structures in preparation for SAM legislation. → We will challenge existing processes, practices and offerings to ensure alignment with the Treating Customers Fairly principles.

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.

Strategy

- Further embed an operational risk-aware culture throughout the Group.
- Enhance controls using automated solutions as far as possible.
- Set and monitor an appropriate operational risk appetite and tolerance levels.
- Continue to strengthen follow-up and recovery actions for unexpected operational risk and boundary events.
- Meet regulatory requirements.
- Manage and mitigate key operational risks.

Key performance indicators

	2012	2011
Total number of events	↓	↓
Total loss value	↑	↓

2012 in review	Priorities for 2013
<ul style="list-style-type: none"> → Total losses decreased in volume, but increased in value due to a single significant unexpected event – the financial restatement at NBC, Tanzania. → Fraud and transaction operations remained the main drivers of our expected losses. The growth in debit card fraud is a concern. → A strategic renewal programme was initiated to replace ageing core technology platforms. The restructuring within technology, which was necessary to streamline and improve the effectiveness of key IT processes, has been completed. → We implemented several control improvement projects aimed at reducing operational risk and consequent losses. We also placed emphasis on making customers' lives easier through enhancements to our control environment. → An accelerated organisational restructure in the first half of 2012 resulted in an elevated people risk profile. This was offset by close change management across the Group to provide stability, and targeted action plans to address concerns in specific businesses and functions. 	<ul style="list-style-type: none"> → While we will continue to embed fraud prevention processes and controls to limit increases in losses, fraud is expected to remain the key operational risk impacting expected losses. → We will continue to invest in technology and use this advantage to further promote our risk management capabilities. → Cognisant of our obligation to protect our customers and thereby reduce the risk of significant losses, we will continue to prioritise enhancements to measure and improve the customer experience. → We plan to undertake significant investments, including the streamlining of the back- and middle-office processes, improving customer onboarding processes, strengthening proactive fraud monitoring and integrating the Edcon portfolio.

Risk summary

Funding risk – liquidity risk

Definition

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

Strategy

- Grow and diversify the funding base.
- Lengthen our funding profile.
- Maintain surplus liquid asset holdings to meet Basel III.
- Lower the weighted average cost of funding.

Key performance indicators

	2012 %	2011 %
Long-term funding ratio	26,2	26,8
Loans-to-deposits ratio	90,2	88,4

2012 in review

- Slow growth in the South African economy reduced our requirement to lend, leaving us in a strong liquidity position. In this climate, we sought to maintain surplus liquid asset reserves, a strong funding tenor position and growth of the deposit base.
- We successfully issued senior unsecured debt in March 2012 and Tier 2 subordinated bonds in November 2012, to further extend our funding terms and diversify the funding base. The Tier 2 issuance was the largest listed Tier 2 subordinated debt raising on a single day in the South African market.
- We maintained our position of reduced reliance on the wholesale money market. The cost of liquidity experienced upward pressure during the first three quarters of 2012, but eased towards the end of the year.
- The appetite for term funding in money markets dampened during the first half of the year as asset managers rebalanced their fund profiles. In the second half of 2012, the position was alleviated following an amendment to the Collective Investment Schemes Act that relaxed the average duration restrictions applicable to money market funds from 90 days to 120 days.
- In May 2012, the SARB announced that it had approved a CLF to assist banks in meeting the LCR under Basel III. It was further confirmed that statutory cash reserves may be included in the calculation of the LCR. Conditions were set by the SARB regarding the size of the committed facility, collateral requirements and pricing.
- Our liquidity risk position was managed in line with the board-approved liquidity risk appetite.

Priorities for 2013

- Regulators have allowed several years for full implementation of the Basel III liquidity rules. The BCBS announced in January 2013 that the implementation timeframes for the LCR, which is aimed at promoting the short-term resilience of a bank's liquidity risk profile, will be relaxed, with full compliance now only required by 2019. The recently announced changes, combined with the SARB announcement in May 2012 that a CLF will be made available to South African banks, means that significant progress was made during 2012 regarding compliance with the LCR. The NSFR remains a challenge given the structural features of the South African economy. This will remain a key focus area.
- A strong liquidity position will be maintained. We will continue to work with industry forums and the SARB to ensure the optimal implementation of the SARB CLF.
- Our liquidity risk appetite, as approved by the Board, will continue to drive key decisions relating to liquidity risk.

Funding risk – capital management

Definition

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

Strategy

- Maximise shareholder value by optimising the level and mix of capital resources.
- Meet capital ratios required by regulators and the target ranges approved by the Board.
- Maintain an adequate level of capital resources as cover for economic capital (EC) requirements.
- Deliver RWA efficiency, capital and balance sheet accountability as well as returns.
- Proactively assess, manage and efficiently implement global regulatory changes to optimise capital usage.
- Maintain a strong credit rating, with Absa's recent upgrade of the national long-term credit rating to AAA (zaf) being higher than that of the peer group.

Key performance indicators¹

Group	2012 %	2011 %
Core Tier 1 capital adequacy ratio	13,0	13,0
RoRWA	2,07	2,35
Return on average economic capital (RoEC)	20,8	23,0
Cost of equity (CoE) ²	13,5	14,0

2012 in review

- We maintained our strong capital adequacy position above the Board-approved target range, thereby positioning the Group favourably to deal with the implementation of Basel III. RWA optimisation exercises also improved our understanding of risk, in terms of accuracy of risk measurement, allowing the Group to optimise capital allocation.
- R1,5 billion of subordinated debt, qualifying as Tier 2 capital, was called at the first optional redemption date in September 2012. We subsequently issued R5 billion of subordinated debt at a yield of between JIBAR + 195 bps and JIBAR + 205 bps, optimising our capital mix and taking advantage of the last opportunity to issue 'old style' (excluding the loss absorbency and the point of non-viability requirements) Tier 2 capital prior to the implementation of Basel III.
- We updated our capital models to reflect the current environment, implemented Basel II.5 and AIRB for the wholesale credit portfolio and prepared for the implementation of Basel III on 1 January 2013.

Priorities for 2013

- We aim to maintain a strong, high quality and optimal mix of capital.
- As in 2011 and 2012, RWA optimisation remains a key focus area.
- We intend to further optimise the use of capital without jeopardising our ability to comply with expected Basel III regulatory changes. Our Board target ranges will meet the minimum capital requirements after the full implementation of Basel III.
- We will continue to support economically profitable asset growth, while actively managing the business portfolio.
- Distribution to shareholders will be considered after due cognisance is given to our capital requirements, growth and business plans as well as balance sheet integrity.

Notes

¹Reported ratios include unappropriated profits.

²The CoE is based on the capital asset pricing model (CAPM).

A balanced approach to remuneration

Strategic pillars discussed



Brand Pretorius, Chairman – Group Remuneration and Human Resources Committee

Key points

- Our total incentive pool reduced by 7% year on year. The GRHRC's decision to reduce the pool balanced financial performance, non-financial performance and protecting the franchise.
- The Group Chief Executive and Deputy Group Chief Executive asked to forgo consideration for an annual bonus, in light of 2012 financial performance. They will receive payments from deferred bonuses awarded for performance in previous years.

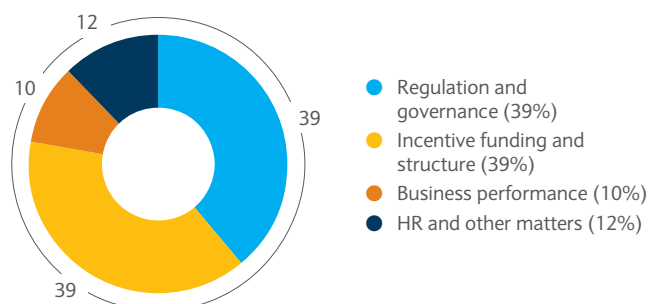


View our full remuneration report online at 2012.absair.co.za/remuneration

Outlook

- We will update our remuneration policy for 2013 in line with our One Africa strategy and our new purpose and values. The policy will continue to protect and promote shareholder interests.
- Performance assessments and performance related remuneration will reflect both 'what' and 'how' business results are achieved.
- We remain committed to transparency around our remuneration policy and decision-making.

GRHRC's allocation of time in 2012



In discharging its responsibilities the GRHRC has taken the views of stakeholders seriously. Our decisions balance financial and non-financial performance with commercial considerations including protecting the franchise.

Introduction

Society has voiced its concern with the scale and suitability of remuneration in the financial services sector and executive remuneration in general. In discharging its responsibilities, the GRHRC has taken the views of Absa's stakeholders seriously. With headline earnings down 9% and PBT down 15% in 2012, it is appropriate that bonus awards were reduced to reflect our principle of pay for performance. Taking a balanced approach, we have also applied our remuneration model to reward strong non-financial performance, as well as to retain key leadership over the longer term.

The GRHRC met six times in 2012 to consider and discuss remuneration issues. Among the decisions made for 2012, we highlight the following key issues:

1. **The size of the aggregate incentive pool for 2012** – the GRHRC discussed the projected total incentive pool in June, September, October and November 2012 and January 2013. The final pool, which includes the value at award of all cash bonuses, deferred bonuses, long-term incentives and sales incentives awarded for 2012 performance, is R1 341 million, 7% less than in 2011. The 2012 cash bonus pool was 8% less than in 2011. Full details of the process followed to determine and allocate this pool are set out on pages 83 to 84. 2012 financial performance was disappointing, which is reflected in the reduction in the pool. We expect that our

stakeholders will ask us why the incentive pool was not reduced further in line with headline earnings or PBT performance. We measure performance against a balanced scorecard of financial and non-financial performance taking account of both Group and business unit performance. The 15% decline in Group PBT was a result of disappointing performance in one particular business area, Retail and Business Banking, specifically as a result of impairments relating to lending practices in place in 2007 and 2008. The GRHRC's decision on the total incentive pool also recognised strong financial performance in other business units; for example PBT in CIBW increased by 25% year on year. The size of the pool also reflects our non-financial performance as detailed in the material issues review on page 33. Performance delivered is the primary consideration, but the GRHRC also takes into account specific retention concerns for both individuals and business areas or functions, where employees are being actively targeted by our competitors. The total incentive pool was differentiated strongly by business unit performance, individual performance and by grade. Spend was targeted at more junior employees, with greater year on year reductions in bonuses made at senior management levels.

The GRHRC makes decisions on the size of the incentive pool using a forward looking framework that evaluates total compensation costs and the share of value between shareholders and employees. The framework for each business and at the Group level sets out

Our 2012 remuneration summary

In this review we have sought to improve the transparency and clarity of our remuneration disclosures. We seek to explain clearly why and how we have made the decisions we have made, both in aggregate for all employees and individually for each executive director and prescribed officer. There are some disclosures we are required to make in a prescribed format, and these are included in the regulatory disclosures section at the back of the report. On page 79 we have answered some of our stakeholders' most pressing questions and concerns. These issues are further expanded upon in subsequent sections of this review and in our full report online.

Remuneration summary

key compensation and risk-adjusted financial ratios achieved by Absa and its competitors and is specifically designed to take account of underlying business performance and current and future affordability. For 2012, total compensation as a percentage of net income (income less impairments) was 31,2% (30,6% in 2011 and 31,4% in 2010). Total compensation as a percentage of PBT (before total compensation) was 49,8% (46,7% in 2011 and 49,4% in 2010). In making decisions the GRHRC conducts sensitivity analysis on the impact of these ratios if the incentive pool were to be adjusted up and down. Full details of the 2012 pool and framework ratios are set out on page 84.

2. **Incentivising senior leaders over the longer term** – deferral of bonuses has been a central feature of our remuneration policy since 2005, with the proportion of deferral increasing substantially in 2010. It aligns employees' interests with the creation of shareholder value, supporting long-term focus and retention. The clawback provisions that apply to deferred awards deter excessive risk-taking and inappropriate behaviour. Indeed, this is why our incentives incorporate some of the highest levels of deferrals in the South African financial services industry. There has been no longer-term incentive in place since the one-off Key Leaders Retention Plan in 2010. Long-term incentive design and awards have been a key consideration for the GRHRC in 2012, given the imperative to retain our key executives in the fiercely competitive landscape in financial and professional services in South Africa. Shareholders approved the new share-based Absa LTIP at the 2012 AGM. The GRHRC and Barclays Board Remuneration Committee also implemented a cash-based long-term incentive which is

subject to RoRWA performance across both Absa and Barclays Africa, in support of the operational priorities of the One Africa strategy (the One Africa LTIP). Awards were made under both plans in June 2012. For the maximum awards to vest, significant outperformance is required; the targets for 2012 awards are set out on page 98.

3. **2012 remuneration decisions for executive directors and prescribed officers** – detailed information, set out on pages 85 to 91, explains our approach to executive remuneration in 2012 and the specific remuneration decisions for each individual. The Group Chief Executive and Deputy Group Chief Executive asked to forgo consideration for an annual bonus in light of 2012 financial results; a leadership position which the GRHRC agreed to support. We do not operate bonus caps as we believe that this would limit our flexibility to use variable remuneration to pay for performance and be competitive in the markets in which we compete for talent. In investment banking, the average multiple of variable to fixed remuneration is higher than in retail banking or the insurance industry, making a single bonus cap inappropriate in light of our objective to pay competitively for high performance, but not to pay more than the amount appropriate to maximise value for shareholders. We only award increases in fixed remuneration at this level where justified by a role change, increased responsibility or based on the latest available market data. As for all other employees, total remuneration is benchmarked against their relevant internal and, where available, external peers.

