Absa Bank Limited

Annual report

For the twelve months ended 31 December 2006

Member of the BARCLAYS Group

ABSA

Contents

D C Cronjé: Chairman
S F Booysen: Chief executive

Dear Shareholder

The annual financial results of Absa Bank Limited (Absa Bank or the Bank) for the twelve months ended 31 December 2006 are contained in this report. As a result of the change in the year-end from March to December, the previous audited financial results were for the nine months ended 31 December 2005.

Letter from the chairman and chief executive

Key financial highlights

For the year under review, Absa Bank maintained its earnings momentum, as was evident from the achievement of headline earnings of R5 861 million and headline earnings per share of 1 742,5 cents for the twelve months ended 31 December 2006. The Bank delivered a return on equity of 25,1% (nine months ended 31 December 2005: 22,8%).

All of the business areas delivered strong growth in attributable earnings. The retail, business, corporate and investment banking segments benefited from a buoyant operating environment and the earnings uplift was assisted by the Absa-Barclays integration benefits.

The operating environment

The favourable trading conditions of the past few years persisted for the twelve months under review. Despite high commodity prices, which caused rising inflation and higher interest rates in many developed and emerging market economies, global economic growth in 2006 was close to 5% – the best performance since the 1970s.

The South African economy, which is now in its seventh year of expansion, delivered real growth of 5,0% in 2006, compared with 5,1% for 2005. Consumers retained their appetite for credit and private sector credit growth edged upwards to over 27% year-on-year in the final quarter of 2006. Strong consumer spending in the first half of 2006 gradually made way for a levelling-off in spending growth rates in the last quarter of the year, with activity expansion in real estate, new vehicle sales and financial services tapering off. The South African monetary authorities responded to the high demand for credit, rising inflation, strong consumer demand and the widening current account deficit by increasing interest rates by 200 basis points since June 2006.

Compliance, legislation and regulation

Absa made a submission to the Competition Commission enquiry hearings in November 2006. Absa's view is that the regulatory and commercial aspects of the banking environment have changed and will continue to shift further in future. This should result in increased consumer protection, a lowering of barriers to entry and intensified competition in the industry.

The National Credit Act (NCA), which becomes fully effective on 1 June 2007, was the primary regulatory and compliance challenge of the year. The required changes and adjustments have been successfully dealt with. Comprehensive strategies to take advantage of any new opportunities that may arise as a result of the implementation of the NCA have been developed.

Compliance with Basel II remains on track and anti-money-laundering preparedness has reached the desired levels.

Looking ahead

The domestic economic landscape is expected to remain favourable, but inflationary pressures are expected to continue in 2007, with the CPIX inflation rate likely to test the 6% upper limit of the target range. Under such conditions, the South African Reserve Bank is expected to maintain its tight monetary policy during the early part of 2007. Real economic growth of around 4,5% is expected in 2007.

Increasing household indebtedness, tighter monetary conditions, the NCA and other legislative changes are expected to result in pressure on earnings growth as a result of lower credit and transaction volume growth and a higher impairment charge.

Absa is well positioned to benefit from the expected acceleration in fixed investment spending and to deal successfully with the anticipated slowdown in household consumption expenditure growth. Absa will continue in its relentless pursuit of its strategic objectives, which are designed to take it to pre-eminence.

Danie Cronjé   Steve Booysen

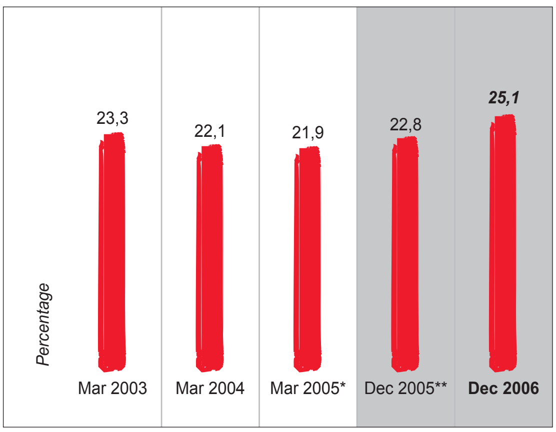
D C Cronjé • *Chairman*   **S F Booysen** • *Chief executive*

	Twelve months ended 31 December 2006 (Audited)	Nine months ended 31 December 2005* (Audited)
Income statement (Rm)		
Headline earnings**	**5 861**	3 443
Profit attributable to the ordinary equity holder of the Bank	**6 051**	3 431
Balance sheet (Rm)		
Total assets	**453 726**	376 687
Loans and advances to customers	**368 320**	292 955
Deposits due to customers	**348 934**	289 113
Financial performance (%)		
Return on average equity	**25,1**	22,8
Return on average assets	**1,42**	1,31
Loans-to-deposits ratio	**105,6**	101,3
Operating performance (%)		
Net interest margin on average assets	**3,42**	3,29
Net interest margin on average interest-bearing assets	**3,71**	3,64
Impairment losses on loans and advances as a percentage of average loans and advances to customers	**0,44**	0,27
Non-interest income as a percentage of total operating income	**45,4**	46,3
Cost-to-income ratio	**58,1**	62,5
Effective tax rate, excluding indirect taxation	**28,4**	30,1

**The comparatives for the nine months ended 31 December 2005 have been reclassified for the reclassification of certain assets and liabilities as well as the reclassification of interest and dividends on fair value through profit and loss assets. The comparatives have been reclassified throughout the document.*

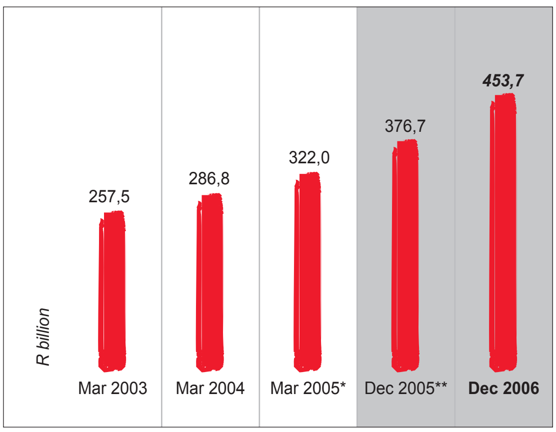
***Excludes R73 million profit attributable to preference equity holders of the Bank.*

Return on average equity



**Restated for International Financial Reporting Standards.*
***Nine months ended 31 December 2005.*

Total assets



**Restated for International Financial Reporting Standards.*
***Nine months ended 31 December 2005.*

Salient features

	Twelve months ended 31 December 2006 (Audited)	Nine months ended 31 December 2005* (Audited)
Share statistics (millions)		
(including "A" ordinary shares)		
Number of shares in issue	**337,3**	332,9
Weighted average number of shares	**336,3**	321,0
Weighted average diluted number of shares	**336,3**	321,0
Share statistics (cents)		
Headline earnings per share	**1 742,5**	1 072,6
Diluted headline earnings per share	**1 742,5**	1 072,6
Earnings per share	**1 799,0**	1 068,8
Diluted earnings per share	**1 799,0**	1 068,8
Dividends per share relating to income for the year/period	**591,9**	1 309,7
Dividend cover (times)	**2,9**	0,8
Net asset value per share	**7 630**	6 545
Tangible net asset value per share	**7 586**	6 508
Capital adequacy (%)		
Absa Bank	**12,3**	10,7

**The comparatives for the nine months ended 31 December 2005 have been reclassified for the reclassification of certain assets and liabilities as well as the reclassification of interest and dividends on fair value through profit and loss assets. The comparatives have been reclassified throughout the document.*

Absa Group Limited

Absa Bank Limited (100%)

Wholly owned subsidiaries

Retail banking

Absa Private Bank

Retail Banking Services*

Flexi Banking Services*

Small Business*

Absa Home Loans

Absa Card

Absa Vehicle and Asset Finance

Commercial banking

Absa Corporate and Business Bank**

Investment banking

Absa Capital**

Other

African operations

Associated undertakings and other interests#

FFS Finance South Africa (Proprietary) Limited (50%)

MAN Financial Services (S.A.) (Proprietary) Limited (50%)

Unitrans Finance (Proprietary) Limited (35%)

Maravedi Group (Proprietary) Limited (45%)

Virgin Money (Proprietary) Limited (50%)

Sanlam Home Loans (Proprietary) Limited (50%)

*These entities are housed under Retail Banking Services for financial reporting purposes.

**In May 2006, Absa Capital was launched. It represents a combination of the global expertise of Barclays Capital and the specialist local knowledge of Absa Corporate and Merchant Bank. Certain corporate customers, that used to be served by Absa Capital, are now served by Absa Corporate and Business Bank.

