

BEE report for the South African operations of Barclays Africa Group Limited

Introduction

The success of our business depends on the strength of the communities in which we operate. As a Group, we are committed to developing these communities and economies and in doing so, empowering their historically disadvantaged people.

A number of persistent developmental challenges endure, including disparities in career, education and economic opportunity. This report details our efforts to eliminate these gaps and support transformation in our South African operations, where we derive the majority of our business.

Embracing transformation

As a responsible South African business, we embrace the tenets of the Broad-Based Black Economic Empowerment (BBBEE) Act. The Act serves as the basis for the Department of Trade and Industry's recently introduced Financial Sector Code (FS Code).

We have previously reported our transformation progress against the generic Codes of Good Practice (CoGP) scorecard, however, 2013 marks the transition to a newly gazetted FS Code scorecard. While this code is aligned to the generic codes, it contains two additional sector-specific elements: empowerment finance and access to financial services. As a result of these changes, certain year-on-year comparisons are not possible.

In 2013 we improved our black economic empowerment (BEE) status from a Level four contributor to Level three.

 Download a copy of our BEE verification certificate www.absa.co.za/absacoza/About-Absa/Absa-Bank/BEE.

Performance against the FS Code

FS Code element	FS Code weighting	Points earned
Ownership	14	6,62
Management control	8	3,04
Employment equity	15	9,70
Skills development	10	9,07
Preferential procurement	16	14,92
Empowerment financing	15	13,91
Enterprise development	5	5,00
Socio-economic development	3	3,00
Access to financial services	14	9,90

Ownership

We were the first of the big four banks in the country to allocate 10% ownership to black partners in 2004. The deal was conducted through the Batho Bonke empowerment consortium and was also the first to be unwound in 2012, benefiting black South Africans from all walks of life.

The financial sector has long debated the scoring of companies following the conclusion of such BEE deals. This question was resolved with the introduction of the FS Code, which currently follows a 'once

empowered, always empowered' principle allowing companies to continue claiming a portion of their black ownership points after their empowerment partners sell their equity.

Management control

We are a Pan-African group with subsidiary companies in other African countries. Our Board comprises 12 directors, of whom three represent Barclays PLC and of the remaining nine, three (33%) are black and one (11%) is a black woman.

The Absa Bank board (our South African banking subsidiary) comprises 10 directors, of whom five (50%) are black and three (30%) are black women. This represents an increase from 2012, when black Board representation was 29% and female representation was 11%. We were pleased to welcome Ms Thembisa Dinga to the Absa Bank board during the year, improving both the diversity and expertise of our Board.

Top management comprises Group executive management and other members of the South African top management team. Its composition at the end of the year was 15% black (2012: 33%), of whom 5% were black women (2012: 11%).

Employment equity

Indicators	2013	2012	2011
Overall disability (% of total employees)	0,96	1,09	1,13
Black senior management representation (%)	32,15	31,53	38,23
Black women senior management representation (%)	12,00	11,17	12,92
Black middle management representation (%)	49,73	47,09	49,12
Black women middle management representation (%)	26,06	25,05	25,94
Black junior management representation (%)	71,92	69,08	67,69
Black women junior management representation (%)	50,92	48,89	47,41
Total black turnover (%)	12,5	14,6	13,0
Total turnover (%)	11,7	15,3	11,9
New appointments – black (%)	80	81	86
Promotions – black (%)	77	74	76
Resignations – black (%)	71	69	70

Workplace diversity is an important source of competitive advantage in South Africa and across the Group. We aim to foster an inclusive work environment free from discrimination and supportive of career advancement. In 2013, black representation remained relatively constant. Increasing employment equity among middle- and senior-level management remains a challenge; however, representation increased marginally among these groups during the year. At lower job grades, black representation has increased, bringing opportunity for future development. Turnover among black employees remains slightly higher than the company average as a result of heightened demand for black talent within the industry.

Our decision to outsource certain non-core services resulted in a decline in the proportion of disabled employees in the workforce, as a number of these positions were filled by switchboard operators with impaired vision.

Each business segment has developed its own diversity and inclusion plan aligned to Group targets. This ensures a tailored and integrated approach to attracting, developing and retaining diverse talent while ensuring that on a whole, we continue to make progress against our Group commitment to the FS Code. These plans include initiatives such as coaching and mentoring and challenging work assignments with international exposure for key talent.