Remuneration policy

Absa remuneration decisions will:

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 have guided our business:
 - value our people and treat them with fairness;
 - demonstrate integrity in all our actions;
 - strive to exceed the needs of our customers;
 - take responsibility for the quality of our work; and
 - display leadership in all we do.

The GRHRC keeps under review the remuneration policy and the arrangements detailed in this review to ensure that these remain competitive, in accordance with regulatory requirements and provide appropriate incentive for performance. The remuneration policy will be enhanced during 2013 in support of the One Africa strategy and our new purpose and values. The policy will continue to protect and promote shareholder interests.

Remuneration questions and answers

Q Why do we need to pay bonuses at all?

A Annual bonuses are a key component of the remuneration structure within financial services organisations, both in Africa and internationally. Absa pays competitively to ensure we can attract and retain people with the skills and experience needed to deliver our strategy. The use of variable remuneration has enabled Absa to manage and control our cost base by reducing total remuneration costs in those business areas that have performed below target; in 2012 the bonus pool in RBB was reduced by 18%. However, in business areas where performance has met or exceeded expectations, it is important that we maintain competitive levels of total remuneration, while being mindful that we do not pay more than the amount needed to be competitive. In 2012, the CIBW bonus pool was increased by 5%, compared to an increase of 25% in PBT.

It might be possible to deliver competitive remuneration by increasing fixed remuneration only; however, this would significantly limit our ability to manage remuneration during downturns in performance. In managing both variable and fixed compensation costs in an integrated way for 2012, we were able to restrict the increase in our fixed compensation costs to only 6.5%, in line with inflation.

Q Has the GRHRC clawed back bonuses in light of the sharp increase in impairments?

A Clawback is an issue that the GRHRC gave detailed consideration in 2012, discussing it at their meetings in July, September and November 2012 and in January 2013. Thorough work was carried out by the GRHRC, with support from Group HR, Risk, Compliance and Legal, to assess whether clawback was appropriate. This work took into account the findings of the reports to the Board and other Board committees on the impairments issue. This work concluded that there was no evidence whatsoever of irresponsible or untoward behaviour at an executive or any other level.

The GRHRC also considered impairments in its approach to performance adjustment of the 2012 incentive pool. The GRHRC reduced the 2012 total incentive pool by 7%, reducing awards in RBB by an average of 18%.

Q Was the One Africa LTIP an incentive to deliver the Barclays Africa transaction?

A No. The One Africa LTIP was designed and implemented to support the operational priorities of the One Africa strategy and to reinforce cross-business co-operation to better align the businesses to meet the needs of customers and clients, and to unlock the opportunity for growth on the continent.

The plan is not an incentive for the delivery or completion of the Barclays Africa transaction approved by minority shareholders on

25 February 2013. Awards were made in 2012 to five senior executives with management responsibilities across both Absa and Barclays Africa. Awards are subject to RoRWA performance in both businesses, which is a significant contributor to earnings and a primary determinant of RoE.

When the GRHRC assesses the performance conditions, it will carefully consider the impact of any one-offs and will have the discretion to exclude any gains that may materialise as a result of the transaction. In addition, awards can be adjusted up or down based on the individual performance and behaviours of participants.

Q How are bonuses determined for executive directors and prescribed officers?

A The GRHRC determines executive director and prescribed officer bonuses, in discussion with the Group Chief Executive (and the Group Chairman in the case of the Group Chief Executive). Decisions are based on individual, Group, business unit and functional performance, as well as market data.

Individual performance is assessed against both financial and non-financial performance objectives set at the start of the year. Following this assessment, a performance descriptor is assigned based on a five-point scale. The quantum of the bonus awarded is driven by this performance descriptor and the individual's compensation history; for example, where an individual's descriptor drops within the scale, the starting point is that their bonus is reduced year on year. The bonus is then adjusted for Group performance; for 2012 all executive directors and prescribed officers' bonuses were reduced in light of Group financial performance, irrespective of the performance of their business unit or function. Further adjustments are then made for business unit or functional performance, where relevant. Finally the bonus is compared against survey market data and individual peers where information is publically available. Any final adjustments are made based on any other commercial considerations, including retention and career potential, to ensure the final decisions are appropriately competitive.

Given the range of factors described above, we do not make use of an exclusively formulaic approach to determine the quantum of bonuses, rather adjustments to individual bonuses are based on the judgement of the GRHRC, after taking the inputs above into consideration. The final decisions are discussed and approved by the Absa Group Board to ensure appropriate oversight and then finally reviewed and ratified by the Barclays Board Remuneration Committee. No executive is present when their remuneration is discussed.

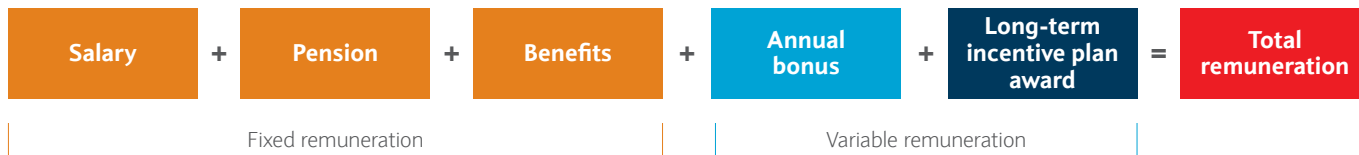
For 2013, the process for assessing performance for directors and prescribed officers (and other members of Exco) will be explicitly linked to both 'what' and 'how' results are achieved. The same approach will be implemented for all employees over the course of 2013 and 2014.

Remuneration summary

Remuneration for all employees

This section explains Absa's remuneration policy for all employees, explaining the structure of total remuneration and the strategic objectives of each element.

Total remuneration structure



Summary of key elements of total remuneration

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. The table below summarises the key elements of Absa's remuneration arrangements for all employees. 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 and our strategy.

Key elements of Absa's remuneration arrangements

Element and strategic purpose	Summary
<p>Fixed remuneration is designed to attract and retain talent in a competitive market and provide market competitive benefits.</p>	<p>Fixed remuneration is delivered to all employees, based on total cost to company, which includes base salary and employer contributions to:</p> <ul style="list-style-type: none"> → 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. <p>In addition to cost to company, all employees receive a taxable cash medical subsidy of R7 680 per annum which we pay to assist with rising medical costs.</p> <p>Fixed remuneration reflects individuals' skills and experience and is reviewed annually in the context of annual performance assessments. Fixed remuneration is increased in line with local statutory requirements and union and collective bargaining commitments, where applicable. Otherwise, fixed remuneration is only increased where justified by a role change, increased responsibility or the latest available market data. We benchmark fixed remuneration 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.</p>
<p>Annual bonus rewards the delivery of specific targets at Group, business unit and individual levels.</p> <p>Bonus deferral encourages long-term focus and retention and aligns employee interests with those of shareholders. The clawback provisions that apply to awards discourage excessive risk taking and inappropriate behaviours.</p>	<ul style="list-style-type: none"> → The ability to recognise performance through variable remuneration enables Absa to flexibly control its cost base and react to events and market circumstances. → Bonuses remain a key feature of remuneration in the highly competitive and mobile market for talent in financial services. → The GRHRC is careful to control the proportion of variable to fixed remuneration paid to employees. → The aggregate bonus pool is determined with reference to a range of risk adjusted metrics. → Annual bonuses up to R300 000 in 2012 were delivered as a cash award, paid in February 2013. → All bonuses above R300 000 in 2012, were subject to deferral over three years, ranging from 30% to 60%, depending on role and amount. → All bonuses above R2 000 000 are subject to 60% deferral over three years. → Bonus deferral is significantly in excess of practice at local competitors and regulatory requirements. → 2013 awards will be delivered as phantom share awards under the Share Value Plan (SVP)¹. These normally vest in three equal portions on the first, second and third anniversaries of the award, subject to clawback provisions and continued service. → Performance conditions are not applied to SVP awards, because we believe the link to share price and the clawback provisions provide an appropriate link to performance and adjustment for risk. Long-term incentives for senior executives ensure that a significant proportion of remuneration remains directly contingent on meeting future performance targets.

Note

¹The Deferred Award Plan (DAP) was renamed the Share Value Plan (SVP) during 2012. All key features remain consistent.

Key elements of Absa's remuneration arrangements *(continued)*

Element and strategic purpose	Summary
<p>Long-term incentive plan awards are designed to reward execution against the strategy and the creation of shareholder value over a multi-year period.</p> <p>Long-term performance measurement and clawback provisions discourage excessive risk taking and inappropriate behaviours, encourage a long-term view and align employees' interests with those of shareholders.</p>	<p>Absa's most senior employees may receive long-term incentive awards.</p> <p>We continually review the design of our long-term incentive arrangements to ensure that they are appropriately aligned to our strategic goals and provide an appropriate incentive for longer-term performance.</p> <p>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.</p> <p>The GRHRC did detailed work on long-term incentives in 2011 and 2012. Two new plans were implemented in 2012, details of which are set out in the table below.</p>

New long-term incentive schemes introduced in 2012

Feature	Absa LTIP	One Africa LTIP
Strategic purpose	Designed to incentivise performance and execution of Absa's strategic goals, create alignment with shareholder interests and create sustained growth in shareholder value.	Designed to ensure that incentives for individuals in Absa and Barclays Africa, whose performance is critical to the success of the One Africa strategy, are appropriately balanced to reward execution against both the Absa and Africa strategies, creating sustained growth for shareholders.
First awards granted	June 2012	June 2012
Eligibility and 2012 awards	<ul style="list-style-type: none"> → Highly selective and limited to senior management. → 27 participants in 2012. → Total value at award of 2012 awards was R46 million, with a maximum potential value of R138 million (before share price movements). → Details of the awards granted to executive directors and prescribed officers are set out on pages 86 to 91. → 2012 awards were made in June following shareholder approval of the Absa LTIP at the AGM. These awards form part of 2011 total remuneration. 	<ul style="list-style-type: none"> → Limited to Africa Exco members with management responsibility across Absa and Barclays Africa. → Five participants from Absa in 2012. → Total value at award of 2012 awards was R13,5 million, with a maximum potential value of R67,5 million. → Participants received 50% of their total LTIP allocation through the Absa LTIP and 50% through the One Africa LTIP to ensure appropriate focus on the Absa strategy. → Details of the awards granted to executive directors and prescribed officers are set out on pages 86 to 91.
Form of awards	Share-based awards released after three years, subject to risk-adjusted performance conditions.	Cash-based awards released after three years, subject to risk-adjusted performance conditions.
Delivery	Absa shares released after three years, with 50% of the vested shares (after payment of tax) subject to a holding period of 12 months.	The final value of the award is released after two years and delivered half as an award of cash and half as an award of phantom shares that vests, subject to the rules of the SVP after a further 12 months.

Remuneration summary

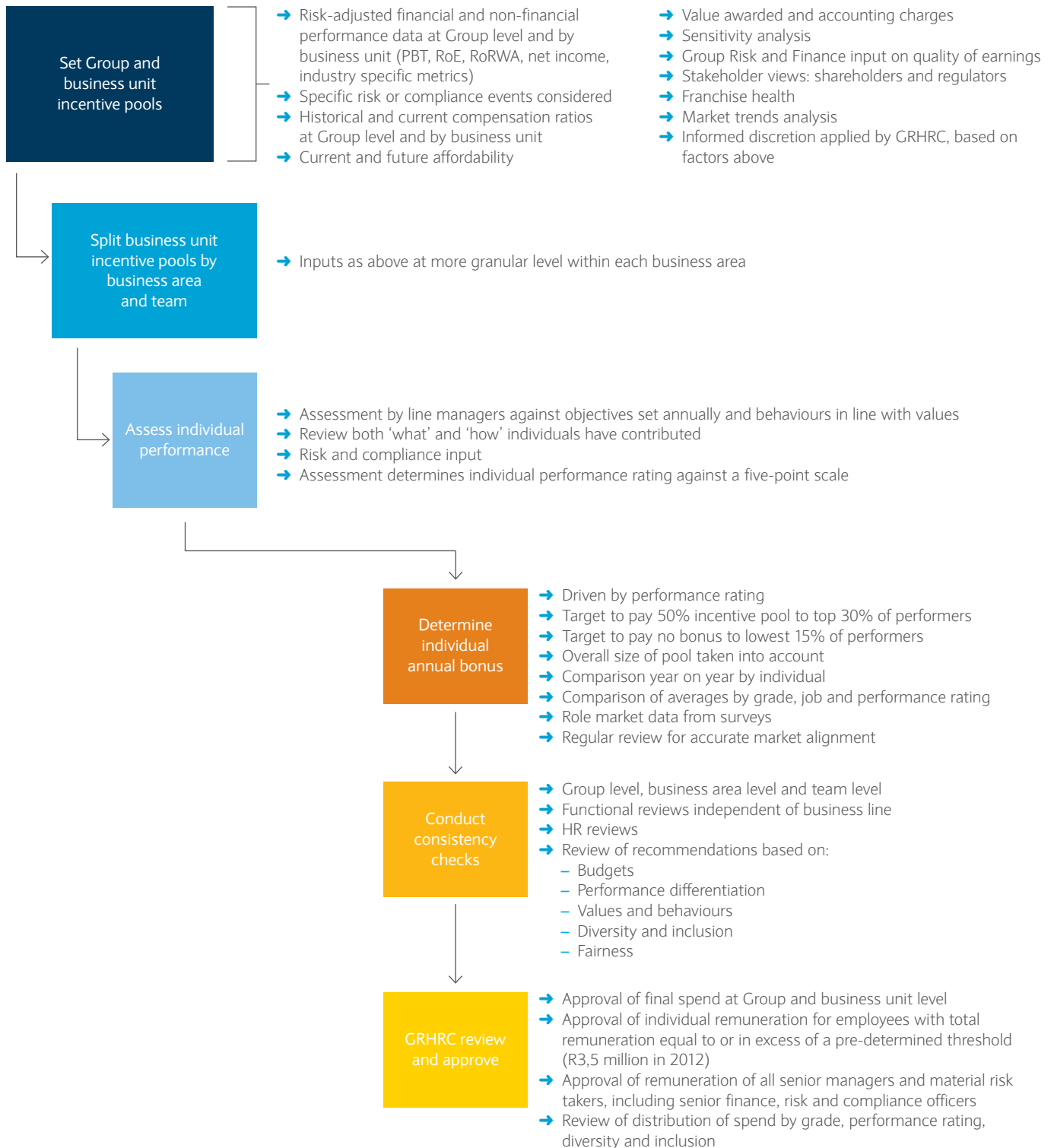
New long-term incentive schemes introduced in 2012 *(continued)*