#Commercial property associated undertakings and joint venture companies are not disclosed. Refer to Annexure F of the Absa Bank Limited and its subsidiaries' financial statements for further information.

Introduction

Good corporate governance is an integral part of Absa's operations. Accordingly, Absa Bank Limited is fully committed to the principles of the Code of Corporate Practices and Conduct set out in the King Report on Corporate Governance (King II). The purpose of King II is to promote the highest level of corporate governance in South Africa. In supporting the code, the directors recognise the need to conduct the enterprise with integrity and in accordance with generally accepted corporate practices.

Key governance highlights and developments

The following were the key governance highlights and developments during the year under review:

- Ongoing compliance with King II.
- Successful implementation of section 404 of the Sarbanes-Oxley Act within the context of the materiality limits applicable to Barclays PLC.
- Process regarding the identification and recruitment of a new chairperson to replace Dr Danie Cronjé, who will be retiring from the board in 2007.
- Further improvement in reporting processes to the board, board committees and Absa's Executive Committee.
- Implementation of a new employee share scheme and related share scheme matters.
- Ongoing adoption of governance standards and practices applied by Barclays as well as other international best practices, where deemed appropriate, by the Absa board.
- The alignment of the membership of the Absa Group and Absa Bank boards.
- The introduction of an annual director performance assessment for all directors.
- An annual board effectiveness evaluation (previously done on a three-yearly cycle).
- The formation of a Board Finance Committee, with a mandate from the board to review and approve investments and divestments and related transactions, subject to specific limits.
- The formation of a Group Credit Committee, which replaced the Board Lending Committee.
- Ongoing progress with regard to meeting the requirements of the Financial Sector Charter.

Challenges

Some of the key governance challenges include:

- The need to improve the board continuously and the availability of suitably skilled and experienced directors in this regard. This is especially pertinent for banks, which need to be at the forefront of risk management.
- The challenge of responding and adhering to a continuing flow of new laws and regulations, while at the same time ensuring a profitable and sustainable business.
- Basel II – ongoing preparation to ensure compliance by 2008.

Looking ahead

For the year ahead, Absa has the following corporate governance objectives and focus areas:

- Ongoing compliance with King II.
- Induction and assimilation of a new chairperson, who will replace Dr Danie Cronjé.
- Ongoing focus on the board's succession plan, specifically given that certain board members will be reaching retirement age over the next few years.
- Greater focus on director training and development.
- Ongoing adoption of governance standards and practices applied by Barclays as well as other international best practices, where deemed appropriate by the Absa board.
- Ongoing work to meet the requirements of Basel II by 2008 and the implementation of a market disclosure policy.

Compliance with King II

The directors are of the opinion that Absa complies with, and has applied, the requirements of King II with regard to the year under review.

Application of the code and approach to corporate governance

All entities in the Bank are required to subscribe to the spirit and principles of the code. In addition, the code is applied to all operating entities of the nature and size identified in King II.

Whereas the Absa board takes overall responsibility for compliance with the code and is the focal point of Absa's corporate governance system, the directors of specific companies in the Bank are responsible for ensuring compliance in respect of the companies of which they are directors.

Absa facilitates a comprehensive process to review compliance with the code by all relevant entities annually. This includes:

- a full and effective review by Absa's board of all aspects relating to ongoing corporate governance, the inclusion of statements in this regard in the annual report and consideration of the requirements of Regulation 38(5) of the Banks Act (in terms of which the board is required to report annually to the Registrar of Banks on the extent to which the process of corporate governance implemented by the Company successfully achieves the objectives determined by the board); and
- a review of current and emerging trends in corporate governance and Absa's governance systems as well as benchmarking Absa's governance systems against local and international best practice.

In its governance approach, the board believes that, while compliance with the formal standards of governance practice is important, greater emphasis is placed on ensuring the effectiveness of governance practice, with substance prevailing over form. The board also seeks to ensure that good governance is practised at all levels in the Bank and is an integral part of Absa's operations.

Absa's corporate governance standards, which support the Bank's overall strategy, are captured and measured in terms of the Bank's overall balanced scorecard measurement.

Absa and Barclays have agreed on a governance framework for how the two entities will work together. The framework takes account of matters such as the regulatory, legislative and industry constraints applicable to Absa and Barclays respectively, the legal implications resulting from the parent/subsidiary relationship between Barclays and Absa Group Limited, the fiduciary responsibilities of the Absa and Barclays boards of directors and Absa's normal corporate governance procedures. The framework is intended to ensure that Barclays and Absa can work together to maximise value for all stakeholders while complying with all regulatory and legislative requirements. The framework is reviewed by the board annually, taking account of recommendations made by the Directors' Affairs Committee.

Boards of directors and board committees

Board composition

Absa has unitary board structures.

The board has an appropriate balance, with a majority of independent directors*.The chairman of the Absa board is an independent director.

Details on the categorisation of the directors appear on page 17 of this report. There were 23 directors, of whom six were executive, five non-executive and 12 independent directors as at 31 December 2006.

Board appointments and succession planning

Non-executive directors on the Absa board are appointed for specific terms and reappointment is not automatic.

The maximum term of office of directors is three years, whereafter they are obliged to retire but can offer themselves for re-election. A third of the directors retire by rotation annually. If eligible, their names are submitted for re-election. Non-executive directors are required to retire at the Absa Group Limited annual general meeting following their 70th birthday.

The board as a whole, within its powers, selects and appoints directors, including the chief executive and executive directors, on the recommendation of the Group Remuneration Committee (in respect of executive directors) and the Directors' Affairs Committee (DAC) (in respect of non-executive directors).

The DAC considers non-executive director succession planning and makes appropriate recommendations to the board. This encompasses an evaluation of the skills, knowledge and experience required to implement the Bank's business plans and strategy and address any gaps in this regard, as well as the board transformation process to meet the requirements of the Financial Sector Charter.

All appointments are in terms of a formal and transparent procedure. Prior to appointment, potential board appointees are subject to a "fit and proper" test, as required by the JSE Limited and as prescribed by the Banks Act.

Independence

The DAC assesses the independence of each Absa director against the criteria set out in King II. Based on this assessment, the DAC is of the view that the following directors meet these criteria: D C Cronjé, D C Brink, D C Arnold, D E Baloyi, B P Connellan, A S du Plessis, G Griffin, M W Hlahla, L N Jonker, P du P Kruger, F A Sonn and P E I Swartz.

With regard to Dr Cronjé, the DAC specifically considered the fact that he is chairman of Absa Group and Absa Bank while at the same time being a director of Barclays PLC and Barclays Bank PLC. The DAC noted that Dr Cronjé did not represent Barclays PLC and Barclays Bank PLC on the Absa boards nor vice versa. In addition, the committee felt that he was sufficiently independently minded. Taking these factors into account, the committee was of the view that Dr Cronjé is an independent director.

Board performance assessment

The DAC annually assesses the contribution of each director, using an individual director evaluation process that is conducted by the chairman and deputy chairman. The chairman's performance is dealt with by the DAC, whereas that of the deputy chairman is dealt with by the chairman and one other member of the DAC.

The Absa board as a whole considers the outcomes of the above processes. This culminates in a determination by the board as to whether the board will endorse a retiring director's re-election. Where a director's performance is not considered satisfactory, the board will not endorse the re-election.

Individual director performance is assessed against the following criteria: time, availability and commitment to performing the function of an Absa director, strategic thought and specific skills, knowledge and experience brought to the board, the director's views on key issues and challenges facing Absa, the director's views on his/her own

**A non-executive director who is independent, as defined by King II.*

performance as a board member, attendance over the past year and other areas or roles where the director's specific skills could be used.

Annually, a collective board effectiveness evaluation is conducted. This assessment is aimed at determining how the board's effectiveness can be improved. The DAC considers the outcomes of the evaluation and makes recommendations where deemed appropriate. The Absa board considers the outcomes of the evaluation and the recommendations of the DAC.

Board remuneration

Absa Bank has obtained dispensation from the JSE Limited relating to the disclosure of individual director emoluments as Absa Bank is a wholly owned subsidiary of Absa Group Limited. Absa Group Limited provides full disclosure relating to its directors' emoluments in the Absa Group Limited shareholder report.

The consolidated directors' emoluments for Absa Bank can be found in note 42 of the consolidated financial statements.