Our wider diversity and inclusion agenda places focus on supporting women in the workplace and so we offer specialised coaching and mentoring to our female employees and have established women's networks to ensure they are equipped to tackle the unique challenges they face navigating their careers.

Skills development

Indicators	2013	2012	2011
Total training spend on black employees (Rm)	604,3	500,8	373,6
Total leviab payroll spent training black employees (%)	5,15	4,43	3,56
Total leviab payroll spent training black women employees (%)	3,39	2,92	2,27
Black learnerships as a percentage of total head count (%)	8,77	6,73	9,68

The South African labour market is facing a serious skills shortage, particularly with regards to its previously disadvantaged population and in certain fields critical to our business. To address these gaps, we are working to develop the skills of our black employees, equipping them for fulfilling and productive careers.

In 2013, we spent a total of R604,3 million (as reported under the FS Code) training our black South African employees. As a result of this investment, we received 9,07 out of 10 available points in the skills development element. Our learnerships continue to provide valuable skills to participants and a strong pipeline of young talent to the business. Opportunity remains, however, to increase our support for black people with disabilities.

Preferential procurement

Indicators	2013	2012	2011
Total measurable procurement (Rbn)	10,89	12,68	7,26
Total weighted spend from BBBEE-accredited suppliers (Rbn)	14,12	12,56	12,53
Procurement from QSE ¹ and EME ² suppliers (Rbn)	2,31	2,59	2,02
Procurement from 50% black-owned suppliers (Rbn)	1,73	1,01	0,82
Procurement from 30% black women-owned suppliers (Rbn)	0,49	0,50	0,36

Notes

¹ Qualifying small enterprises

² Exempted micro enterprises

We continued our efforts to increase the proportion of our procurement spend with black-owned suppliers, black women-owned suppliers, qualifying small enterprise suppliers, as well as exempted micro-enterprises. In doing so, we achieved a preferential procurement score of 14,92 out of 16, with R14,1 billion weighted spend on products and services from 7 334 BBBEE-accredited suppliers.

In 2013, we doubled our number of black women-owned suppliers by increasing the weighting of the ownership in our request for proposal evaluation criteria. Through our supply chain network portal (<http://www.scnnet.co.za>), we are able to identify qualified suppliers to include in sourcing events. Further, by working in partnership with our enterprise development team, we include small and medium enterprises to our sourcing process. We sponsored 20 small black suppliers to attend the 2013 Smart Procurement Conference in Johannesburg. These suppliers were given exhibition stands and participated in networking opportunities and workshops aimed at improving and building their businesses.

Empowerment financing and enterprise development

Indicators	2013 ¹
Targeted investments	
– Transformational infrastructure (Rm)	1 997,8
– Black agricultural financing (Rm)	40,1
– Affordable housing (Rm)	6 271,0
– Black SME financing (Rm)	364,0
BEE transaction financing (Rm)	6 294,3
Enterprise development (Rm)	21,5

Note

¹ 2013 marks the first year that Absa has reported against the FS Code scorecard. The above numbers are cumulative and weighted in terms of reporting under the FS Code from 1 January 2012

Transformational infrastructure

While a significant number of infrastructure projects take place in areas outside of the South African government's targeted rural areas, we aim to identify, structure and finance relevant projects that will also specifically benefit rural development.

We expect that a significant portion of the new transformational infrastructure projects will be concluded within the government's Renewable Energy Independent Power Producer Procurement Programme, as a significant number of our support consortiums were designated as preferred bidders in the various bidding rounds of this process.

Black agricultural financing

We continue to support South Africa's agricultural sector, providing appropriate financing solutions in support of transformation within the sector. While land reform and severe drought conditions in parts of the Northern Cape, North West and Free State made 2013 a challenging year, the bank provided R125,4 million in agricultural financing for black farmers of which R40,1 million was claimable.

Affordable housing

In South Africa, the demand for affordable housing stock continues to outstrip supply. Our affordable housing business unit contributed significantly in addressing the housing challenges faced by consumers who earn less than R17 600 per month. Our Klarinet Integrated Housing development is currently underway in Mpumalanga and by the end of 2013, 1 527 subsidy units have been transferred to beneficiaries. A further 745 are under construction and due for completion in March 2014. In 2013, we provided over R1,6 billion home loans financing to more than 5 000 individuals and business and in doing so grew our loan book 11% to R9,4 billion from R8,5 billion in 2012.