Feature	Absa LTIP	One Africa LTIP
Maximum awards	Maximum number of shares which can be released is three times the value at award, subject to the achievement of stretching performance targets.	The award can be adjusted up or down by a performance multiple ranging from zero to five times, subject to the achievement of the stretching performance target.
2012 performance conditions	<p>Balanced scorecard of financial, risk and sustainability measures.</p> <ul style="list-style-type: none"> → 60% subject to average RoRWA over three years: from 10% to 60% of the maximum award vests on a straight line basis for RoRWA between 2,18% and 3,26%. If RoRWA is less than 2,18%, no value vests. → 30% subject to average impairment rate over three years: from 5% to 30% of the maximum award vests on a straight line basis for an impairment rate of 1,26% to 0,9%. If the impairment rate exceeds 1,26%, no value vests. → 10% subject to performance against our material issues: assessed by the GRHRC at the end of the performance period. <p>Performance conditions are only changed if an exceptional event occurs and the GRHRC considers that the conditions are no longer appropriate. The revised conditions would not be materially more difficult to satisfy than the original conditions. Any changes would be disclosed in the remuneration summary. The GRHRC will consider the impact of the Barclays Africa transaction on the performance conditions of all outstanding awards at the point of completion of the transaction.</p>	<p>Performance measured against consolidated RoRWA across Absa and Barclays Africa. No value vests if average RoRWA over three years is less than 1,59%. Maximum awards vest if average RoRWA is 2,55%. Awards vest on a straight line basis between 1,59% and 2,55%.</p> <p>The impact of any one-off gains arising on material transactions (for example the Barclays Africa transaction) will be assessed by the GRHRC and may be excluded from the measurement of performance at the GRHRC's discretion when conditions are assessed.</p>
GRHRC discretion	<p>Following the measurement of RoRWA, the GRHRC may adjust the 60% subject to RoRWA up or down by up to 10 vesting percentage points, based on PBT over the performance period.</p> <p>Awards are subject to clawback provisions, meaning all awards can be reduced to nil if deemed appropriate by the GRHRC.</p>	<p>Following the measurement of RoRWA, each individual's award can be increased or reduced by up to 25%, subject to overall maximum award of five times which can be released based on RoRWA performance. Awards are subject to clawback provisions, meaning the GRHRC can reduce all awards to nil if deemed appropriate.</p>
Leavers	<p>If a participant resigns from Absa or is dismissed, award lapses in full.</p> <p>If a participant leaves for another reason e.g. retrenchment, retirement, disability or ill health, a pro rata award may be released on the scheduled release date, subject to the performance conditions and the plan rules.</p>	
2013 awards	<ul style="list-style-type: none"> → Awards are due to be granted to 25 individuals in 2013. → Total value of awards is R52 million, with a maximum potential value of R156 million (before share price movements). 	<p>The One Africa LTIP will not be used for 2013, following the announcement that Absa will purchase Barclays' operations in Africa. A separate LTIP in support of the One Africa strategy is no longer needed and the Absa LTIP will be used to deliver all awards.</p> <p>The 2012 cycle awards will continue to run, as the objective to deliver RoRWA performance across Africa remains a relevant and appropriate condition for awards.</p>

How we determine our performance incentives

The process of determining the 2012 incentive award pools, from which annual bonuses are paid, is shown in the diagram below. The 2012 outcomes are set out on page 111. Annual bonuses remain a key feature of remuneration practice in the financial services industry in South Africa and globally and support our objective to reward for both individual and business performance.

The GRHRC makes decisions on incentive funding on a discretionary basis within the structured framework explained below. We believe that performance cannot always be assessed simply by formulae. Financial services is a complex and rapidly evolving industry and it is important that the GRHRC can exercise informed discretion in order to achieve appropriate compensation outcomes which reflect the underlying health of the business and the shareholder value created.



Remuneration summary

2012 total incentive awards

The incentive pool for 2012 was based on the process set out on page 83, non-financial performance against our material issues summarised on page 33 and financial performance as set out in the Group Financial Director's report on page 22.

Total incentive awards

	2012 Year ended 31 December Rm	2011 Year ended 31 December Rm	Change %
Current year cash bonus	909	988	(8)
Current year share bonus	9	7	29
Deferred shares bonus	300	327	(8)
Bonus pool	1 218	1 322	(8)
Commission and other incentives	59	53	11
2013 LTIP (value to be awarded)	64	60	7
Total incentives granted	1 341	1 435	(7)
Total permanent employees	33 717	35 200	(4)
Total employees who received a bonus	26 109	27 329	(5)

Notes

Incentives for Woolworths Financial Services Proprietary Limited are excluded. These are subject to oversight by the independent Board Remuneration Committee in Woolworths.

Deferred bonuses are payable only once an employee meets certain conditions, including specified period of service. This creates a timing difference between the communication of the pool and the bonus charges that appear in the income statement which are reconciled below.

Reconciliation of total incentive awards granted to income statement charge

	2012 Year ended 31 December	2011 Year ended 31 December
Total incentive awards granted	1 341	1 435
Less: deferred bonuses and 2013 LTIP to be awarded	(364)	(387)
Add: current year charges for deferred bonuses and LTIP from previous years	401	382
Other ¹	(40)	173
Income statement charge for performance costs	1 338	1 603

Employees only become eligible to receive payment from a deferred bonus, once all the relevant conditions have been fulfilled, including the provision of future service to Absa. The income statement charge reflects the charge for employees' actual services provided in the calendar year. As a consequence, while the 2012 incentives granted were down 7%, the income statement charge for performance costs was down 17%.

Note

¹Other is the difference between incentive awards granted and the income statement charge, relating to provisions and releases from other incentives including the Joiners Share Value Plan (JSVP) and the Key Leaders Retention Plan (KLP) and the income statement charge for commissions and other incentives.

2012 and historical compensation framework ratios

Compensation framework ratio	Performance share plan			
	2012 %	2011 %	2010 %	2009 %
Total compensation as a % of PBT (before total compensation)	49,8	46,7	49,4	51,6
Cost as a % of net income (total income less impairments)	69,0	64,8	67,9	71,3
Total compensation as a % of net income	31,2	30,6	31,4	31,7
RoRWA	2,07	2,35	1,99	1,97

Remuneration for executive directors and prescribed officers

This section describes how executive directors and prescribed officers were remunerated in 2012.

Introduction

We understand that the 2012 remuneration decisions for our executive directors and prescribed officers are of particular interest to our stakeholders. Between pages 86 and 91 we explain the 2012 remuneration awarded to each individual, including an overview of how their remuneration is linked to individual, Group, business unit or functional performance.

Fixed remuneration

Fixed remuneration is determined with reference to market practice and market data and reflects each individual's experience and role. Fixed remuneration is reviewed annually but only increased by exception, where justified by market movements or to reflect changes in job responsibilities. No executive director received an increase to their fixed remuneration during 2012. Below Board level, Bobby Malabie received a 13% increase to fixed remuneration in April 2012 to reflect his promotion to the position of Chief Executive, RBB. Willie Lategan received a 7% increase to fixed remuneration in April 2012 to reflect his wider responsibilities across Africa. Stephen van Collier did not receive an increase to his fixed remuneration during 2012.

Annual bonuses

Individual bonus decisions are based on performance, measured against Group and personal objectives set for the year. Performance measures are both quantitative and qualitative. Bonus decisions are made by the GRHRC following performance assessments and recommendations made by the Group Chief Executive (and the Group Chairman in the case of the Group Chief Executive).

We do not operate bonus caps as we believe that this would limit our flexibility to use variable remuneration to pay for performance and be competitive in the markets in which we compete for talent. In investment banking the average multiple of variable to fixed remuneration is higher than in retail banking or the insurance industry, making a single bonus cap for all prescribed officers inappropriate in light of our objective to pay competitively for high performance, but not to pay more than the amount appropriate to maximise value for shareholders.

Executive directors and prescribed officers' bonuses are delivered in a combination of cash and phantom shares. 60% of each individual's bonus is awarded under the SVP, vesting in three equal portions on the first, second and third anniversaries of the award, subject to clawback and future service. Where individuals are classified as Code Staff for the purposes of the UK Financial Services Authority's (FSA) Remuneration Code, 20% is delivered as cash in February of each year immediately following the announcement of financial results and 20% is delivered as phantom shares vesting after six months. Where individuals are not classified as Code Staff by the FSA, the remaining 40% is delivered as cash in February of each year immediately following the announcement of financial results.

Long-term incentive plan awards

LTIP awards are made by the GRHRC following recommendations made by the Group Chief Executive (and the Group Chairman in the case of the Group Chief Executive).

The value of an Absa LTIP award is typically limited to a percentage of fixed remuneration. The initial value awarded is a maximum of 200% of fixed remuneration and the maximum potential payout is 600% of fixed remuneration (before share price movements).

The achievement of performance conditions is the primary indicator of whether and to what extent LTIP awards will vest. Awards are also subject to clawback provisions, similar to those applied to deferred bonus awards, and future service.

All LTIP awards vest three years from the date of award. 50% of vested awards are then subject to an additional 12-month holding or deferral period, making the plan cycle four years in total.

A summary of the performance measures that apply to LTIP awards are set out on page 98. Significant outperformance is required for awards to vest at the maximum.

A significant proportion of the executive director and prescribed officer's total remuneration for 2012 is in the form of LTIP awards and, as such, is contingent on future performance and at risk of forfeiture. The value of the awards reflects the GRHRC's objective to link a significant proportion of each executive director and prescribed officer's remuneration to the future performance of the business and the execution of the strategy over the longer-term. The awards also reflect the need for individual total remuneration to be competitive in a market where the use of option schemes and other share-based long-term incentives is common. We believe that the quantum of the maximum potential payouts is balanced against the considerable stretch in the performance conditions and, as such, is fair to both participants and our shareholders.

Remuneration summary

2012 remuneration – Maria Ramos: Group Chief Executive

Basic salary	+	Pension	+	Benefits	+	Annual bonus	+	Long-term incentive plan award	=	Total remuneration
R6 065 600		R492 593		R99 488		0		R10 000 000		R16 657 681
Fixed remuneration					Variable remuneration					

2012 total remuneration

Fixed remuneration	Maria Ramos did not receive an increase in fixed remuneration during 2012.
Annual bonus	In July 2012, Maria Ramos asked the GRHRC to voluntarily forgo consideration for an annual bonus for 2012. This decision was made in the context of 2012 financial performance. The GRHRC respected Maria Ramos' leadership position and agreed to her request to forgo consideration. The GRHRC did still consider Maria Ramos' performance during the year, against Group and individual performance measures. The GRHRC noted that Group financial performance was disappointing, particularly resulting from the significant challenges in RBB. The GRHRC noted the strong personal contribution Maria Ramos made during 2012, particularly in building and embedding a strong leadership team for Africa, in starting to operationalise the One Africa strategy and in working to achieve a successful outcome for Absa's minority shareholders in respect of the Barclays Africa transaction.
Long-term incentive plan award 2013 – 2015	Maria Ramos will be granted an Absa LTIP award with an initial value at award of R10 000 000. This award has a maximum potential value of R30 000 000 (before movements in share price), subject to performance conditions. 50% of vested awards are due to be released in 2016, with the remaining 50% (after tax) subject to a holding period and released in 2017.
Previous long-term incentive award	Maria Ramos received a payment of R5 480 244 in March 2013 from the phantom share portion of the Key Leaders Retention Plan, granted by the GRHRC in 2010. 50% of the maximum award lapsed because the performance condition was not met. (See table on page 98).

2012 remuneration decisions

→ Timeline for 2012 remuneration payout



Bonus

No bonus awarded



Long-term incentive awards awarded in 2012 (part of 2011 total remuneration therefore not included above)

In June 2012, Maria Ramos was granted:

- an Absa LTIP award with an initial value at award of R4 000 000. The award has a maximum potential value of R12 000 000 (before movements in share price) subject to the outcome of the performance conditions after three years.
- a One Africa LTIP award with an initial value at award of R4 000 000. The award has a maximum potential value of R20 000 000 subject to the outcome of the performance conditions after three years.