Attendance at board meetings

Board meeting attendance (2006)

Director	Appointment	Resignation	Feb	Mar	Apr	Jun	Jul	Oct	Nov*	Dec
L N Angel			A	✔	✔	✔	✔	✔	✔	A
D C Arnold			✔	✔	✔	✔	✔	✔	✔	✔
D E Baloyi			✔	✔	✔	✔	✔	✔	✔	✔
S F Booysen (chief executive)			✔	✔	✔	✔	✔	✔	✔	✔
D C Brink (deputy chairman)			✔	A	✔	✔	✔	✔	✔	✔
D Bruynseels			✔	✔	✔	✔	✔	✔	✔	✔
B P Connellan			✔	✔	✔	✔	✔	✔	A	✔
D C Cronjé (chairman)			✔	✔	✔	✔	✔	✔	✔	✔
Y Z Cuba	6 Dec '06									
A S du Plessis			✔	✔	✔	✔	✔	✔	✔	✔
R R Emslie (alternate)			✔	✔	✔	✔	✔	✔	A	✔
C Erasmus		30 Dec '06	✔	✔	A	✔	✔	✔	✔	✔
G Griffin			✔	✔	✔	✔	✔	✔	✔	✔
M W Hlahla			✔	✔	✔	✔	✔	A	✔	✔
L N Jonker			✔	✔	✔	✔	✔	✔	✔	✔
N Kheraj			✔	✔	✔	✔	✔	✔	✔	✔
P du P Kruger			✔	✔	✔	✔	✔	✔	✔	✔
L W Maasdorp		30 Sept '06	✔	✔	✔	✔	✔			
N P Mageza (alternate)			✔	✔	✔	✔	A	✔	A	✔
D L Roberts		23 Oct '06	✔	✔	✔	✔	✔			
J H Schindehütte			✔	✔	✔	✔	✔	✔	✔	✔
F F Seegers	23 Oct '06							✔	✔	✔
T M G Sexwale			A	✔	✔	✔	✔	✔	✔	✔
I B Skosana		20 Feb '06	✔							
F A Sonn			✔	✔	✔	✔	✔	✔	✔	✔
P E I Swartz			✔	✔	✔	✔	✔	✔	✔	A
J P van der Merwe		30 Dec '06	✔	✔	✔	✔	✔	✔	✔	✔
L L von Zeuner			✔	✔	✔	✔	✔	✔	✔	✔

Legend

*Special meeting ✔ Attendance A Apologies

Board committees

A number of board-appointed committees have been established to assist the board in discharging its responsibilities. The membership and principal functions of the standing committees appear in the pages that follow.

A comprehensive framework, setting out authorities and responsibilities with regard to matters affecting the businesses of the Bank's boards and committees, assists in the control of the decision-making process and sees to it that there is a balance of power and authority to ensure that no individual has unfettered powers of decision-making.

The Absa board also makes use of ad hoc board committees to deal with specific matters from time to time. Examples of matters dealt with by such committees in the recent past include Absa's broad-based BEE transaction and the proposed acquisition of the Barclays African operations, where the board has considered and made decisions based on the recommendations of the committees. These ad hoc committees operate under written terms of reference and, in the above instances, its members are all independent directors and have provided independent oversight.

The board is of the opinion that the board committees set out on the following pages have effectively discharged their responsibilities as contained in their respective terms of reference for the year under review.

Group Remuneration Committee

Members: D C Brink (chairman), D E Baloyi, B P Connellan, D C Cronjé and F F Seegers.

Composition and meeting procedures: The Group Remuneration Committee is chaired by an independent director of Absa and comprises mainly independent directors of Absa. The chief executive, the executive director responsible for human resources and Absa's executive director responsible for finance attend the meetings by invitation, but do not participate in discussions and decisions regarding their remuneration and benefits. Meetings are held five times a year.

Role, purpose and principal functions: Consideration and recommendation to the board on matters such as succession planning, general employee policies, remuneration and benefits, performance bonuses, executive remuneration, directors' remuneration and fees, service contracts, the share purchase and option schemes and Absa retirement funds.

The committee considers executive directors' emoluments, share and option allocations and other benefits, taking account of responsibility, individual performance and retention strategies. To this end, the committee relies on external market surveys and industry reward levels as benchmarks. Remuneration packages are structured in such a way that short- and long-term incentives depend on the achievement of business objectives and the delivery of shareholder value.

Non-executive directors receive fees for their contribution to the boards and committees on which they serve. The chairman and management recommend proposed fees for consideration by the committee and recommendation to the Absa board, after considering comparable fee structures and market practices. The remuneration of non-executive directors is submitted to shareholders for sanction at the Absa Group Limited annual general meeting held prior to its implementation and payment.

The committee undertakes an annual performance assessment of the chief executive. The chairman's and chief executive's remuneration are considered taking the assessment of the DAC and the Group Remuneration Committee, respectively, into account.

Group Remuneration Committee – meeting attendance (2006)

Director	Appointment	Resignation	Jan	Mar	May*	Jul	Sept	Oct*	Nov
D E Baloyi	17 Feb '06			✔	✔	✔	✔	✔	✔
D C Brink (chairman)			✔	✔	✔	✔	✔	✔	✔
B P Connellan			✔	✔	✔	✔	✔	✔	✔
D C Cronjé			✔	✔	✔	✔	✔	✔	✔
D L Roberts		23 Oct '06	✔	✔	✔	✔	✔		
F F Seegers	23 Oct '06							✔	✔

Legend

*Special meeting ✔ Attendance

Group Audit and Compliance Committee (GACC)

Members: A S du Plessis (chairman), D C Arnold, Y Z Cuba, N Kheraj and P du P Kruger.

Composition and meeting procedures: Other than Mr Kheraj and Ms Cuba, who are non-executive directors, the chairman and remaining members of the GACC are independent directors on the board of Absa.

A third of the members of the GACC retire annually by rotation and are considered for re-election by the Absa board. Meetings are held at least five times a year and are attended by the external and internal auditors and the compliance officer and, on invitation, members of executive management, including those involved in risk management, control and finance, and Absa's chairman (who is not a member of the committee). All of the members of the committee are financially literate.

At every meeting, time is reserved for separate private discussions with committee members only, the committee together with management (excluding the external auditors) and the committee together with the external auditors (excluding management). Private discussions provide an opportunity for committee members, management and the external auditors to communicate privately and candidly.

The internal and external auditors, as well as the compliance officer, have unrestricted access to the GACC, which ensures that their independence is in no way impaired.

Role, purpose and principal functions: The GACC assists the board with regard to reporting financial information, selecting and properly applying accounting policies, monitoring Absa's internal control systems and various compliance related matters. Specific responsibilities include:

- reviewing and/or approving internal audit and compliance policies, plans, reports and findings;
- ensuring compliance with applicable legislation and regulations;
- making the necessary enquiries to ensure that all risks to which the Bank is exposed are identified and managed in a well-defined control environment;
- dealing with matters relating to financial and internal control, accounting policies, reporting and disclosure;
- reviewing and recommending to the board interim and annual financial statements and profit and dividend announcements;
- recommending to the board the appointment and dismissal of the external auditors and fees payable to the external auditors;
- evaluating the performance of the external auditors;
- approving Absa's policy on non-audit services and ensuring compliance therewith;
- reviewing and/or approving external audit plans, findings, reports and fees; and
- collaborating with the Group Risk Committee and considering issues identified by that committee.

Absa's policy on non-audit services, which is annually reviewed by the GACC, sets out in detail which services may or may not be provided by Absa's external auditors. The policy is largely based on the requirements of the Sarbanes-Oxley Act. The external auditors are prohibited from providing bookkeeping or other services related to Absa's accounting records or financial statements, financial information systems design and implementation, appraisal or valuation services, fairness opinions or contributions-in-kind reports, actuarial services, internal audit outsourcing, management functions or other secondments, human resource functions (including recruitment/selection), broker or dealer, investment adviser or investment banking services, legal and expert services and services where Absa is represented by the external auditors in legal proceedings involving tax matters.

Services that may be provided by the external auditors are statutory audit services, regulatory audit services, other attest and assurance services, regulatory non-audit services and taxation services (except for services where Absa is represented in legal proceedings). They may also provide accountancy advice, risk management and controls advice and carry out transaction support and recoveries. Assignments for allowable services above a certain value must be pre-approved by the GACC. Assignments within management's mandate must be pre-approved by Absa's finance director. All non-audit service fees are reported to the GACC quarterly.

Absa has a formal external auditor evaluation process which occurs annually and includes various criteria and standards such as audit planning, technical abilities, audit process/outputs and quality control, business insight, independence and general factors (such as BEE credentials).

Absa has an audit partner rotation process in accordance with the relevant legal and regulatory requirements.

The committee stays abreast of current and emerging trends in accounting standards and held several workshops during the period under review, specifically with regard to the Sarbanes-Oxley Act and the alignment of Absa's audit committee practices with those of Barclays.