The Group contribution towards the FS Code for affordable housing origination declined marginally from 2012, and the R6,27 billion invested in 2013 related mainly to home, personal and pension loans.

We have a Group origination target of over R10 billion between 2012 and 2017 and have made strides against this target.

Black SME financing

Access to finance can be a major obstacle for start-up enterprises and SMEs and is often a result of a lack of collateral, security and experience.

The high-risk nature of SME entrepreneurship means that many applications for assistance do not meet normal banking credit requirements. However, we aim to support sound business ventures by extending financial support to emerging enterprises that would ordinarily not qualify. To this end, we formed the first enterprise development credit portfolio. This R250 million portfolio provides funding to SMEs based on the strength their contract with a corporate client. In allocating funding, less reliance is placed on the SME's balance sheet or ability to provide collateral. Lending potential is leveraged to R500 million by way of guarantee funds and incentive schemes.

For reporting purposes, we must confirm that the entities we finance hold a valid BEE certificate. Our greatest challenge has been identifying SMEs with these certificates that meet the qualifying criteria. Going forward, this obstacle will be lessened by legislation requiring only an affidavit from SMEs with a turnover of less than R10 million.

Non-traditional financing in action

Silo Trading Enterprise is a construction company based in Durban. After being awarded a R4 million contract to construct classrooms in May 2012, the company approached Absa Enterprise Development for funding and was approved for a facility of R1,8 million.

Through Absa, Silo Trading now has access to a wide range of products such as internet banking, cell phone banking and short-term insurance. The company also opened 40 savings accounts for its employees.

Silo trading has recently been awarded another major contract and was approved for another R1,8 million facility in 2013. The SME will receive non-financial support in the form of training through Absa's Enterprise Development Centre. This will better equip the company to deliver on its contract and to become a more sustainable business. Its turnover has increased from R1,9 million to R5 million and its workforce has grown from 25 to 40 employees. We are proud of our role in supporting this growth and hope to extend this impact to more SMEs in the future.

BEE transaction financing

We continue to target BEE financing opportunities to support our clients and meet our commitments under the FS Code. The market for BEE financing remains highly competitive, with a limited number of new transactions undertaken in 2013. As a result, our focus has been on refinancing existing transactions – a priority that is expected to continue into 2014.

Enterprise development

While financial support is a key driver of success for SMEs, they can also struggle to access markets and build the necessary business skills. We provide all three forms of support to selected unbanked and under-banked SMEs.

Our approach to enterprise development gives SMEs access to new markets through multinational corporate value chains and international trade. In 2013, more than 9 500 SMEs received this exposure through the Absa Procurement Portal.

Our enterprise development team is also dedicated to building the capacity of SMEs by developing entrepreneurship and business skills. This includes access to workshops, seminars, expos and roadshows. In 2013, we engaged with nearly 26 000 SMEs through these forums. Within the targeted group, 2 979 SMEs received business support services and training through Absa's network of Enterprise Development Centres. We were pleased to launch the new Absa Centre for Entrepreneurship in Newtown, Johannesburg in November 2013 and expect this centre will prove a valuable resource for SMEs in the city.

Socio-economic development

Indicator	2013	2012	2011
Socio-economic development spend (Rm)	86,8	91,6	96,8

Through our community investment, we develop and invest in projects that enable disadvantaged youth to develop skills they need to fulfil their potential. Our interventions focus on building enterprise, employability and financial skills, with a strong preference for programmes that create jobs. Projects are implemented in partnership with public benefit organisations.

The Group is pursuing a more focused approach to socio-economic development, and as such, is making fewer and bigger investments. While this means that we are exiting some projects, we are working closely with our partners to ensure the continued viability of the programmes we no longer fund.

In 2013, we developed the Unlocking Youth Potential Employee Volunteering Programme and rolled it out across Africa. The campaign encourages employees to volunteer their time and talents to encourage entrepreneurship spirit among the youth. During the year, 138 973 young people in South Africa were reached through various projects implemented using community investment funds.

Technoserve

The agricultural sector continues to be an important contributor to the national economy, employment and rural livelihoods. However, participation in the sector remains skewed towards established commercial farmers, with emerging farmers often struggling to become economically viable.

Our Technoserve project helps to create commercially sustainable emerging farmers in five provinces. It targets 100 black-owned agri-enterprises, and provides technical support, market access and funding to grow their businesses and create sustainable jobs.