2012 remuneration – Louis von Zeuner: Deputy Group Chief Executive

Basic salary	+	Pension	+	Benefits	+	Annual bonus	+	Long-term incentive plan award	=	Total remuneration
R3 906 280		R322 222		R195 504		0		0		R4 424 006
Fixed remuneration					Variable remuneration					

2012 total remuneration	
Fixed remuneration	Louis von Zeuner did not receive an increase in fixed remuneration during 2012.
Annual bonus	In July 2012, Louis von Zeuner asked the GRHRC to voluntarily forgo consideration for a bonus for 2012. This decision was made in the context of 2012 financial performance. The GRHRC respected Louis von Zeuner's leadership position and agreed to his request to forgo consideration. Following the announcement of his retirement as an executive, Louis von Zeuner significantly reduced his responsibilities during the second half of 2012. In the circumstances, the GRHRC did not formally assess Louis von Zeuner's performance.
Long-term incentive plan award 2013 – 2015	No long-term incentives were granted to Louis von Zeuner because he retired as an executive on 31 December 2012.
Previous long-term incentive award	Louis von Zeuner received a payment of R5 480 244 in March 2013 from the phantom share portion of the Key Leaders Retention Plan, granted by the GRHRC in 2010. 50% of the maximum award lapsed because the performance condition was not met. (See table on page 98).
Payment of retention arrangements	Louis von Zeuner retired on 31 December 2012. Special retention arrangements were agreed by the Board in 2008 to ensure continuity during the transition to the new Group Chief Executive. Under these arrangements, Louis von Zeuner received: <ul style="list-style-type: none"> → a payment of R12 350 000 in December 2012. → eligible leaver treatment on outstanding deferred compensation. → a pay out of R1 617 056 in respect of accrued leave.
2012 remuneration decisions	→ Timeline for 2012 remuneration payout

LTIP
No LTIP awarded

Bonus
No bonus awarded



Remuneration summary

2012 remuneration – David Hodnett: Group Financial Director

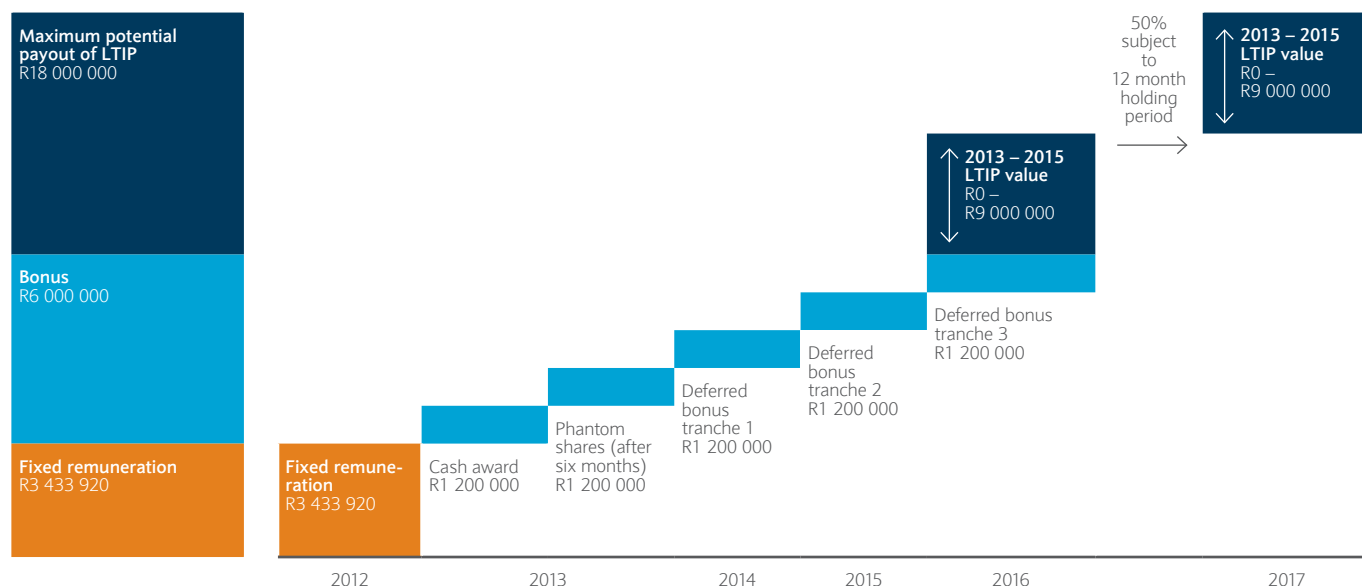
Basic salary	+	Pension	+	Benefits	+	Annual bonus	+	Long-term incentive plan award	=	Total remuneration
R3 050 769		R251 852		R131 299		R6 000 000		R6 000 000		R15 433 920
Fixed remuneration					Variable remuneration					

2012 total remuneration

Fixed remuneration	David Hodnett did not receive an increase in fixed remuneration during 2012.
Annual bonus	David Hodnett received an annual bonus of R6 000 000 for 2012. This is 33% less than his annual bonus of R9 000 000 for 2011. The GRHRC's bonus decision for David Hodnett reflects his strong individual contribution balanced against the Group's disappointing financial results for 2012. The GRHRC noted and confirmed the performance assessment of David Hodnett's line manager, Maria Ramos, that he had provided strong leadership during a challenging year for the Group, contributing positively to the operational integration of Absa and Barclays Africa generally and particularly across the Finance function. The GRHRC noted his contribution to balance sheet optimisation, maintaining RoE above CoE, despite challenging results, strong cost control with positive JAWS, and maintenance of the dividend from 2011.
Long-term incentive plan award 2013 – 2015	David Hodnett will be granted an Absa LTIP award with an initial value at award of R6 000 000. This award has a maximum potential value of R18 000 000 (before movements in share price), subject to the performance conditions. 50% of vested awards are due to be released in 2016, with the remaining 50% (after tax) subject to a holding period and released in 2017.
Previous long-term incentive award	David Hodnett received a payment of R4 110 274 in March 2013 from the phantom share portion of the Key Leaders Retention Plan, granted by the GRHRC in 2010. 50% of the maximum award lapsed because the performance condition was not met. (See table on page 98).

2012 remuneration decisions

→ Timeline for 2012 remuneration payout



Long-term incentive awards awarded in 2012 (part of 2011 total remuneration therefore not included above)

In June 2012, David Hodnett was granted:

- an Absa LTIP award with an initial value at award of R2 500 000. The award has a maximum potential value of R7 500 000 (before movements in share price) subject to the outcome of the performance conditions after three years.
- a One Africa LTIP award with an initial value at award of R2 500 000. The award has a maximum potential value of R12 500 000 subject to the outcome of the performance conditions after three years.

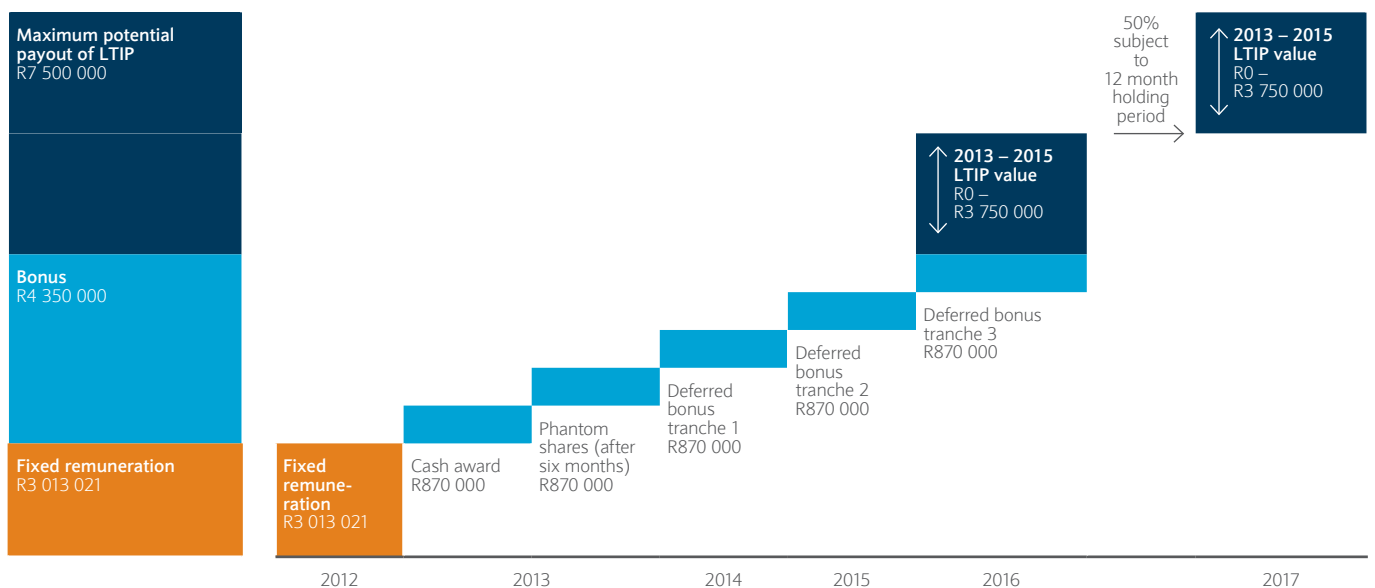
2012 remuneration – Willie Lategan: Chief Executive: Absa Financial Services

Basic salary	+	Pension	+	Benefits	+	Annual bonus	+	Long-term incentive plan award	=	Total remuneration
R2 663 630		R218 519		R130 872		R4 350 000		R2 500 000		R9 863 021
Fixed remuneration					Variable remuneration					

2012 total remuneration

Fixed remuneration	Willie Lategan received an increase in fixed remuneration from R2 800 000 to R3 000 000 in April 2012. This was awarded by the GRHRC in light of the expansion of the Absa Financial Services business into Africa, based on similar positions in financial services.
Annual bonus	Willie Lategan received an annual bonus of R4 350 000 for 2012. This is 21% less than his annual bonus of R5 500 000 for 2011. The GRHRC noted and confirmed the performance assessment of Willie Lategan's line manager, Maria Ramos, that he delivered a significant number of successful initiatives in the year, contributing positively to profitability through the expansion of the insurance business in Africa and building revenue progression through the implementation of new sales and support models. AFS PBT reduced by 2% year on year and was below the Short Term Plan (STP) target, although this was primarily a result of increased claims activity during the fourth quarter. The GRHRC also noted that Willie Lategan played a strong leadership role on both the Absa Group and Africa Excos. As a senior leader on these committees, the GRHRC decided it was appropriate to reduce Willie Lategan's bonus to reflect both Group financial performance and the financial performance of AFS being below the STP target. The GRHRC's bonus decision balances the financial performance outcomes against Willie Lategan's significant contribution summarised above.
Long-term incentive plan award 2013 – 2015	Willie Lategan will be granted an Absa LTIP award with an initial value at award of R2 500 000. This award has a maximum potential value of R7 500 000 (before movements in share price), subject to performance conditions. 50% of vested awards are due to be released in 2016, with the remaining 50% (after tax) subject to a holding period and released in 2017.
Previous long-term incentive award	Willie Lategan received a payment of R4 110 274 in March 2013 from the phantom share portion of the Key Leaders Retention Plan, granted by the GRHRC in 2010. 50% of the maximum award lapsed because the performance condition was not met. (See table on page 98).

2012 remuneration decisions → Timeline for 2012 remuneration payout



Long-term incentive awards awarded in 2012 (part of 2011 total remuneration therefore not included above)

- In June 2012, Willie Lategan was granted:
- an Absa LTIP award with an initial value at award of R1 500 000. The award has a maximum potential value of R4 500 000 (before movements in share price) subject to the outcome of the performance conditions after three years.
 - a One Africa LTIP award with an initial value at award of R1 500 000. The award has a maximum potential value of R7 500 000 subject to the outcome of the performance conditions after three years.

Remuneration summary

2012 remuneration – Bobby Malabie: Chief Executive: Retail and Business Banking

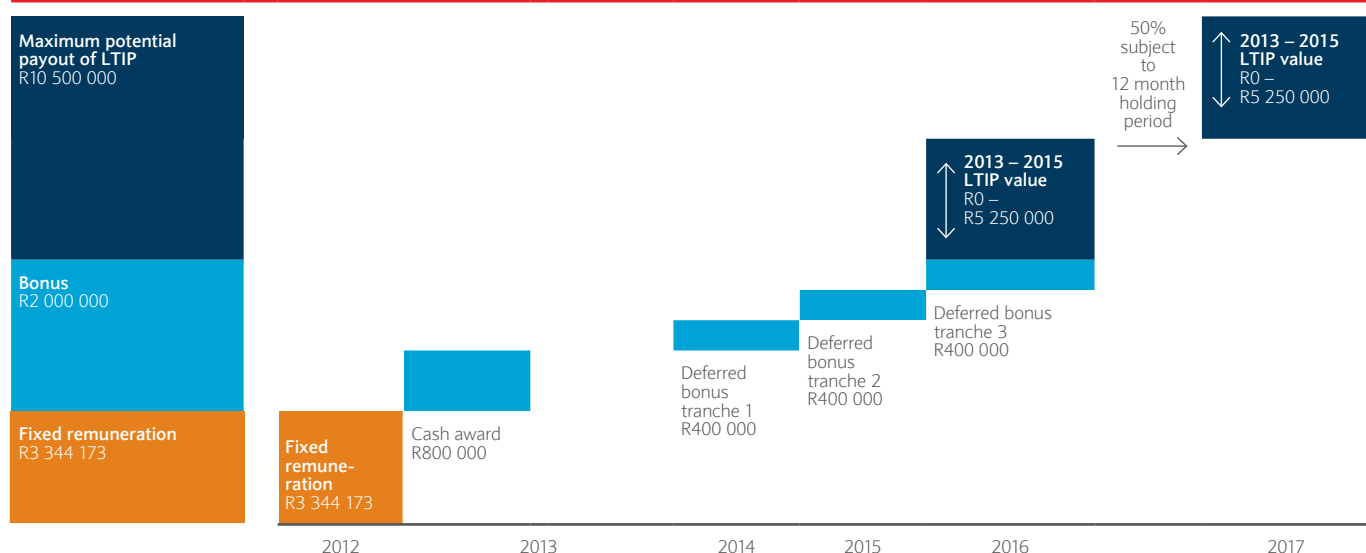
Basic salary	+	Pension	+	Benefits	+	Annual bonus	+	Long-term incentive plan award	=	Total remuneration
R2 972 798		R244 444		R126 931		R2 000 000		R3 500 000		R8 844 173
Fixed remuneration					Variable remuneration					

2012 total remuneration

Fixed remuneration	Bobby Malabie received an increase in fixed remuneration from R3 000 000 to R3 400 000 in April 2012. This was awarded by the GRHRC to reflect his appointment as Chief Executive, Retail and Business Banking, based on similar positions in financial services.
Annual bonus	Bobby Malabie received an annual bonus of R2 000 000 for 2012. This is 50% less than his annual bonus of R4 000 000 for 2011. The GRHRC noted and confirmed the performance assessment of Bobby Malabie's line manager, Maria Ramos, that Bobby made a strong contribution to the restructure and integration of the Retail and Business Banking businesses in 2012, with significant cost reductions and business process improvements and continued focus on improving the customer experience. Financial performance in RBB was below expectations, specifically because of the significant impairments in Home Loans and Commercial Property Finance. The GRHRC's bonus decision took into account financial performance in RBB and the overall reduction of the Retail and Business Banking total incentive pool balanced with Bobby Malabie's personal contribution to the integration of the business during a very challenging year.
Long-term incentive plan award 2013 – 2015	Bobby Malabie will be granted an Absa LTIP award with an initial value of R3 500 000. This award has a maximum potential value of R10 500 000 (before movements in share price), subject to performance conditions. The award was made taking into account Bobby Malabie's new role as Group Executive: Marketing, Communications and Public Affairs. 50% of vested awards are due to be released in 2016, with the remaining 50% (after tax) subject to a holding period and released in 2017.
Previous long-term incentive award	Bobby Malabie received a payment of R3 052 935 in March 2013 from the phantom share portion of the Key Leaders Retention Plan, granted by the GRHRC in 2012. 50% of the maximum award lapsed because the performance condition was not met. (See table on page 98).