Group Audit and Compliance Committee – meeting attendance (2006)

Director	Appointment	Resignation	Jan	Apr	Apr*	Jul	Sept	Nov	Nov
D C Arnold			✔	✔	✔	✔	✔	✔	✔
Y Z Cuba	6 Dec '06								
A S du Plessis (chairman)			✔	✔	✔	✔	✔	✔	✔
N Kheraj			✔	✔	✔	✔	✔	✔	✔
P du P Kruger			✔	✔	✔	✔	✔	✔	✔
L W Maasdorp		30 Sept '06	✔	✔	✔	✔	✔		

Legend

*Special meeting ✔ Attendance

Group Risk Committee (GRC)

Members: P du P Kruger (chairman), D C Arnold, D C Cronjé, A S du Plessis, G Griffin, M W Hlahla, N Kheraj and P E I Swartz.

Composition and meeting procedures: The GRC is chaired by an independent director and consists of a further six independent directors and one non-executive director (N Kheraj). Members of executive management attend by invitation. The committee meets at least four times a year.

Role, purpose and principal functions: To assist the board with regard to risk management and to ensure compliance with the requirements of the Banks Act regarding risk and capital management.

The GRC's principal responsibilities are:

- to assist the board:
  - in its evaluation of the adequacy and efficiency of the risk policies, procedures, practices and controls applied in Absa in the day-to-day management of the business;
  - in the identification of the build-up and concentration of the key risks and in developing a risk mitigation strategy to ensure that Absa manages the risks in an optimal manner;
  - to set up an independent risk management function, coordinate the monitoring of risk management on a globalised basis, and facilitate and promote communication regarding risk policies, procedures, practices and controls or any other related matter; and
  - in establishing a process that relates capital to the level of risk undertaken and states capital adequacy goals with respect to risk, taking account of Absa's strategic focus and business plan;
- to liaise with the GACC regarding matters which are common areas of responsibility;
- to annually recommend to the board for approval Absa's risk appetite, and to monitor the actual risk taken on against the board-approved appetite on a quarterly basis;

- to review the adequacy and efficiency of the risk-type control frameworks and policies determined in accordance with the board's approved risk approach;
- to review the Bank's various risk profiles and ensure they are understood and appropriately managed in the Bank; and
- in conjunction with the GACC, to ensure Absa makes appropriate disclosure of its risk management status and activities.

Group Risk Committee – meeting attendance (2006)

Director	Appointment	Mar	Jun	Sept	Nov
D C Arnold		✔	✔	✔	✔
D C Cronjé		✔	✔	✔	✔
A S du Plessis		✔	✔	✔	✔
G Griffin		✔	✔	✔	✔
M W Hlahla	28 Jul '06			A	✔
N Kheraj		✔	A#	✔	A#
P du P Kruger (chairman)		✔	✔	✔	✔
P E I Swartz		✔	✔	A	✔

Legend

✔ Attendance A Apologies

#The Barclays risk director attended these meetings.

Directors' Affairs Committee (DAC)

Members: D C Cronjé (chairman), D C Brink, L N Jonker, F F Seegers, T M G Sexwale and F A Sonn.

Composition and meeting procedures: The DAC is chaired by the chairman and the majority of its members are independent directors. Four meetings a year are scheduled.

Role, purpose and principal functions: This committee assists the board with regard to corporate governance, board nominations and related matters. More specifically, this encompasses:

- reviewing all aspects relating to ongoing corporate governance during the year, the inclusion of statements in this regard in the report to shareholders and consideration of the requirements of Regulation 38(5) of the Banks Act;
- considering current and emerging trends in corporate governance and Absa's governance systems as well as benchmarking Absa's governance systems against local and international best practice;
- reviewing the size, diversity, demographics, skills and experience of the board, perceived gaps in the board's composition, potential board appointees and non-executive director performance evaluations (including that of the chairman);
- conducting an effectiveness evaluation of the Absa board to review its performance in meeting its key responsibilities; and
- evaluating the individual performance of directors annually as well as the performance of the board as a whole.

Directors' Affairs Committee – meeting attendance (2006)

Director	Appointment	Resignation	Jan	Apr	Jul	Aug*	Oct*	Nov
D C Brink			✔	✔	✔	✔	✔	✔
D C Cronjé (chairman)			✔	✔	✔	✔	✔	✔
L N Jonker			✔	✔	✔	✔	✔	✔
D L Roberts		23 Oct '06	✔	✔	✔	✔	✔	
F F Seegers	23 Oct '06							✔
T M G Sexwale			A	✔	✔	A	✔	✔
F A Sonn	17 Feb '06			✔	✔	A	✔	✔

Legend

*Special meeting ✔ Attendance A Apologies

Group Credit Committee

Members, composition and meeting procedures: The committee consists of a panel of four independent directors (D C Brink, B P Connellan, D C Cronjé and A S du Plessis), of which at least two are required as a quorum for facility decisions. Certain members of executive management and risk management also attend meetings. The committee meets daily as required.

Role, purpose and principal functions: The Group Credit Committee considers and approves credit exposures that exceed the mandated approval limits of management in the credit risk function. The Group Credit Committee replaced the former Board Lending Committee and divisional credit committees.

Credit Committee: Large Exposures

Members: D C Cronjé (chairman), S F Booysen, D C Brink, B P Connellan, A S du Plessis and J H Schindehütte.

Composition and meeting procedures: Four independent directors and the chief executive and Absa's finance director. Specific members of management, such as the executive managers responsible for credit and enterprise-wide risk management, attend meetings ex officio. Quarterly meetings are scheduled for this committee.

Role, purpose and principal functions: This committee has been established pursuant to requirements set by the South African Reserve Bank (Bank Supervision Department) with regard to large exposures (amounts exceeding 10% of Absa Bank Limited's capital and reserves). The committee approves or ratifies credit exposures that exceed the mandated approval limits of the Group Credit Committee. The Absa board sets these limits annually.

Credit Committee: Large Exposures – meeting attendance (2006)

Director	Apr	Jul	Sept	Nov
S F Booysen	✔	✔	✔	✔
D C Brink	✔	✔	✔	✔
B P Connellan	✔	✔	✔	A
D C Cronjé (chairman)	✔	✔	✔	✔
A S du Plessis	✔	✔	✔	✔
J H Schindehütte	✔	✔	✔	✔

<u>Legend</u>

✔ Attendance   A Apologies

Implementation Committee

Members: G Griffin (chairman), B P Connellan, D C Cronjé and F F Seegers.

Composition and meeting procedures: The Implementation Committee is chaired by an independent director and the majority of its members are independent directors. Six meetings were held during 2006.

Role, purpose and principal functions: This committee provides governance oversight and assists the board with regard to integration and implementation risks and opportunities flowing from the acquisition by Barclays of a controlling stake in Absa Group Limited (the transaction). More specifically this encompasses:

- considering integration/implementation opportunities and risks flowing from and/or as a consequence of the transaction and making recommendations to the board and/or the relevant committees of the board, where appropriate, relating to actions deemed necessary to realise the planned benefits flowing from the transaction;
- providing a forum for Absa management for more detailed reporting to the board on progress with regard to implementation/integration matters, and more specifically where management is required to seek provisional support for a planned action, subject to final board approval where necessary;

- providing oversight of any implementation investments (including write-offs but excluding acquisitions and disposals) as approved by Absa management within their mandate and making recommendations to the board with regard to any implementation investments above management's mandate; and
- within its mandate, reviewing and approving any economic transfer arrangements (ETAs) between Absa and Barclays and recommending to the Absa board any ETAs exceeding its mandate.

Implementation Committee – meeting attendance (2006)

Director	Appointment	Resignation	Feb	Apr	Jul	Sept	Oct	Dec
B P Connellan	17 Feb '06			✔	✔	✔	✔	✔
D C Cronjé			✔	✔	✔	✔	✔	✔
G Griffin (chairman)			✔	✔	✔	A	✔	✔
L W Maasdorp		30 Sept '06	✔	✔	✔	✔		
D L Roberts		23 Oct '06	✔	✔	✔	✔	✔	
F F Seegers	23 Oct '06							✔

Legend

✔ Attendance A Apologies

Board Finance Committee

Members: D C Cronjé (chairman), D C Brink, A S du Plessis, P du P Kruger and F F Seegers.

Composition and meeting procedures: The Board Finance Committee is chaired by an independent director and the majority of its members are independent directors. This committee was formed in early 2006 and has a mandate from the board to review and approve investments and divestments and certain defined large transactions, subject to specific limits. Meetings are held on an ad hoc basis as required. Six meetings were held during 2006.

Role, purpose and principal functions: The committee is mandated by the board to enter into and settle the terms of all transactions with regard to the acquisition and disposal of investments as well as to approve capital raising and securitisation transactions, subject to limits set by the board. Previously, these transactions were dealt with by the board, whereas these are now dealt with by the committee. The advantage of this is that the committee can more rapidly deal with matters within its mandate (such as investment or divestment opportunities), whereas previously this would typically have been dealt with at the next scheduled board meeting.