Technoserve has significantly impacted the lives of the small scale farmers, who had little prior access to markets and who depended primarily on the informal market to sell their produce. With Absa's funding, Technoserve has been able to teach participating farmers important agricultural practices, helping them to expand their farming enterprises and increase their yields. As a result, more jobs have been created and livelihoods and living standards have been improved in the communities.

Access to financial services

Indicators	2013 ¹
Geographic access	
Transaction points (%)	57,35
Service points (%)	72,83
Sales points (%)	74,45
Electronic access (%)	14,31
Annual affordable housing origination (Rm) ²	3 608
Annual consumer education spend (Rm)	17,1
Financial literacy initiatives – number of consumers reached ('000)	116

Notes

¹ 2013 marks the first year that Absa has reported against the FS Code scorecard.

² Refer to empowerment finance and enterprise development narrative.

We played an important role in participating in the drafting the new FS Codes' requirements for increasing access to financial services, particularly with regards to geographic access, electronic access and banking densification. We remain committed to extending the benefits of financial products and services to South Africa's un-banked and under-banked populations. In particular, we focus on:

- Relevant affordable products and services
- Innovative delivery channels designed to facilitate easier access to financial services
- Consumer education that improves financial literacy.

Geographic access

We have worked actively to expand the reach of our sales and service points since the inception of the previous Financial Sector Charter and as a result, have seen a rapid increase in our coverage since 2005. In 2013, 57% of our entry-level customers (corresponding with living standards measure (LSM) 1 to 5) lived within five kilometres of a transaction point; 73% lived within 10 kilometres of a service point; and 74% lived within 15 kilometres of a sales point. Whenever we open or close points of presence, we carefully consider the resulting impact on coverage, and in the case of closures, we identify a suitable alternative.

During 2013, we further enhanced the functionality of our ATMs, giving customers the ability to perform more transactions within our self-service network. In addition, we are expanding our branchless banking partners to include more retailers across the country. These relationships give our customers access to their funds through the shops they already frequent.

Electronic access

In an increasingly digital world, electronic channels offer great potential for extending the reach – and therefore benefit – of our financial products and services and enable greater access to self-service banking.

In South Africa, our entry-level market base contracted during the year due in part to the challenging economic environment. Among these LSM 1 to 5 customers, electronic access penetration has grown from 11,63% in 2012 to 14,31% at the end of 2013. This was achieved by growing the number of active cellphone banking customers through improved platform functionality offering convenience and a low-cost alternative to traditional banking channels.

Cellphone-based interaction is a preferred channel among our entry-level customers, so our efforts to enhance our cellphone banking platforms will continue into the future. We expect uptake to further increase as the customer experience improves. We are working with cellphone providers to introduce campaigns reminding customers of the products and services available to them and providing incentives such as reduced airtime rates.

Product-related access

The design and configuration of our products help to increase access to financial services. For example, our Value Bundles provide easy-to-understand pricing structures and benefits aimed at increasing value to entry-level customers. These include 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.

During the year, we focused on re-activating inactive accounts through targeted awareness-raising initiatives such as SMS campaigns. By the end of January 2014, we had re-activated 139 000 Flexi-accounts and expect this trend to continue into 2014.

Consumer education

In South Africa, we deliver consumer education to improve financial literacy levels, particularly among previously disadvantaged communities and unbanked individuals. Since 2007, we have reached over 18 million individuals.

In 2013 our face-to-face initiatives reached over 116 000 consumers, including almost 57 000 school children through the 'Teach Children to Save' campaign. We reached 100 000 consumers through educational articles published in the Consumer Fair and millions more were reached through information displayed on soccer pitches and live television during Absa Premier Soccer League games and through interaction with our customers via SMS.

Future priorities

While we will continue to improve our performance across the FS Code scorecard, specific areas of focus include:

- Create a dedicated diversity and inclusion role within our talent team to manage the planning, implementation and tracking of employment equity initiatives. This will include overseeing our performance against our 2017 employment equity targets which are aligned to the FS Code.
- Continue to build our internal affordable housing capability, focusing on the full breadth of the housing value chain. Our housing initiatives will not only increase access to financing but will also help to increase the affordable housing stock in the country.
- Improve access to non-traditional lending for SMEs by leveraging the existing Absa Development Fund of R250 million through funding partnerships.
- Expand our enterprise development customer value proposition to the Rest of Africa, managed by our in-country colleagues.
- Continue to invest socio-economic development funds in support of flagship programmes that focus on high-impact employability skills and job creation, leveraging from global programmes.