2012 remuneration decisions

→ Timeline for 2012 remuneration payout



Long-term incentive awards awarded in 2012 (part of 2011 total remuneration therefore not included above)

In June 2012, Bobby Malabie was granted an Absa LTIP award with an initial value at award of R4 000 000. The award has a maximum potential value of R12 000 000 (before movements in share price) subject to the outcome of the performance conditions after three years.

2012 remuneration – Stephen van Coller: Chief Executive: Corporate, Investment Banking and Wealth Management

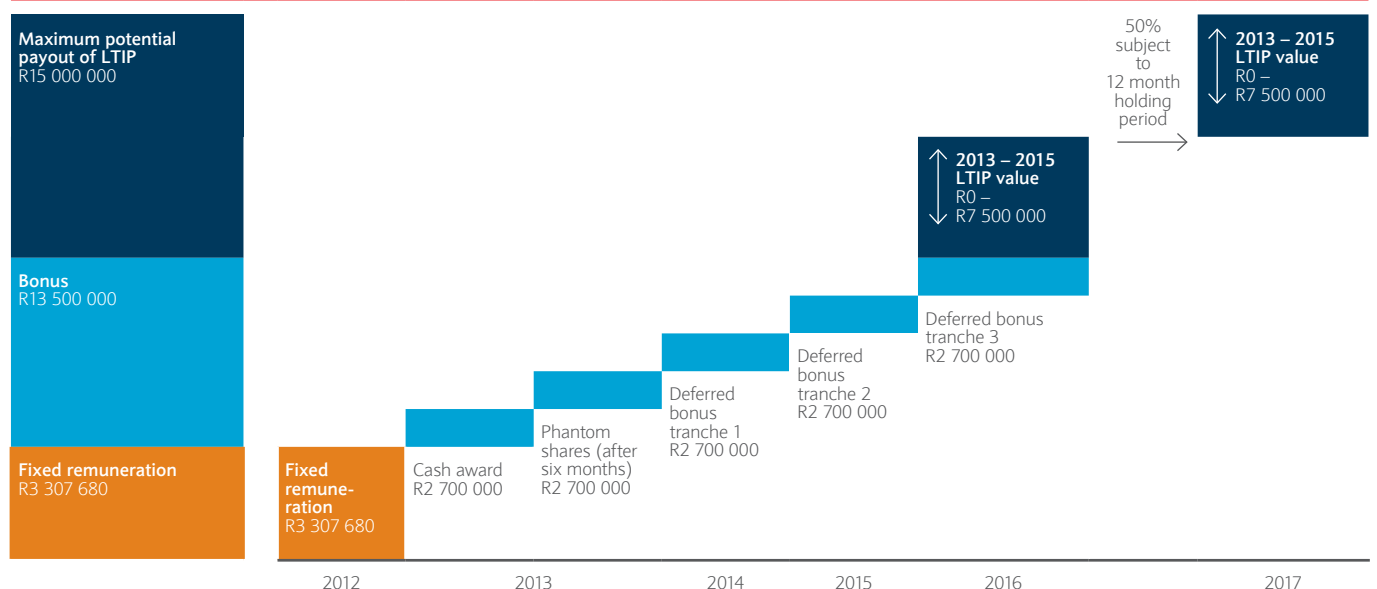
Basic salary	+	Pension	+	Benefits	+	Annual bonus	+	Long-term incentive plan award	=	Total remuneration
R2 948 613		R244 444		R114 623		R13 500 000		R5 000 000		R21 807 680
Fixed remuneration					Variable remuneration					

2012 total remuneration

Fixed remuneration	Stephen van Coller did not receive an increase in fixed remuneration during 2012.
Annual bonus	Stephen van Coller received an annual bonus of R13 500 000 for 2012. This is 10% less than his annual bonus of R15 000 000 for 2011. The GRHRC noted and confirmed the assessment of Stephen van Coller's line manager, Maria Ramos, that the performance of CIBW exceeded expectations, with PBT up 25% year on year. The GRHRC noted that Stephen van Coller has made significant progress in establishing the corporate banking business and expanding into Africa, with revenue growth opportunities in corporate and sales and trading becoming evident in the business. CIBW's client centric approach was recognised in a number of awards in 2012, including Best Debt House by Euromoney and Number 1 Overall Bank in Risk SA and Spire Awards for the third consecutive year. A strong control environment was maintained across the CIBW business during this period of growth. The GRHRC's bonus decision reflects this performance assessment, with a 10% reduction year on year to reflect Group financial performance.
Long-term incentive plan award 2013 – 2015	Stephen van Coller will be granted an Absa LTIP award with an initial value at award of R5 000 000. This award has a maximum potential value of R15 000 000 (before movements in share price), subject to performance conditions. 50% of vested awards are due to be released in 2016, with the remaining 50% (after tax) subject to a holding period and released in 2017.
Previous long-term incentive award	Stephen van Coller received payment of R4 110 274 in March 2013 from the phantom share portion of the Key Leaders Retention Plan, granted by the GRHRC in 2010. 50% of the maximum award lapsed because the performance condition was not met. (See table on page 98).

2012 remuneration decisions

→ Timeline for 2012 remuneration payout



Long-term incentive awards awarded in 2012 (part of 2011 total remuneration therefore not included above)

In June 2012, Stephen van Coller was granted:

- an Absa LTIP award with an initial value at award of R2 500 000. The award has a maximum potential value of R7 500 000 (before movements in share price) subject to the outcome of the performance conditions after three years.
- a One Africa LTIP award with an initial value at award of R2 500 000. The award has a maximum potential value of R12 500 000 subject to the outcome of the performance conditions after three years.

Remuneration summary

Remuneration for non-executive directors

This section explains how we pay non-executive directors taking into account regulations and market practice.

Remuneration policy for non-executive directors

Remuneration element and purpose	Operation and planned changes
Fees reflect individual responsibilities and membership of Board committees.	<ul style="list-style-type: none"> → The Group Chairman receives a single retainer fee for this 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. → The same robust governance processes applied to executive remuneration are applied to non-executive remuneration, including benchmarking against non-executive fees in other financial services organisations. → 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.
Other benefits	Neither the Group Chairman nor any non-executive director receives any other benefits or performance related pay from Absa.

Fee structure

Category	Fees for the 12-month period from 1 May 2012 to 30 April 2013 R	Fees for the 12-month period from 1 May 2011 to 30 April 2012 R	Change %
Board Chairman	3 860 000	3 675 000	5
Board member (Absa Group)	184 000	175 200	5
Board member (Absa Bank Limited)	184 000	175 200	5
<i>Total Board member fee</i>	<i>368 000</i>	<i>350 400</i>	<i>5</i>
Group Audit and Compliance Committee (GACC) member	200 000	163 100	23
Group Risk and Capital Management Committee (GRCMC) member	200 000	163 100	23
Group Remuneration and Human Resources Committee (GRHRC) member	110 000	86 700	27
Directors' Affairs Committee (DAC) member	75 000	59 600	26
Concentration Risk Committee (CoRC) (incorporating Group Credit Committee: Large Exposures) member	37 500 R1 800 per facility reviewed	59 600 R1 200 per facility reviewed	(37) 50
Social and Ethics Committee (SEC) member	75 000	15 400 per meeting	
Models Committee (MC) member	60 000	15 400 per meeting	
Disclosure Committee (DC) member	60 000	15 400 per meeting	
Board Finance Committee (BFC) member	15 500 per meeting	15 400 per meeting	1
Special Board meeting	25 200 per meeting	24 000 per meeting	5
Special (ad hoc) Board committee and sub-committee meetings	15 500 per meeting	15 400 per meeting	1
Consultancy work	R3 650 per hour	R3 465 per hour	5

Notes

Executive directors of Absa Group Limited do not receive fees as members of the Absa Group Limited board.

The GACC, GRCMC and GRHRC Chairmen receive fees equal to two and a half times the fee payable to members of these board committees.

The Chairmen of board committees and sub-committees other than the GACC, GRCMC and GRHRC receive fees equal to twice the fee payable to members of these committees.

Group Chairman and non-executive directors' fees

	Absa Group R	Absa Bank Limited R	Absa board committees and sub- committees R	Subsidiary boards, board committees and trusts R	2012 Total R	2011 Total R
Current directors						
C Beggs	181 067	181 067	1 115 733	73 957	1 551 824	1 264 367
YZ Cuba	181 067	181 067	111 233	—	473 367	663 392
SA Fakie	181 067	181 067	375 400	—	737 534	680 717
G Griffin (Group Chairman) ¹	—	—	—	—	3 798 333	3 616 667
MJ Husain	181 067	181 067	557 567	—	919 701	719 433
AP Jenkins ²	181 067	181 067	289 933	—	652 067	684 500
R Le Blanc ²	181 067	181 067	288 367	—	650 500	673 233
PB Matlare	181 067	181 067	6 250	—	368 384	77 200
TM Mokgosi-Mwantembe ³	181 067	181 067	117 733	115 248	595 115	600 967
EC Mondlane, Jr	181 067	181 067	102 233	833 632	1 297 999	1 016 447
TS Munday	181 067	181 067	1 065 992	31 200	1 459 325	1 363 300
SG Pretorius	181 067	181 067	578 000	21 333	961 467	741 367
IR Ritossa ^{2,4}	181 067	181 067	148 633	—	510 767	145 983
BJ Willemse	181 067	181 067	315 725	57 600	735 459	750 633
Past directors						
BP Connellan ⁵	73 733	73 733	198 692	36 400	382 558	914 166
Total	2 427 604	2 427 604	5 271 492	1 169 370	15 094 402	13 912 372

Notes

¹Single retainer fee applicable to the Group Chairman.

²These fees are paid to Barclays and not to the individuals.

³A fee of R15 500 for the Exco IT steering committee is included in the Absa board committee fees for T Mokgosi-Mwantembe.

⁴Resigned from the Absa Board on 31 December 2012.

⁵Retired from the Board on 3 May 2012.

Remuneration summary

Other regulatory disclosures

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:

- Executive directors' 2012 remuneration set out on page 99.
- Prescribed officers' 2012 remuneration set out on page 99.
- Outstanding share plan and long-term incentive awards set out on pages 96 and 97.
- Group Chairman and non-executive directors' fees set out on page 93.