Introduction

The Absa Bank board has an appropriate balance with a majority of independent directors. The chairman of the Absa Bank board is an independent director. As at 31 December 2006, there were 23 directors, of whom six were executive, five non-executive and 12 were considered to be independent directors.

Key developments

A number of developments impacted the membership of the Absa Bank board during the twelve months under review. These included:

- The resignation of Mr Skosana on 20 February 2006;
- The resignation of Mr Maasdorp on 30 September 2006;
- The resignation of Mr Roberts on 23 October 2006 and the appointment of Mr Seegers at the same date;
- The appointment of Ms Cuba on 6 December 2006; and
- The retirement of Mr Erasmus and Mr van der Merwe from the Absa Bank board on 30 December 2006.

Board membership

The Absa Bank board comprised the following directors as at 31 December 2006:

Independent non-executive directors	D C Arnold, D E Baloyi, D C Brink (deputy chairman), D C Cronjé (chairman), B P Connellan, A S du Plessis, G Griffin, M W Hlahla, L N Jonker, P du P Kruger, F A Sonn and P E I Swartz
Non-executive directors	L N Angel, Y Z Cuba, N Kheraj*, F F Seegers# and T M G Sexwale
Executive directors	S F Booysen (chief executive), D Bruynseels*, R R Emslie (alternate), N P Mageza (alternate), J H Schindehütte and L L von Zeuner

*British
#Dutch

Board committee membership

Absa seeks to ensure that a majority of independent non-executive directors serve on its board committees.The board committees are set out below.

Committee*	Members
Group Audit and Compliance Committee	A S du Plessis (chairman), D C Arnold, Y Z Cuba, N Kheraj and P du P Kruger
Group Risk Committee	P du P Kruger (chairman), D C Arnold, D C Cronjé, A S du Plessis, G Griffin, M W Hlahla, N Kheraj and P E I Swartz
Group Remuneration Committee	D C Brink (chairman), D E Baloyi, B P Connellan, D C Cronjé and F F Seegers
Directors' Affairs Committee	D C Cronjé (chairman), D C Brink, L N Jonker, F F Seegers, T M G Sexwale and F A Sonn
Group Credit Committee	D C Brink , B P Connellan, D C Cronjé and A S du Plessis
Credit Committee: Large Exposures	D C Cronjé (chairman), S F Booysen, D C Brink, B P Connellan, A S du Plessis and J H Schindehütte
Implementation Committee	G Griffin (chairman), B P Connellan, D C Cronjé and F F Seegers
Board Finance Committee	D C Cronjé (chairman), D C Brink, A S du Plessis, P du P Kruger and F F Seegers

*These committees govern both Absa Group Limited and Absa Bank Limited.

Biographical details and appointment dates of board members

The biographical details and appointment dates of the Absa Bank's board members as at 31 December 2006 were as follows:

D C (Danie) Cronjé

Age 60

Qualifications DCom

Title Chairman

Year appointed 1987

Independence Independent director

Absa board committee memberships
- Directors' Affairs Committee (chairman)
- Group Remuneration Committee
- Group Risk Committee
- Group Credit Committee
- Credit Committee: Large Exposures (chairman)
- Implementation Committee
- Board Finance Committee

Other directorships/ trusteeships Dr Cronjé is a director of Barclays PLC and Barclays Bank PLC. He is the chairman of Absa Group Limited, the Absa Foundation and a trustee of the Absa Group Retirement Fund. He is a member of certain subsidiary boards in Absa.

Skills, expertise and experience Dr Cronjé joined Volkskas in 1975 and held various positions in Volkskas Merchant Bank and Volkskas Group. He was formerly deputy chief executive and subsequently Group chief executive of Absa until 1997.

D C (Dave) Brink

Age 67

Qualifications MSc Eng (Mining), Diploma in Business Administration, Graduate Diploma in Company Direction

Title Deputy chairman

Year appointed 1992

Independence Independent director

Absa board committee memberships
- Directors' Affairs Committee
- Group Remuneration Committee (chairman)
- Group Credit Committee
- Credit Committee: Large Exposures
- Board Finance Committee

Other directorships/ trusteeships Chairman of Unitrans Limited, and a director of Sappi Limited, BHP Billiton Limited and BHP Billiton PLC. He is the deputy chairman of Absa Group Limited. He is also a trustee of the Absa Foundation and chairman of the Absa Group Retirement Fund. He is co-chairman of the Business Trust, a director of the National Business Initiative and vice-president of the South African Institute of Directors.

Skills, expertise and experience Joined Murray & Roberts Limited in 1970 after eight years in the gold industry with Anglo American Corporation of South Africa Limited. Appointed chief executive officer of Murray & Roberts Holdings Limited in 1986 and chairman in 1994. Mr Brink was chief executive officer of Sankorp Limited from 1994 to 1997.

S F (Steve) Booysen

Age 44

Qualifications DCom (Acc), CA(SA)

Title Chief executive

Year appointed 2004

Independence Executive director

Absa board committee memberships
- Credit Committee: Large Exposures
- Attends various other board committee meetings ex officio.

Other directorships/ trusteeships Dr Booysen is the Group chief executive of Absa Group Limited and is also a director of various companies in the Absa Group.

Skills, expertise and experience After completing his articles with Ernst & Young (1980 – 1983), Dr Booysen became a lecturer in accounting at the University of South Africa (1983 – 1988). His first appointment with Absa was as senior manager: Finance at TrustBank (1989 – 1991). He then became an assistant general manager at TrustBank (1991 – 1992). From 1992 to 1994, he was assistant general manager: Group Finance at Absa. He then joined Absa Corporate Bank (now Absa Capital). He held the positions of assistant general manager, general manager and deputy operating executive until he was appointed as a Group executive director in 2001. He was appointed as Group chief executive of Absa Group Limited in August 2004.

L N (Nthobi) Angel

Age 52

Qualifications BA (Hons), MSc (Sociology)

Year appointed 2004

Independence Non-executive director

Absa board committee memberships
- None, but she is a trustee of the Absa Foundation.

Other directorships/ trusteeships Ms Angel is chairperson of a women's investment group, TsaRona Investments, and a director of Batho Bonke Capital and Absa Group Limited. She is active in nature conservation and is a director of the Open Africa Initiative and the Peace Parks Foundation. She is also a trustee of the Kagiso Trust and a board member of Deloitte Chartered Accountants (SA).

Skills, expertise and experience From 1994 to 1995, Ms Angel was the public affairs manager at Rhone-Poulenc Rorer SA (Proprietary) Limited. Thereafter she was appointed as general manager: Corporate Affairs at Engen Petroleum Limited, a position she held until early 2000, when she was appointed as executive director: Strategic Affairs at Engen.

From 2001 to 2003, Ms Angel was seconded to the Presidency as chief operations officer: Strategic Planning and Communications.

From 2004 to 2005 she was the chief executive officer of Mvelaphanda Resources Limited. She was then appointed as the managing director: External Relations at Eskom. She resigned from this position in June 2006, so as to focus on her role as chairperson of TsaRona Investments.

D C (Des) Arnold

Age 66

Qualifications CA(SA), FCMA, AMP

Year appointed 2003

Independence Independent director

Absa board committee memberships
- Group Audit and Compliance Committee
- Group Risk Committee

Other directorships/ trusteeships Mr Arnold is a director of the Wits Health Consortium (Proprietary) Limited and chairman of its audit committee. He is also chairman of the Barlows Pension Fund, a director of Absa Group Limited, and a trustee of the Absa Group Retirement Fund.

Skills, expertise and experience Mr Arnold was formerly the executive director: Finance and Administration of Barloworld Limited. He joined the Barlows Group in 1967 and held a number of senior financial positions in the Barlows Group, which culminated in his appointment to the board in 1993. He retired from Barloworld at the end of March 2003.

Mr Arnold is a past president of the Eastern, Central and Southern African Federation of Accountants (ECSAFA) and represented ECSAFA on the Council of the International Federation of Accountants (IFAC). He is also a past president of the South African Institute of Chartered Accountants (SAICA) and is an honorary life member of SAICA. He has represented SAICA on the Financial and Management Accounting Committee of IFAC.

D E (Danisa) Baloyi

Age 50

Qualifications Ed.D (International Education and Development)

Year appointed 2004

Independence Independent director

Absa board committee memberships
- Group Remuneration Committee

Other directorships/ trusteeships Dr Baloyi is an executive director of the National Black Business Caucus with expertise in the fields of business development and strategy. She is the chairperson of the Advertising Standards Authority, the Diabo Share Trust for Telkom employees, Medikredit and the National Skills Authority.

