View further information on our material issues online.

Our response to material issues

Introduction

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

The five broad issues were identified by looking at:

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

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

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

Sub-issues

Growth
- Business environment
- Legislative and political environment

Cost management
- Business environment
- Cost of compliance

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

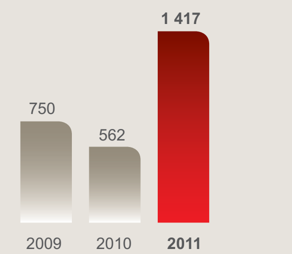
Balance sheet strength
- Credit quality
- Liquidity
- Adequate capital to sustain the business

Responsible lending
- Social and environmental

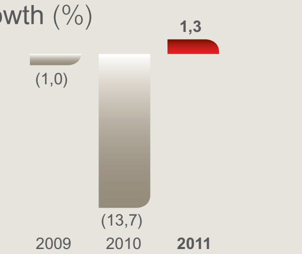
Performance

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

Economic profit (Rm)



JAWS: income vs cost growth (%)



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

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

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Responsible lending

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

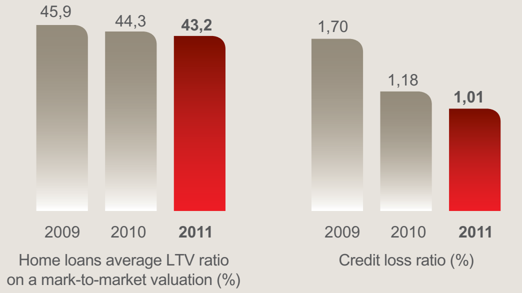
Loan-to-value LTV ratios for existing and new home loans are within expected boundaries, and decreasing steadily against property values. The number of our customers under debt review decreased by 65%. Unfortunately, a large portion of these customers were not rehabilitated, and moved along in our debt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

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

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

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

Responsible lending



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

Indirect environmental impact

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

Number of Equator Principle transactions screened

Looking forward

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