Contract terms and appointment dates

Name	Board appointment date	Notice period	Potential compensation for loss of office
Executive directors			
DWP Hodnett	1 March 2010	6 months	6 months fixed remuneration
M Ramos	1 March 2009	6 months	6 months fixed remuneration
LL von Zeuner	1 September 2004	6 months	Louis von Zeuner retired on 31 December 2012. Special retention arrangements were agreed by the Board in 2008 to ensure continuity during the transition to the new Chief Executive. Under these arrangements, Louis von Zeuner received: <ul style="list-style-type: none"> → a payment of R12 350 000 in December 2012 → eligible leaver treatment on outstanding deferred compensation → a payout of R1 617 056 in respect of accrued leave
Prescribed officers			
WT Lategan	n/a	6 months	6 months fixed remuneration
BA Malabie	n/a	6 months	6 months fixed remuneration
S van Coller	n/a	3 months	3 months fixed remuneration

Outstanding cash-based long-term incentive awards

Name	Plan	Value under award at 1 January 2012 R	Value awarded in the year R	Value released in the year R	Value under award at 31 December 2012 R	Maximum potential value at 31 December 2012 R	End of performance period	Last exercise/scheduled vesting date
M Ramos	One Africa LTIP 2012 – 2014	—	4 000 000	—	4 000 000	20 000 000	31/12/2014	14/06/2015
	KLP	4 000 000	—	—	4 000 000	4 000 000	31/12/2012	01/03/2013
LL von Zeuner	KLP	4 000 000	—	—	4 000 000	4 000 000	31/12/2012	01/03/2013
DWP Hodnett	One Africa LTIP 2012 – 2014	—	2 500 000	—	2 500 000	12 500 000	31/12/2014	14/06/2015
	KLP	3 000 000	—	—	3 000 000	3 000 000	31/12/2012	01/03/2013
S van Coller	One Africa LTIP 2012 – 2014	—	2 500 000	—	2 500 000	12 500 000	31/12/2014	14/06/2015
	KLP	3 000 000	—	—	3 000 000	3 000 000	31/12/2012	01/03/2013
WT Lategan	One Africa LTIP 2012 – 2014	—	1 500 000	—	1 500 000	7 500 000	31/12/2014	14/06/2015
	KLP	3 000 000	—	—	3 000 000	3 000 000	31/12/2012	01/03/2013
BA Malabie	KLP	2 250 000	—	—	2 250 000	2 250 000	31/12/2012	31/03/2013

Remuneration summary

Outstanding share plan and long-term incentive awards

	Number of shares under award/option at 1 January 2012	Number of shares awarded during 2012	Strike price for shares under option (R)	Share price on award (R)	Weighted average exercised price (R)	Number of shares released/exercised during 2012
Executive directors						
M Ramos						
DAP 2010	27 230			133	133	13 615
DAP 2011	63 760			133		21 253
DAP 2012		94 213		149		
KLP 2010	30 098			133		
Absa LTIP 2012 – 2014		79 464		151		
Total						
LL von Zeuner						
SOS 2004	102 000		52			
SOS 2005	60 000		92			
ESAS 2009	21 015			95		
DAP 2010	32 678			133	133	16 338
DAP 2011	53 951			133		17 983
DAP 2012		50 472		149		
PSP 2009	69 349			95		
KLP 2010	30 098			133		
Total						
DWP Hodnett						
ESAS 2008	5 955			105		
ESAS 2009	7 880			95		
DAP 2010	16 339			133	133	8 169
DAP 2011	34 332			133		11 444
DAP 2012		36 340		149		
PSP 2009	31 522			95		
KLP 2010	22 574			133		
Absa LTIP 2012 – 2014		49 665		151		
Total						
S van Coller						
ESAS 2009	39 403			95		
DAP 2010	37 705			133	133	18 852
DAP 2011	80 926			133		26 975
DAP 2012		60 566		149		
KLP 2010	22 574			133		
Absa LTIP 2012 – 2014		49 665		151		
Total						
WT Lategan						
SOS 2005	20 000		92			
ESAS 2009	9 850			95		
DAP 2010	14 706			133	133	7 352
DAP 2011	26 976			133		8 992
DAP 2012		22 208		149		
PSP 2009	31 522			95		
KLP 2010	22 574			133		
Absa LTIP 2012 – 2014		29 799		151		
Total						
BA Malabie¹						
DAP 2011	13 733			133		4 577
DAP 2012		16 151		149		
KLP 2010	16 767			134		
JSAP 2010	10 721			133		4 467
Absa LTIP 2012 – 2014		79 464		151		
Total						

Notes

¹BA Malabie received a payment of R783 651 on 20 December 2012 as a shareholder to the Batho Bonke Capital Proprietary Limited. Batho Bonke was a Black Economic Empowerment initiative, rather than an incentive or remuneration.

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 2012	Number of shares under award/ option at 31 December 2012	End of performance period	Last exercise/ scheduled vesting date
149	2 023 189	131 657			13 615	31/12/2012	20/02/2013
149	3 158 196	110 941			42 507	31/12/2013	20/02/2014
					94 213	31/12/2014	20/02/2015
					30 098	31/12/2012	01/03/2013
					79 464	31/12/2014	14/06/2015
	5 181 385	242 598					
			102 000		102 000	19/08/2009	19/08/2014
			60 000		60 000	18/08/2010	18/08/2015
149	2 427 827	157 988			21 015	20/02/2012	20/02/2014
149	2 672 274	93 871			16 340	31/12/2012	20/02/2013
					35 968	31/12/2013	20/02/2014
					50 472	31/12/2014	20/02/2015
				69 349	0	31/12/2011	20/02/2012
					30 098	31/12/2012	01/03/2013
	5 100 101	251 859					
					5 955	23/02/2011	23/02/2013
149	1 213 913	78 994			7 880	20/02/2012	20/02/2014
149	1 700 578	59 738			8 170	31/12/2012	20/02/2013
					22 888	31/12/2013	20/02/2014
					36 340	31/12/2014	20/02/2015
				31 522	0	31/12/2011	20/02/2012
					22 574	31/12/2012	01/03/2013
					49 665	31/12/2014	14/06/2015
	2 914 491	138 732					
					39 403	20/02/2012	20/02/2014
149	2 801 407	182 299			18 853	31/12/2012	20/02/2013
149	4 008 485	140 810			53 951	31/12/2013	20/02/2014
					60 566	31/12/2014	20/02/2015
					22 574	31/12/2012	01/03/2013
					49 665	31/12/2014	14/06/2015
	6 809 892	323 109					
			20 000		20 000	18/08/2010	18/08/2015
149	1 092 507	71 094			9 850	20/02/2012	20/02/2014
149	1 336 211	46 938			7 354	31/12/2012	20/02/2013
					17 984	31/12/2013	20/02/2014
					22 208	31/12/2014	20/02/2015
				31 522	0	31/12/2011	20/02/2012
					22 574	31/12/2012	01/03/2013
					29 799	31/12/2014	14/06/2015
	2 428 718	118 032					
149	680 142	23 892			9 156	31/12/2013	20/02/2014
					16 151	31/12/2014	20/02/2015
					16 767	31/12/2012	01/03/2013
158	704 714	60 707			6 254	31/03/2014	31/03/2014
					79 464	31/12/2014	14/06/2015
	1 384 856	84 599					

Remuneration summary

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

2009	2010	2011	2012	2013	2014	2015	2016	Performance targets
								<ul style="list-style-type: none"> → Cumulative PAT 2009 – 2011 (R26 275 million) lower than PAT 2006 – 2008 (R29 608 million), therefore underpin not met. → Compound annual growth in attributable earnings for 2009 – 2011 was negative 3,2% below CPI of 5,5%. → Performance condition not met and award lapsed in February 2012.
								<ul style="list-style-type: none"> → The 50% of awards in cash lapsed in full because the 2012 PBT target was R21 707 million whereas actual 2012 PBT was R12 118 million. → The 50% of awards in phantom shares vested in March 2013, as there were no performance conditions.
								<ul style="list-style-type: none"> → 2010 RoE of 15,1% exceeded CoE of 14% (1st portion vested in February 2011). → 2011 RoE of 16,4% exceeded CoE of 14% (2nd portion vested in February 2012). → 2012 RoE of 13,6% exceeded CoE of 13,5% (3rd portion vested in February 2013).
								<ul style="list-style-type: none"> → 2011 RoE of 16,4% exceeded CoE of 14% (1st portion vested in February 2012). → 2012 RoE of 13,6% exceeded CoE of 13,5% (2nd portion vested in February 2013). → To be measured at end of 2013 for vesting of 3rd portion in 2014.
								<ul style="list-style-type: none"> → Finance: From 10% to a maximum of 60% can vest subject to average RoRWA of 2,18% (at threshold) to 3,26% (at maximum) on a straight line basis. → Risk: From 5% to a maximum of 30% can vest subject to performance against the average annual impairment ratio of 1,26% (at threshold) to 0,9% (at maximum). → Sustainability: Up to 10% of awards can vest at the discretion of the GRHRC considering performance against our material issues.
								<ul style="list-style-type: none"> → Performance will be measured against One Africa RoRWA. No value will vest for performance below 1,59%. Maximum awards vest if average RoRWA is 2,55%. Vesting on a straight line basis between 1,59% and 2,55%.
								<ul style="list-style-type: none"> → The performance conditions for the 2013 – 15 cycle Absa LTIP will be set by the GRHRC and disclosed in the 2013 remuneration report.

Combined tables on the 2012 remuneration for executive directors and prescribed officers

Executive directors' 2012 remuneration

	M Ramos		L L von Zeuner		D W P Hodnett		Total	
	2012 R	2011 R	2012 R	2011 R	2012 R	2011 R	2012 R	2011 R
Salary	6 065 600	6 070 244	3 906 280	3 930 748	3 050 769	3 056 877	13 022 649	13 057 869
Medical aid	69 840	64 716	109 752	84 804	89 856	83 268	269 448	232 788
Retirement benefits	492 593	492 593	322 222	322 222	251 852	251 852	1 066 667	1 066 667
Other employee benefits	29 648	29 740	85 752	88 008	41 443	31 158	156 843	148 906
Total fixed remuneration	6 657 681	6 657 293	4 424 006	4 425 782	3 433 920	3 423 155	14 515 607	14 506 230
Annual bonus								
Cash	0	0	0	2 500 000	1 200 000	1 800 000	1 200 000	4 300 000
Phantom shares after six months	0	0	0	2 500 000	1 200 000	1 800 000	1 200 000	4 300 000
Initial value of deferred award ¹	0	14 000 000	0	7 500 000	3 600 000	5 400 000	3 600 000	26 900 000
2013 Long-term incentive (contingent on future performance)	10 000 000	8 000 000	0	0	6 000 000	5 000 000	16 000 000	13 000 000
Total remuneration	16 657 681	28 657 293	4 424 006	16 925 782	15 433 920	17 423 155	36 515 607	63 006 230
Pay in lieu of leave	0	0	1 617 056	91 512	0	0	1 617 056	91 512
Contractual retention payment	0	0	12 350 000	0	0	0	12 350 000	0
Retirement gift	0	0	23 052	0	0	0	23 052	0

Note

¹Deferred awards are delivered as phantom shares vesting over three years, dependent on future service and subject to clawback provisions.

Prescribed officers' 2012 remuneration

	W T Lategan		B A Malabie		S van Coller		Total	
	2012 R	2011 R	2012 R	2011 R	2012 R	2011 R	2012 R	2011 R
Salary	2 663 630	2 494 712	2 972 798	2 706 836	2 948 613	2 955 453	8 585 041	8 157 001
Medical aid	62 328	92 544	75 678	64 716	99 864	92 544	237 870	249 804
Retirement benefits	218 519	207 408	244 444	222 222	244 444	244 445	707 407	674 075
Other employee benefits	68 544	79 001	51 253	39 013	14 759	14 851	134 556	132 865
Total fixed remuneration	3 013 021	2 873 665	3 344 173	3 032 787	3 307 680	3 307 293	9 664 874	9 213 745
Annual bonus								
Cash	870 000	2 200 000	800 000	1 600 000	2 700 000	3 000 000	4 370 000	6 800 000
Phantom shares after six months	870 000	0	0	0	2 700 000	3 000 000	3 570 000	3 000 000
Initial value of deferred award ¹	2 610 000	3 300 000	1 200 000	2 400 000	8 100 000	9 000 000	11 910 000	14 700 000
2013 Long-term incentive (contingent on future performance)	2 500 000	3 000 000	3 500 000	4 000 000	5 000 000	5 000 000	11 000 000	12 000 000
Total remuneration	9 863 021	11 373 665	8 844 173	11 032 787	21 807 680	23 307 293	40 514 874	45 713 744

Note

¹Deferred awards are delivered as phantom shares vesting over three years, dependent on future service and subject to clawback provisions.



| Moving to One Africa |



Looking forward – moving to One Africa

2013 is going to be a watershed year in our One Africa strategy. In 2012, we consolidated Barclays Africa and Absa into a single management structure in Africa. In 2013, subject to the receipt of regulatory approvals, the majority of Barclays Africa businesses and Absa will be brought under one legal entity to create a leading Pan-African financial services business.

We believe that by combining Barclays strong heritage and footprint across the continent with Absa's impressive presence in South Africa, we can deliver great things for the company, customers, colleagues and communities in which we operate. Combining our operations will also make it possible for us to benefit from the fast pace of economic growth in a number of African countries.

The challenges we face as a financial institution demand that we adjust the way we work in fundamental ways. As a member of the Barclays Group, we will drive the plans to transform the culture and performance of Barclays in Africa.

Absa was created through a merger some 20 years ago and now we are merging again to form a leading Pan-African financial services business. As Barclays Africa Group Limited we will drive our One Africa strategy which focuses on broadening services in our existing operations and seeking new opportunities.

Our focus in Africa

We will differentiate ourselves as the 'Go-To' bank through relentless focus on customer and client service and targeted innovation to grow sustainably. Core to our sustainability is to be a force for good in the communities we serve and the people's lives we touch. Our One Africa strategy focuses on broadening our services in leading markets and to invest in new geographies.

We will uniquely position ourselves as a fully global and fully local bank to deliver a superior customer and client experience in Africa. In other words, we combine our global product knowledge with regional expertise and our extensive and well-established local presence in Africa to serve our customers and clients even better.



We unpack what this means for us in Africa over the following pages . . .

Our goal

Becoming the 'Go-To' bank

Our goal, looking to 2013 and beyond, is to build not only a sustainable, trustworthy business, but a business which customers and clients consider as the first choice for answers and solutions – their 'Go-To' bank. Customers and clients will benefit from our focus on doing business in the right way, putting them firmly in the centre of all that we do. For Absa and our shareholders, 'Go-To' means a more efficient way of going business and developing deeper relationships that sustainably improve return on shareholder investment.

A wide-ranging plan, called the Transform Programme, led by Antony Jenkins, Chief Executive of Barclays and driven by Maria Ramos and our senior leadership throughout Africa, sets out the route through which we will become the 'Go-To' bank for customers, clients, colleagues and the communities we live and work in.