Dr Baloyi serves on a number of other boards, including Absa Group Limited, the Business Unity South Africa Council, SA Tourism (where she is deputy chairperson), the Southern African Enterprise Development Fund, Metrofile Holdings Limited (formerly MGX Holdings Limited) and Enterprise Risk Management Limited. Dr Baloyi is also the chairperson of South African Women Investment Holdings, an organisation she founded, and serves on the board of governors of the SA Council on HIV/Aids.

Skills, expertise and experience Dr Baloyi spent 12 years in the US studying and working for, among others, the African-American Institute and the United Nations Development Fund for Women. She also taught at well-known academic institutions, including City University of New York, Essex County College and Rutgers University. She has been involved in many of the empowerment charter processes.

Bank board

Age 46

Qualifications BA (Hons), MBA, Diploma in Financial Studies, Associate of the Chartered Institute of Bankers

Year appointed 2005

Independence Executive director

Absa board committee memberships
- Attends various board committee meetings ex officio.

Other directorships/ trusteeships He is a director of Absa Group Limited, Barclays Bank of Botswana Limited, Barclays Bank of Ghana Limited, Barclays Bank of Kenya Limited, Barclays Bank of Zambia Limited, Barclays Bank Egypt (SAE), Barclays Overseas Pension Fund Trustees Limited and the Overseas Development Institute.

Skills, expertise and experience Joined Barclays in 1980. He has fulfilled a variety of UK-based branch, regional and head office roles, including a position as deputy head of the Barclays business sector marketing department. He was the head of Network and Operations (1995–1996). He was then appointed as finance director for the Barclays Africa, Caribbean, Middle East and Latin American business (1997). He was appointed as managing director for Barclays Africa in 1999. He now holds the role of chief executive officer for Barclays Africa.

He led the transformation of the Barclays business in Africa. Following the acquisition of Barclays majority holding in Absa, Mr Bruynseels was appointed Group executive director and member of the Absa Executive Committee and board (2005).

D (Dominic) Bruynseels

Age 66

Qualifications CA(SA)

Year appointed 1994

Independence Independent director

Absa board committee memberships
- Group Remuneration Committee
- Group Credit Committee
- Credit Committee: Large Exposures
- Implementation Committee

Other directorships/ trusteeships Director of Absa Group Limited, Illovo Sugar Limited, Tiger Brands Limited, Reunert Limited and Sasol Limited.

Skills, expertise and experience After qualifying as a chartered accountant, he joined the Barlows Group in 1964. He managed a number of subsidiaries and was appointed as a director of Barlow Rand Limited in 1985. Mr Connellan was executive chairman of the building materials, steel and paint division until 1990. Thereafter he was appointed as executive chairman of Nampak Limited, a position he held until retirement in 2000.

B P (Brian) Connellan

Age 29

Qualifications BCom (Hons), CA(SA)

Year appointed 2006

Independence Non-executive director

Absa board committee memberships
- Group Audit and Compliance Committee

Other directorships/ trusteeships Director of Absa Group Limited, Mvelaphanda Group Limited, Mvelaphanda Holdings (Proprietary) Limited, Total Facilities Management Company (Proprietary) Limited and Life Healthcare (Proprietary) Limited. She is a member of the Nelson Mandela Foundation Investment and Endowment Committee.

Skills, expertise and experience In 1999, Ms Cuba commenced her career in marketing with Robertsons Foods. Thereafter, she moved to Fisher Hoffman, an auditing firm, where she completed her articles in 2002. She then joined Mvelaphanda in January 2003 in its corporate finance division. She currently holds the position of deputy chief executive officer of Mvelaphanda Group Limited and Mvelaphanda Holdings (Proprietary) Limited.

Y Z (Yolanda) Cuba

A S (Attie) du Plessis

Age 62

Qualifications BCom, CA(SA), H DipTax, AMP

Year appointed 1992

Independence Independent director

Absa board committee memberships
- Group Audit and Compliance Committee (chairman)
- Group Risk Committee
- Group Credit Committee
- Credit Committee: Large Exposures
- Board Finance Committee

Other directorships/ trusteeships He is a director of Absa Group Limited, Sanlam Limited, KWV Group Limited and various companies in the Sanlam Group.

Skills, expertise and experience From 1986 to 2002, he was an executive director of Sankorp Limited and Sanlam Limited.

R R (Robert) Emslie

Age 48

Qualifications BCom (Hons), CA(SA)

Year appointed 2004

Independence Executive director (alternate)

Absa board committee memberships
- None, but attends various board committee meetings ex officio.

Other directorships/ trusteeships A director of Paramount Property Fund Limited, Ambit Properties Limited and various companies in the Absa Group.

Skills, expertise and experience Robert commenced his career as a lecturer at the Rand Afrikaans University (now the University of Johannesburg), focusing on accountancy and taxation. He joined Absa Group Limited in 1987 as the head of taxation for the Bankorp Group. Robert has held numerous positions in Absa's finance department. From 1998 until 2000, Robert was a member of the Absa Corporate and Merchant Bank (now Absa Capital) executive committee and was responsible for volume transactional products and the back office environment. In 2000, he was appointed as the managing executive responsible for Business Banking Services. In 2003, he became the managing executive of Absa Corporate and Merchant Bank and, during 2005, he was appointed as the head of Absa Corporate and Business Bank.

G (Garth) Griffin

Age 57

Qualifications BSc, FIA, FASSA

Year appointed 2001

Independence Independent director

Absa board committee memberships
- Group Risk Committee
- Implementation Committee (chairman)
- Also serves on the board of Absa Financial Services and Absa Life Actuarial Committee

Other directorships/ trusteeships He is chairman of two privately held companies based in Cape Town and is a trustee of the University of Cape Town Foundation. He is also a director of Absa Group Limited.

Skills, expertise and experience An actuary, Mr Griffin has wide experience in the financial services industry, both locally and internationally. He worked for Old Mutual from 1970 to 1999, at which time he was managing director responsible for Old Mutual's worldwide asset management and unit trust businesses, as well as all activities outside South Africa.

Since 1999, he has consulted to a number of South African and international businesses, including Orbis, Investec Asset Management and Old Mutual PLC and served as a non-executive director on a number of boards, including Sage, Swiss Re of South Africa and Citadel Holdings. Mr Griffin was Group chief executive officer of the Sage Group from April 2003 to May 2005.

He is currently a member of the Council of the Actuarial Society of South Africa.

Bank board

Age 43

Qualifications BA (Hons) (Economics), MA (Urban and Regional Planning)

Year appointed 2005

Independence Independent director

Absa board committee memberships
- Group Risk Committee

Other directorships/ trusteeships Non-executive director of Absa Group Limited, the Air Traffic and Navigation Services and the Industrial Development Corporation. She is the second vice-chairperson and special adviser to the chairperson of the Airports Council International World Governing Body.

Skills, expertise and experience Ms Hlahla completed her studies in the United States of America. During her studies, she also worked at the Coalition for Women's Economic Development in Los Angeles.

In 1994, she reinvested her expertise in South Africa and joined the Development Bank of Southern Africa, where she successfully managed several large infrastructure projects. In 2000, Ms Hlahla joined Old Mutual Employee Benefits as regional manager: Northern Region, a position she held until her appointment as chief executive officer of the Airports Company South Africa (ACSA) in 2001.

M W (Monhla) Hlahla

Age 66

Qualifications BSc (Agric)

Year appointed 1996

Independence Independent director

Absa board committee memberships
- Directors' Affairs Committee

Other directorships/ trusteeships He is chairman of Weltevrede Wine Estates (Proprietary) Limited and a director of Absa Group Limited, Naspers Limited, Toeloms Investments No 1 (Proprietary) Limited and Weltevrede Cellar (Proprietary) Limited. Mr Jonker was re-appointed to the Naspers Investments Limited board in September 2005.

Skills, expertise and experience Mr Jonker is the owner of Weltevrede Wine Estate. Joined the board of KWV Co-operative in 1981 and became chairman of KWV Group Limited and KWV Investments Limited in 1994. Mr Jonker led the successful transformation of KWV from a co-operative to a fully commercialised company. He resigned from the KWV board in December 2003. He was also adjudged farmer of the year in 1996 and served on various committees in the wine industry.

L N (Lourens) Jonker

Age 42

Qualifications BA, MA (Economics)

Year appointed 2005

Independence Non-executive director

Absa board committee memberships
- Group Audit and Compliance Committee
- Group Risk Committee

Other directorships/ trusteeships He serves on the boards of Absa Group Limited, Barclays PLC and Barclays Bank PLC.

Skills, expertise and experience Mr Kheraj was appointed as Group finance director of Barclays and joined the board of that company on 1 January 2004. He has previously held the positions of chief executive of Barclays Private Clients, deputy chairman of Barclays Global Investors, global head of Investment Banking and global chief operating officer of Barclays Capital. Prior to joining Barclays, he was a managing director and held the position of chief financial officer for Europe at Salomon Brothers.