Our purpose

Helping people achieve their ambitions – in the right way

Becoming the 'Go-To' bank will be realised with a renewed focus, fuelled by this common purpose. We exist for our clients and customers, for our shareholders, our colleagues, and other stakeholders – we exist for the purpose of helping 'people' achieve their ambitions. Helping people 'in the right way' means 'how we do it' becomes as important as 'what we do'.

Our values

Being the 'Go-To' bank sets a new bar for what we do for customers and clients, how we do it and how we are perceived in the market

We have created values that will embody our new goal and purpose. Absa will be differentiated from peers by bringing these values to life every day in the way we behave. Transparency will be at the heart of all we do – from financial disclosure to customer service.

The new values we will live by:

- **Respect** means respecting and valuing those we work with – our colleagues and other partners. It is about building trust and promoting collaboration.
- **Integrity** demands we act fairly, ethically and honestly. This requires us to have the courage always to do the right thing, never tolerating the wrong thing, and to be accountable for our decisions.
- **Service** means ensuring our clients and customers are always uppermost in our minds. We must strive to exceed their expectations so we automatically become their 'Go-To' bank.
- **Excellence** calls on us to use all our energy, skills and resources to deliver great service for our customers and clients and outstanding sustainable results for shareholders.
- **Stewardship** is about being determined to leave things better than we found them, so we constantly strive to improve the way we operate as an organisation and the impact we have on society.

Our strategic themes

Our One Africa strategy defines *how* we will become the 'Go-To' bank in Africa

- **Sustainable growth:** The African banking market represents a big opportunity for continuous growth in all geographies and segments, while an increase in foreign investments and an overall decrease in political and macro-economic risk are evident, with banking revenue pools still largely being under-penetrated. We seize this opportunity by focusing on sustainable growth – to make more of Africa's people our customers and clients and to do so by expanding and deepening our footprint and tailored value offerings in markets that promote and sustain economic prosperity.
- **Build the platform:** To become the 'Go-To' bank in Africa, it is critical that we effectively organise ourselves from a functional and operational perspective across the continent, to enable growth, scale and efficiency, while supporting our robust focus on customer and client demands and risk management.
- **Customer and client at the core:** We aim to provide superior customer and client service in all aspects of what we do. We are committed to make our customers' and clients' lives much easier by offering them innovative and value for money products, while responding to their needs by adapting our value propositions, processes and organisation structures.
- **People centricity:** As our people are our greatest assets, we will ensure they are fully engaged and empowered and that we create a diverse and inclusive environment where they can be further developed and fulfil their potential.
- **Control and compliance:** It has become increasingly important to understand and manage our control and compliance environment in order to create sustainable returns for our shareholders and protect the wallets of our customers and clients. We continually have to define areas of risk appetite expansions and constraints and fine-tune our shared ownership of the decision-making process. It is essential that we embed a risk awareness culture that promotes transparency and proactive support of risk, governance and control, while aligning risk and capital resources.



Our 2015 commitments

We are making a series of commitments against which progress can be tracked.

Non-financial commitments

- Roll-out Africa Corporate and Investment Banking
- Integrate Wealth, Investment Management and Insurance
- Improve core customer and client processes
- Improve customer satisfaction indicators
- Improve employee satisfaction as demonstrated by improving employee opinion survey results
- Improve the level of control in business critical operational risk areas to the right standard
- Embed our citizenship plan

Financial commitments

- Higher income than cost growth
- Core Tier 1 ratio to remain above Board target of 9,5% – 11%
- Target Group return on equity of 20%
- Target return on risk weighted assets of 2,5%



Our 2013 priorities

- Successfully complete the Barclays Africa deal by the second half of 2013
- Drive sustainable growth by completing the Retail and Business Banking transformation, while restoring top-line growth; grow corporate and investment banking in Africa; deepen and expand in core markets, in line with the One Africa strategy.
- Build-out the platform by embedding the integrated target operating model to support scale, growth and efficiency.
- Have the customer and client at the core, by optimising core customer processes and customer and client segmentation; realign businesses to a customer-/client-centric approach; drive innovation and digital capabilities.
- Drive people centricity, by aiming to attract, retain, stretch and develop top talent and reward competitively; promote a conducive environment for engaged, motivated and empowered colleagues.
- Focus on control and compliance by continuing to embed a risk awareness culture that balances commerciality and control.

How we will measure ourselves

We will demonstrate tangible progress. We are serious about making sure we live by these values, so they will play a significant role in how we measure and reward individual and business performance.

We will continue to pay for performance and we will continue to pay competitively for the best talent. However, in future, variable pay will depend on performance against our values as well as other targets.

A new performance assessment approach, based on a balanced scorecard, will be introduced for senior executives during 2013 and for all colleagues from the middle of 2014. This means, all variable remuneration will depend on delivering performance in the way that is consistent with our values. Adding further weight to doing business 'in the right way', we will launch a new code of conduct for all employees.

Customers and clients

Delighting our customers and clients is fundamental to being their 'Go-To' bank. We want to be the provider of choice by ensuring that our customer service is top tier for the markets in which we operate.



Objectives

- Greater level of customer and client satisfaction
- More business from more customers and clients

Colleagues

Colleagues are the cornerstone of Absa. We strive to create a diverse and inclusive environment, where colleagues can fulfil their potential, and Absa is seen as the employer of choice. Our employees need to be fully engaged in order to serve effectively and to experience fulfilling careers.



Objectives

- Improved colleague engagement and satisfaction
- Diversity across our workforce
- Retention of high-performing colleagues

Citizenship

In striving to make Absa the 'Go-To' bank, we must consider the impacts of our day-to-day business decisions on our stakeholders and wider society. We will ensure our decisions take account of external stakeholder needs in the short and long term and positively impact the communities in which we operate.



Objectives

- Improve external stakeholder perceptions
- Increase impact of community programmes

Conduct

We must be a values-driven business, becoming once again a trusted pillar and the 'Go-To' bank because of our behaviour. Success will be seen when our regulators view us as a model of constructive engagement. Our products and services will be designed and distributed to meet customers' and clients' needs consistent with our mutual risk appetite and will be priced appropriately.



Objectives

- Effective control environment
- Fewer customer complaints

Company

As a financial institution, we understand the importance of strong commercial performance. We are resilient, but we will reinvigorate a focus on building to last, particularly in our financial resilience.



Objectives

- Return on equity above the cost of equity

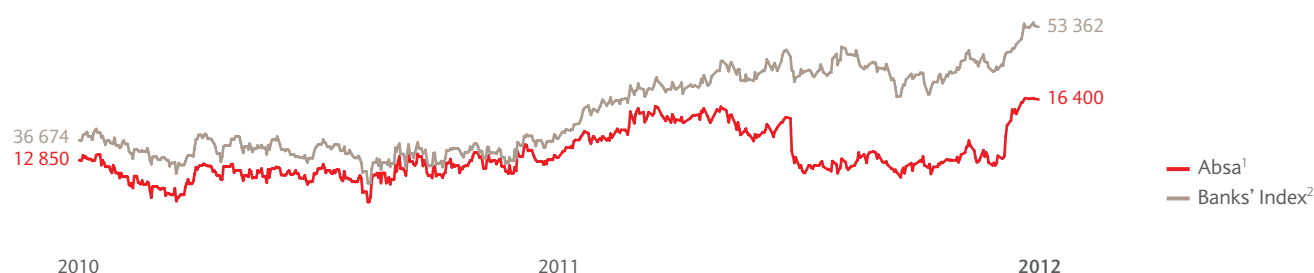


Our share price
performance,
shareholder analysis
and useful resources
for readers



Shareholder information

Share performance (cents)



Share performance on the JSE Limited

	2012	2011	Change %
Number of shares in issue ⁴	718 210 043	718 210 043	—
Market prices (cents per share):			
closing	16 400	14 100	16
high	16 620	14 682	13
low	13 220	12 319	7
average	14 732	13 559	9
Closing price/NAV per share (excluding preference shares) (%)	1,76	1,62	
Price-to-earnings (P/E) ratio (closing price/headline earnings per share) (%)	6,7	10,4	
Volume of shares traded (million)	438,0	317,0	38
Value of shares traded (Rm)	64 345,3	42 837,8	50
Market capitalisation (Rm)	117 786,4	101 267,6	16

Ordinary shares

	2012 %	2011 %
Major ordinary shareholders (top 10)		
Barclays Bank Plc	55,5	55,5
Public Investment Corporation	7,3	6,6
Sanlam Investment Management	2,9	2,2
Dimensional Fund Advisors Incorporated	2,4	1,6
Investec Asset Management	2,0	1,2
Old Mutual Asset Managers	1,5	3,0
STANLIB Asset Management	1,3	1,4
The Vanguard Group Incorporated	1,2	1,3
Prudential Portfolio Managers	1,2	0,5
Allan Gray Investment Council	1,0	0,2
Other	23,7	26,5
	100,0	100,0
Geographical split		
United Kingdom	56,6	57,1
South Africa	28,1	29,7
United States and Canada	7,5	6,3
Other countries	7,8	6,9
	100,0	100,0

Notes

¹Absa's annual total return for the year ended 31 December 2012 was **21,3%** (2011: 4,4%).

²The Banks' Index outperformed Absa's share price by **18,45%** during the year ended 31 December 2012 (2011: 2,59%). Total return was used to calculate the relative performance (calculated using the dividend yield for the year).

³Includes **547 750** (2011: 1 195 822) treasury shares held by Group entities.

Public and non-public shareholders

	2012			2011		
	Number of shareholders	Number of shares held	%	Number of shareholders	Number of shares held	%
Public shareholders	36 266	318 556 172	44,4	37 539	289 981 420	40,4
Non-public shareholders						
Barclays Bank PLC	2	398 774 945	55,5	2	398 774 945	55,5
Related holdings	2	547 750	0,1	16	29 122 502	4,1
Directors' and associates' beneficial holdings	14	331 176	0,0	14	331 176	0,0
→ Direct		320 176			320 176	
→ Indirect		11 000			11 000	
Directors' and associates' non-beneficial holdings						
→ Direct		—			—	
→ Indirect		—			—	
Total	36 284	718 210 043	100,0	37 571	718 210 043	100,0

Directors' interests in the ordinary shares of the Company

	Direct number of shares		Indirect number of shares		Total direct and indirect number of shares	
	Beneficial		Beneficial		Beneficial	
	2012	2011	2012	2011	2012	2011
Present directors						
G Griffin	—	—	8 000	8 000	8 000	8 000
C Beggs	2 000	2 000	—	—	2 000	2 000
Y Z Cuba	1 000	1 000	—	—	1 000	1 000
S A Fakie	1 000	1 000	—	—	1 000	1 000
M J Husain	1 000	1 000	—	—	1 000	1 000
A P Jenkins	1 000	1 000	—	—	1 000	1 000
R Le Blanc	1 000	1 000	—	—	1 000	1 000
T M Mokgosi-Mwantembe	1 000	1 000	—	—	1 000	1 000
E C Mondlane, Jr	1 000	1 000	—	—	1 000	1 000
T S Munday	1 000	1 000	2 000	2 000	3 000	3 000
S G Pretorius	1 000	1 000	—	—	1 000	1 000
B J Willemse	—	—	1 000	1 000	1 000	1 000
L L von Zeuner	308 176	308 176	—	—	308 176	308 176
Past director						
B P Connellan ¹	n/a	1 000	—	—	n/a	1 000
	319 176	320 176	11 000	11 000	330 176	331 176

There was no movement in shareholding between the reporting date and the date of approval of the financial statements.

No directors hold any non-beneficial interests in the Company's ordinary shares.

Note

¹ Subject to change.

Shareholder information

Total number of Absa Group shares

	Ordinary shares	Preference shares	Total shares
Shares in issue at 31 December 2012	718 210 043	—	718 210 043
Shares in issue at 31 December 2011	718 210 043	—	718 210 043

Shareholder diary

Financial year-end 31 December 2012

Annual general meeting 2 May 2013

Announcement of the final results 12 February 2013

Announcement of the interim results¹ 31 July 2013

Dividend	Declaration date	Last day to trade	Ex dividend date	Record date	Payment date
Final – December 2012	12 February 2013	27 March 2013	28 March 2013	5 April 2013	8 April 2013
Interim – June 2013 ¹	31 July 2013	6 September 2013	9 September 2013	13 September 2013	16 September 2013

Absa Absa Group Limited, together with its subsidiary undertakings, special purpose entities, joint ventures and offshore holdings. It is also referred to as 'the Group' in this report.

Balance sheet The term balance sheet is used in the same context as the statement of financial position.

Bank Absa Bank Limited together with its subsidiary undertakings, special purpose entities, joint ventures and offshore holdings. It is also referred to as 'the Bank' or 'Absa Bank' in this report.

Banks Act This means the Banks Act, No 94 of 1990 and its regulations.

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

Basel Capital Accord 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.

Basel Committee of Banking Supervisors (BCBS) A forum for regular cooperation on banking supervisory matters that develops global supervisory standards for the banking industry. Its members are officials from central banks or prudential supervisors from a number of countries and territories.

Basel II The second of the Basel Accords. It sets a framework of minimum capital requirements for banks covering credit, operational and market risk; supervisory review of banks' assessment of capital adequacy and disclosure requirements.

Basel II.5 The update to the Basel framework, which includes changes to capital and disclosure requirements for securitisation and market risk.

Basel III The third of the Basel Accords. It has been developed in response to the financial crisis of 2008 and sets new requirements on composition of capital, counterparty credit risk, liquidity and leverage ratios.