N (Naguib) Kheraj

Age 69

Qualifications BSc Eng (Mining), MBL

Year appointed 1996

Independence Independent director

Absa board committee memberships
- Group Audit and Compliance Committee
- Group Risk Committee (chairman)
- Board Finance Committee

Other directorships/ trusteeships Mr Kruger is a director of Absa Group Limited, Abagold (Proprietary) Limited, Hardekoolkamp Properties (Proprietary) Limited, Wilderness 927 Trust, KGMF Trust, and the Rand Afrikaans University Trust.

Skills, expertise and experience Joined Sasol in 1964 at the Sigma Colliery in Sasolburg. Appointed chief executive officer and managing director of the Sasol Group in 1987. He was appointed as chairman of Sasol in 1996 and was a director of numerous Sasol subsidiaries. He retired from the Sasol boards on 31 December 2005.

P du P (Paul) Kruger

Age 52

Qualifications ACCA

Year appointed 2003

Independence Executive director (alternate)

Absa board committee memberships
- None, but attends various board committee meetings ex officio.

Other directorships/ trusteeships A director of Absa Financial Services Limited, Kelrose Trust and Integrated Processing Solutions (Proprietary) Limited.

Skills, expertise and experience Peter joined Absa in January 2000 to take over a number of executive functions at Absa's instalment finance arm and was appointed as an executive director in 2003. He was appointed as chief operating officer in 2006.

He commenced his career in the audit environment, working for Coopers & Lybrand Chartered Accountants (SA) as audit senior, supervisor and manager. He also worked in Transnet Limited's Group Internal Audit Services. He moved into general management at Autonet, the road passenger and freight logistics division of Transnet Limited. He held the positions of executive manager: Tours Express, general manager: Passenger Businesses as well as chief executive officer: Autonet. In 1988, he moved to the financial services sector to join Nedcor Limited's technology and operations process management division.

N P (Peter) Mageza

Age 47

Qualifications BCom (Hons), CA(SA), H DipTax

Year appointed 2005

Independence Executive director

Absa board committee memberships
- Credit Committee: Large Exposures
- Attends various other board committee meetings ex officio.

Other directorships/ trusteeships A director of Absa Group Limited and various companies in the Absa Group.

Skills, expertise and experience Served articles with Ernst & Young from 1981 to 1983. Served in various senior managerial positions at Transnet until 1999. Joined Absa as Group executive: Group Finance during 1999. Appointed as a Group executive director in January 2005.

J H (Jacques) Schindehütte

Bank board

F F (Frits) Seegers

Age 47

Qualifications Master's degrees in engineering and finance

Year appointed 2006

Independence Non-executive director

Absa board committee memberships
- Group Remuneration Committee
- Directors' Affairs Committee
- Implementation Committee
- Board Finance Committee

Other directorships/ trusteeships Mr Seegers is a director on the boards of Absa Group Limited, Barclays PLC and Barclays Bank PLC.

Skills, expertise and experience Mr Seegers is responsible for all Barclays retail and commercial banking operations globally. This includes UK Banking (Retail and Business), International Retail and Commercial Banking, and Barclaycard.

Mr Seegers joined Barclays in July 2006, having previously held senior positions in Citigroup over the past 17 years. Most recently, he was the chief executive officer of the Global Consumer Group with a remit covering all retail operations in Europe, Middle East and Africa. He was also a member of the Citigroup Operating Committee and the Citigroup Management Committee.

Between 2001 and 2004, Mr Seegers was the chief executive officer of Consumer Banking for Asia Pacific, covering 11 consumer markets. Under his leadership, this region was the fastest growing part of Citigroup. Prior to this, he developed internet banking for Citibank and held various posts including division executive for Japan, president of Citibank California, marketing director for Citibank Direct and marketing director of Citibank Belgium.

Mr Seegers joined Citigroup in Germany as an associate in 1989.

T M G (Tokyo) Sexwale

Age 53

Qualifications Certificate in Business Studies

Year appointed 2001

Independence Non-executive director

Absa board committee memberships
- Directors' Affairs Committee

Other directorships/ trusteeships Executive chairman of Mvelaphanda Holdings (Proprietary) Limited and Mvelaphanda Group Limited. Chairman of Northam Platinum Limited, Trans Hex Group Limited, Mvelaphanda Resources Limited and a director of Absa Group Limited and Gold Fields Limited. Mr Sexwale is a trustee of the Nelson Mandela Foundation and chancellor of the Vaal University of Technology, as well as a trustee of the Desmond Tutu Peace Trust.

Skills, expertise and experience A former member of the national executive committee of the African National Congress and former premier of Gauteng.

F A (Franklin) Sonn

Age 67

Qualifications BA (Hons), PTD, FIAC

Year appointed 1999

Independence Independent director

Absa board committee memberships
- Directors' Affairs Committee

Other directorships/ trusteeships Chairman of African Star Ventures (Proprietary) Limited, Airports Company South Africa Limited (ACSA), Kwezi V3 Engineers (Proprietary) Limited and Ekapa Mining (Proprietary) Limited. Director of Absa Group Limited, Sappi Limited, Safmarine (Proprietary) Limited, Steinhoff International Holdings Limited, Macsteel Holdings Limited, Metropolitan Holdings Limited, RGA Reinsurance Company of South Africa Limited and RGA SA Holdings (Proprietary) Limited. Trustee of the Nelson Mandela Foundation and the Legal Resources Trust. Chancellor of the University of the Free State.

Skills, expertise and experience Rector of the Peninsula Technikon from 1978 to 1994. Served as South African ambassador to the United States of America from 1995 to 1998. Former president of the Afrikaanse Handelsinstituut. President of the Union of Teachers Associations of South Africa for 16 years.

P E I (Peter) Swartz

Age 65

Qualifications Advanced Primary Teacher's Diploma

Year appointed 1994

Independence Independent director

Absa board committee memberships
- Group Risk Committee

Other directorships/ trusteeships He serves on the boards of Absa Group Limited, Distell Limited and Sun International Limited. He is a trustee of the Cape Peninsula University of Technology Foundation, Western Cape Cerebral Palsy Association and the Eoan Group Trust.

Skills, expertise and experience Was a school music teacher for 10 years. He became the first chancellor of the Cape Technikon (Cape Peninsula University of Technology). He has, over the past 35 years, held personal interests in various industries, including cinemas, hotels, supermarkets, fast foods outlets, centrifugal pump manufacturing and property development. A former chairman of the South African Tourism board. He also served over many years as a director of Sanlam Limited, Ellerines Holdings Limited and New Clicks Holdings Limited.

L L (Louis) von Zeuner

Age 45

Qualifications BEcon

Year appointed 2004

Independence Executive director

Absa board committee memberships
- None, but attends various board committee meetings ex officio.

Other directorships/ trusteeships Mr von Zeuner serves on the boards of Absa Group Limited, the Banking Association South Africa, Section 21 Housing Company, MasterCard and the SA Payments Strategy Association.

Skills, expertise and experience His first position was that of a clerk in the Goodwood branch of Volkskas. He worked in the branch system until 1995, by which time he had been branch manager of four branches, namely Wynberg (1989 – 1990), Cape Town (1990 – 1991), Old Paarl Road (1991 – 1992) and Stellenbosch (1992 – 1995). His appointment as regional manager for the Northern Cape in Kimberley (1995 – 1996) elevated him to Absa's general management. He then became provincial general manager of the Northern Province (1996 – 1998) and the Free State (1998 – 1999). In 2000, he moved to Absa head office, where he became the operating executive of Absa Commercial Bank. He was appointed as an executive director on the Absa board in September 2004.

Introduction

Absa Bank is a wholly owned subsidiary of Absa Group Limited (Absa Group), which is listed on the JSE Limited.

Absa Bank recorded solid headline earnings of R5 861 million for the year ended 31 December 2006. Return on average equity increased to 25,1%, up from 22,8% for the nine months ended 31 December 2005.

The key performance drivers of the Bank's business units are encapsulated in this section of the report.

Segmental earnings

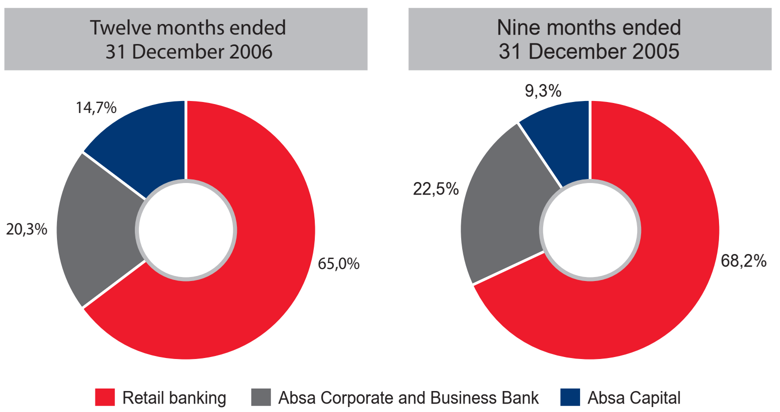
All of the Bank's businesses delivered very strong growth in attributable earnings. The retail, business, corporate and investment banking segments benefited from a buoyant operating environment and the earnings uplift was assisted by the Absa-Barclays integration benefits.