Basis point(s) (bp(s)) One hundredth of a per cent (0,01%); 100 basis points is 1%. The measure is used in quoting movements in interest rates, yields on securities and for other purposes.

Borrowed funds Subordinated callable notes qualifying as long-term Tier 2 capital issued by Absa Bank Limited in terms of section 1 of the Banks Act, No. 94 of 1990. The subordinated callable notes are listed on the Bond Exchange of South Africa. Borrowed funds include preference shares classified as debt in terms of IAS 32.

Capital adequacy ratio The capital adequacy of South African banks is measured in terms of the SARB's requirements. The ratio is calculated by dividing the primary (Tier 1), secondary (Tier 2) and tertiary (Tier 3) capital by risk-weighted assets. The minimum South African total capital adequacy ratio for banks is 9,5% of risk-weighted assets. Non-South African banks within the Group have similar capital adequacy methodology requirements.

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.

Companies Act This means the Companies Act, No 71 of 2008 (as amended) and its regulations.

Cost of equity (CoE) The rate of return targeted by the equity holders of a company.

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

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

Coverage ratio Impairment allowances as a percentage of credit risk loan balances.

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

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

Data risk Data risk is the risk that the policy data used in models is not accurate or incomplete, leading to incorrect premiums being set or insufficient reserves being held.

Debt securities in issue Short- to medium-term instruments issued by the Group and includes promissory notes, bonds and negotiable certificates of deposits.

Dividend cover Headline earnings per share, divided by dividends per share.

Glossary

Dividends per ordinary share relating to income for the reporting period Dividends per ordinary share for the reporting period is the actual interim dividends paid and the final dividends declared for the reporting period under consideration, expressed as cents per share. Dividends per share for the interim period are the interim dividends declared for the period.

Earnings per share

- **Profit attributable to ordinary equity holders** This constitutes the net profit for the reporting period less earnings attributable to non-controlling interest divided by the weighted average number of ordinary shares in issue during the reporting period.
- **Headline earnings basis** Headline earnings for the reporting period divided by the weighted average number of ordinary shares in issue during the reporting period.
- **Fully diluted basis** The amount of profit for the reporting period that is attributable to ordinary equity holders divided by the weighted average number of ordinary shares in issue during the reporting period, both adjusted for the effects of all potential dilutive ordinary shares, assuming they had been in issue for the reporting period.

Economic capital (EC) An internally calculated capital requirement deemed necessary by Absa to support the risks to which the Group is exposed, at a confidence level consistent with a target credit rating of AA. Also used in the return on average economic capital.

Economic profit (EP) The difference between the return on financial capital invested by shareholders (return on invested capital) and the cost of that capital.

Effective tax rate Taxation expenses as a percentage of operating profit before income tax.

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

Exposure A claim, contingent claim or position that 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.

Fee and commission income We earn fee and commission income from customers for: credit and bank cards; transaction processing fees; advisory, equity and underwriting services; lending and deposit-related transactions, such as loan commitments, standby letters of credit, and other deposit and loan servicing activities; investment management-related fees, including brokerage services, and custody and trust service.

Funding risk This constitutes the failure to maintain adequate levels of capital and/or losing our investment grade credit rating.

Gains and losses from banking and trading activities

This comprises banking and trading portfolios and includes:

- realised gains and losses on financial instruments held at amortised cost, held-to-maturity or available-for-sale;
- realised gains and losses on the disposal of associates, joint ventures and subsidiaries within the banking portfolios;
- realised and unrealised gains and losses on financial instruments designated at fair value through profit or loss; and
- interest, dividends and fair value movements on certain financial instruments held for trading or designated at fair value through profit or loss.

Gains and losses from investment activities This comprises insurance and strategic investment portfolios and includes:

- realised gains and losses on financial instruments held at amortised cost, held-to-maturity or available-for-sale;
- realised gains and losses on the disposal of associates, joint ventures and subsidiaries;
- realised and unrealised gains and losses on financial instruments designated at fair value through profit or loss; and
- interest, dividends and fair value movements on certain financial instruments held for trading or designated at fair value through profit or loss.

Group Absa Group Limited, together with its subsidiary undertakings, special purpose entities, joint ventures, associates and offshore holdings. It is also referred to as 'the Group' or 'Absa Group'.

Headline earnings Headline earnings reflects operating performance separated from remeasurements (an amount recognised in the statement of comprehensive income relating to any change (realised or unrealised) in the carrying amount of an asset/liability that arose after the initial recognition of such asset or liability) as well as non-controlling interest of preference shares or ordinary shares, where relevant.

Impairment allowances A provision held on the balance sheet as a result of the raising of a charge against profit for incurred losses inherent in the lending book. An impairment allowance may either be identified or unidentified and individual or collective.

Impairment losses on loans and advances as percentage of average loans and advances to customers (impairment losses ratio).

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

Income statement The term income statement is used in the same context as the statement of comprehensive income.

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

JAWS ratio A measure used to demonstrate the extent to which a trading entity's income growth rate exceeds its expenses growth rate.

Key indicators (KIs) These are metrics that are used to monitor our operational risk profile. KIs include measurable thresholds that reflect the risk appetite of the business.

Liquidity coverage ratio (LCR) To promote the short-term resilience of a bank's liquidity risk profile by ensuring it has sufficient high-quality liquid assets to survive a significant stress scenario lasting for one month.

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

Loans-to-deposits ratio Loans and advances to customers as a percentage of deposits due to customers and debt securities in issue.

Loss given default (LGD) The loss expected on a particular credit facility in the event of default and therefore recognises credit risk mitigants we may employ, such as collateral or credit risk derivatives. LGD estimates are calculated as a percentage of exposure at default using models based on internal and external loss data and the judgement of credit experts, and are primarily driven by the type and value of collateral held.

Market capitalisation Our closing share price times the number of shares in issue at the reporting date.

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

Net asset value (NAV) per share Total equity attributable to ordinary equity holders divided by the number of shares in issue. NAV per share excludes the non-cumulative, non-redeemable preference shares issued.

Net interest income The amount of interest received or receivable on assets net of interest paid or payable on liabilities.

Net interest margin on average interest-bearing assets Net interest income for the period divided by average interest-bearing assets (calculated on a daily weighted average basis), expressed as a percentage of average interest-bearing assets. Average interest-bearing assets consist of all accounts attracting interest within the asset categories of cash, cash balances and balances with central banks, statutory liquid asset portfolio, loans and advances to banks and customers and investment securities (it includes cash and short-term assets, money market assets and capital market assets).

Net stable funding ratio (NSFR) The aim of this ratio is to promote resilience over a longer-time horizon (one year) by creating additional incentives for banks to fund their activities with more stable sources of funding on an ongoing basis.

Non-current assets held for sale Assets held for sale are those non-current assets where it is highly probable that the carrying amount will be received principally through a sale transaction within 12 months from the date of the classification. For a sale to be considered highly probable, board approval is required for the plan to sell the assets and an active programme to locate a buyer and complete the plan must have been initiated. Assets held for sale are valued at the lower of its carrying amount and fair value less cost to sell.

Non-interest income Non-interest income consists of the following statement of comprehensive income line items: net fee and commission income; net insurance premium income; net insurance claims and benefits paid; changes in investment and insurance liabilities; gains and losses from banking and trading activities; gains and losses from investment activities; as well as other operating income.

Non-interest income as percentage of total operating income Non-interest income as a percentage of income from operations. Income consists of net interest income and non-interest income.

Non-performing loans (NPLs) A loan is typically considered non-performing once its delinquency reaches a trigger point. This is typically when interest is suspended (in accordance with Group policy) or if the loan is moved to the legal environment for recovery. As a consequence, a loan that has defaulted is not necessarily non-performing (unless certain criteria are met).

Glossary

Non-performing loans (NPLs) coverage ratio Net exposure, being the outstanding non-performing loan balance less expected recoveries and fair value of collateral, as a percentage of total outstanding non-performing loan balance.

Non-performing loans (NPLs) ratio Non-performing loans as a percentage of gross loans and advances to customers.

Operational risk 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.

Preference share capital Classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity.

Price-to-earnings (P/E) ratio The closing price of ordinary shares divided by headline earnings per share for the reporting period.

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.

Regulatory capital (RC) The capital that Absa holds, determined in accordance with the requirements of the Banks Act and regulations relating to banks.

Return on average assets (RoA) Headline earnings for the reporting period divided daily weighted average assets.

Return on average economic capital (RoEC) Headline earnings for the reporting period divided by weighted average economic capital.

Return on average equity (RoE) Headline earnings for the reporting period divided by average shareholders' funds.

Return on average risk-weighted assets (RoRWA) Headline earnings for the reporting period divided by the weighted average risk-weighted assets.

Risk-weighted assets (RWA) Calculated by assigning a degree of risk, expressed as a percentage (risk weight) to an exposure, in accordance with the applicable approach rules. Risk-weighted assets are determined by applying the following:

- advanced Internal ratings-based approach for wholesale and retail credit;
- advanced measurement approach for operational risk;
- internal ratings-based market-based simple risk-weight approach for equity investment risk in the banking book; and
- standardised approach for all African entities.

Special purpose entity (SPE) 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.

Stress testing Stress testing provides an indication of the potential size of losses that could occur in extreme conditions. Stress testing assists in identifying risk concentrations across business lines and assists senior management in making capital planning decisions.

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

Value at risk (VaR) A technique that measures the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence.

Value of new business The discounted value, at the date of sale, of the projected after tax shareholder profits from new covered business, net of the opportunity cost of the required capital for new business. New covered business is defined as long-term insurance contracts written by the company during the reporting period and for which at least one premium has been recognised in the financial statements. The value of new business is calculated using closing assumptions for all basis items.

Weighted average number of shares The number of shares in issue at the beginning of the reporting period increased by shares issued during the reporting period, weighted on a time basis for the period during which they participated in the income of the Group, less treasury shares held by entities in the Group, weighted on a time basis for the period during which the entities held these shares.

Wholesale credit risk Loss to the Group arising from the failure of a customer or counterparty to fulfil payment obligations.

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

These definitions should be read in conjunction with our accounting policies as set out in the annual financial statements, which also clarify certain terms used.

Acronyms

Shareholder information

A		H	
Absa LTIP	Absa Long-term Incentive Plan	HR	Human resources
AFS	Absa Financial Services	I	
B		IR	Integrated Report
Basel	Basel Capital Accord	IAS	International Accounting Standards
BBBEE	broad-based black economic empowerment	IFRIC	International Financial Reporting Interpretations Committee
BBM	Barclays Bank Mozambique	IFRS	International Financial Reporting Standards
BCBS	Basel Committee on Banking Supervision	IRS	Inland Revenue Service or Internal Revenue Service
BFC	Board Finance Committee	J	
bps	basis points	JIBAR	Johannesburg Interbank Agreed Rate
C		JSAP	Joiners Share Award Plan
CA	The Companies Act, No 71 of 2008 and its Regulations	K	
CAF	Commercial Asset Finance	KLP	Key Leaders Retention Plan
CIBW	Corporate, Investment Banking and Wealth	King III	King Report on Corporate Governance for South Africa, 2009
CERA	Chartered Enterprise Risk Analyst	M	
CoGP	Codes of Good Practice	MC	Models Committee
CoRC	Concentration Risk Committee	N	
CPA	Consumer Protection Act	NAV	Net asset value
CPF	Commercial Property Finance	NBC	National Bank of Commerce Limited
CSI	corporate social investment	NCA	National Credit Act
D		P	
DAC	Directors' Affairs Committee	PAT	profit after taxation
DAP	Deferred Award Plan	PBT	profit before taxation
dti	Department of Trade and Industry	PSP	Performance Share Plan
DVaR	daily value at risk	R	
E		RBB	Retail and Business Banking
EOS	employee opinion survey	RC	Regulatory Capital or Regulatory Compliance
ESAS	Executive Share Award Scheme	RoA	return on average assets
EWL	early warning list	RoE	return on average equity
Exco	Executive Committee	RoEC	return on economic capital
F		RoRWA	Return on average risk-weighted assets
FAIS	Financial Advisory and Intermediary Services Act, No 37 of 2002	RWA	risk-weighted assets
FASSA	Fellow of the Actuarial Society of South Africa	S	
FATCA	Foreign Account Tax Compliance	SAM	solvency assessment and management
FFA	Fellow of the Faculty of Actuaries	SARB	South African Reserve Bank
FIA	Financial Intermediaries Association	SME	small and medium sized enterprises
FICA	Financial Intelligence Centre Act, No 38 of 2001	SOS	Share Option Scheme
FSA	Financial Services Authority	SOX	Sarbanes-Oxley
FSB	Financial Services Board (South Africa) or Financial Stability Board	SPE	special purpose entity
G		T	
GACC	Group Audit and Compliance Committee	TCF	Training Customers Fairly
GGCC	Group Governance and Control Committee	V	
GRCMC	Group Risk and Capital Management Committee	VAF	Vehicle and Asset Finance
GRHRC	Group Remuneration and Human Resources Committee	VaR	Value at risk
GRI	Global Reporting Initiative	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



What our impact was on the environment in 2012



We have made steady progress in decreasing the environmental impact of our integrated report. This year, despite the fact that our report format has changed to A4 since 2011 from A5 in 2010, and that a heavier weight text is being used, our paper consumption by weight has decreased to 70,8% when compared to 2010. This is driven by printing fewer reports and more importantly using far less pages.

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.

Absa Group Limited

Authorised financial services and registered credit provider (NCRCP7)

Registration number: 1986/003934/06

Incorporated in the Republic of South Africa

JSE share code: ASA

Issuer code: AMAGB

ISIN: ZAE000067237

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