Segmental performance

Segmental earnings

	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
• Retail banking	**4 095**	2 564
• Absa Corporate and Business Bank	**1 282**	845
• Absa Capital	**928**	351
• Other	**273**	(59)
• Costs relating to the Barclays transaction	**—**	(120)
Total earnings from business areas	**6 578**	3 581
Integration costs (after taxation)	**(454)**	(150)
Profit attributable to preference equity holders	**(73)**	—
Profit attributable to ordinary equity holder	**6 051**	3 431
Headline earnings adjustments	**(190)**	12
Total headline earnings	**5 861**	3 443

Earnings from business units*



**Excludes entities included under "other" and costs relating to the Barclays transaction.*

Retail banking

The attributable earnings of R4 095 million were achieved as a result of good performances from Absa Private Bank, Retail Banking Services and Absa Card. The Bank's retail banking operations recorded strong advances growth for the year. This enabled this segment to maintain its market share in most products and achieve a healthy gain in market share in credit card advances.

Solid retail deposit growth was recorded on the back of growth in savings, transmission and current accounts. Strong growth in transaction volumes, which emanated from the increased activities of existing and new customers, resulted in solid non-interest income. The retail customer base increased by 9,5% to 8,3 million as at December 2006. Volumes in the branch network grew moderately. Good growth was experienced in automated teller machine (ATM), internet and cell phone banking transactions.

During the period under review, the focus on the expansion of the delivery footprint was sustained, with 31 staffed outlets being opened, predominantly in previously disadvantaged areas, and the addition of 1 218 ATMs. A further 37 outlets were upgraded and 208 internet kiosks and 114 self-service kiosks were put in service during 2006.

The contribution to attributable earnings of the various business units in retail banking was as follows:

	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
Segment-focused business units		
• **High net worth and affluent market** ➜ Absa Private Bank	**260**	153
• **Middle, mass and small business markets** ➜ Retail Banking Services*	**1 318**	806
Product-focused business units		
• **Credit cards** ➜ Absa Card	**700**	385
• **Home loans** ➜ Absa Home Loans**	**1 086**	762
• **Instalment finance** ➜ Absa Vehicle and Asset Finance***	**731**	458
Retail banking	**4 095**	2 564

**Includes Flexi Banking Services, Small Business and UB Micro Loans.*
***Includes Repossessed Properties.*
****Instalment finance was previously reported as part of commercial banking.*

Commercial banking – Absa Corporate and Business Bank

Absa Corporate and Business Bank delivered attributable earnings of R1 282 million for the twelve months ended 31 December 2006. This performance was driven by strong growth in advances, deposits and transaction volumes. Listed commercial property finance investments also performed very well.

The advances margin came under increased pressure as a result of heightened competition. The quality of the advances book improved further, as evidenced by an improvement in the impairment loss ratio.

During the year under review, the emphasis fell on implementing a new value aligned performance measurement tool that assists relationship managers to enhance customer profitability. This period also saw the introduction of a new operating model in Medium Business and the incorporation of Absa's corporate segment into the business bank segment.

Investment banking – Absa Capital

Absa Capital delivered attributable earnings of R928 million to elevate its contribution to the Bank's earnings. This was largely as a result of increased customer flows following the launch of Absa Capital during the period under review. Absa Capital has been refocused into three business units: Primary Markets, Secondary Markets, and Investor Services and Equity Investments. As a result, certain customers and products were migrated to Absa Corporate and Business Bank during 2006.

Growth in Primary Markets was achieved as a result of an enhanced value proposition, enabled through a comprehensive and holistic international and local solutions approach, which in turn led to an increased customer deal flow.

Investor Services and Equity Investments achieved strong growth by actively managing the investment portfolio and positioning the portfolio for future expansion.

Secondary Markets increased revenues throughout the year under review through better risk management, additions to product depth and breadth and increased customer flows.

Consolidated financial statements – contents

Directors' approval

Responsibility for financial statements

The directors are responsible for the preparation, integrity and objectivity of consolidated financial statements that fairly present the state of the affairs of Absa Bank Limited and its subsidiaries (Bank) and of Absa Bank Limited (Company) at the end of the financial year and the net income and cash flows for the year, and other information contained in this report.

To enable the directors to meet these responsibilities:

- the board and management set standards and management implements systems of internal control and accounting and information systems aimed at providing reasonable assurance that assets are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties;
- Absa's internal audit function, which operates unimpeded and independently from operational management, and has unrestricted access to the Group Audit and Compliance Committee, appraises, evaluates and, when necessary, recommends improvements in the systems of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business; and
- the Group Audit and Compliance Committee, together with the external and internal auditors, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of their knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review. The external auditors concur with this statement.

The Bank consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis.

The financial statements of the Bank and the Company have been prepared in accordance with the provisions of the South African Companies Act, No 61 of 1973, and the Banks Act, No 94 of 1990, and comply with International Financial Reporting Standards (IFRS).

The directors have no reason to believe that the Bank and the Company as a whole will not be going concerns in the year ahead, based on forecasts and available cash resources. These financial statements have accordingly been prepared on that basis.

It is the responsibility of the independent auditors to report on the consolidated financial statements. Their report to the members of the Bank and Company is set out on page 31 of this report.

Approval of financial statements

The directors' report and the financial statements of the Bank and the Company which appear on pages 32 to 181, were approved by the board of directors on 20 February 2007 and are signed by:

Danie Cronjé

D C Cronjé • *Chairman*

Steve Booysen

S F Booysen • *Chief executive*

Johannesburg

20 February 2007

Company secretary's certificate to the members of Absa Bank Limited

In accordance with the provisions of the Companies Act, No 61 of 1973 (the Act), I certify that, in respect of the year ended 31 December 2006, the Company has lodged with the Registrar of Companies all returns prescribed by the Act and that all such returns are true, correct and up to date.

W R Somerville • *Company secretary*

Johannesburg
20 February 2007

Independent auditors' report to the members of Absa Bank Limited

Report on the financial statements

We have audited the annual financial statements and consolidated annual financial statements of Absa Bank Limited, which comprise the directors' report, the balance sheet and the consolidated balance sheet as at 31 December 2006, the income statement and the consolidated income statement, the statement of changes in equity and the consolidated statement of changes in equity, the cash flow statement and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 32 to 181.

Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, No 61 of 1973, of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank and of the Company as of 31 December 2006, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, No 61 of 1973, of South Africa.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: T Winterboer
Registered auditor

Ernst & Young Registered Auditors Inc.

Ernst & Young Registered Auditors Inc.
Director: E Pera
Registered auditor

Johannesburg
20 February 2007

General information

Absa Bank Limited and its subsidiaries (the Bank), which has preference shares listed on the JSE Limited, is incorporated and domiciled in South Africa and provides retail, corporate and investment banking services. Absa Bank Limited operates primarily in South Africa and employs over 31 000 people. The address of the Bank's registered office is 170 Main Street, Johannesburg, 2001.

Absa Bank Limited (the Company), is a wholly owned subsidiary of Absa Group Limited.

The Bank's ultimate parent company is Barclays Bank PLC, which is incorporated and domiciled in the United Kingdom. The address of its registered office is 1 Churchill Place, Canary Wharf, United Kingdom.

Absa Bank Limited is one of South Africa's largest financial services organisations, serving personal, commercial and corporate customers in South Africa.

The Bank interacts with its customers through a combination of physical and electronic channels, offering a comprehensive range of banking services (from basic products and services for the low-income personal market to customised solutions for the commercial and corporate markets).

The consolidated financial statements were approved for issue by the board of directors on 20 February 2007.

Nature of activities

The Bank provides an extensive range of banking services.

Barclays PLC acquired a controlling stake in Absa Group Limited with effect from 27 July 2005. A resolution passed on 19 August 2005 changed the Bank's year-end from 31 March to 31 December with effect from 31 December 2005. This is to facilitate the alignment of the year-end with that of Barclays PLC.

Absa therefore acknowledges that comparative amounts for the income statement, changes in equity, cash flows and related notes are not directly comparable.

Bank results

Main business and operations

Headline earnings for the twelve months to 31 December 2006 amounted to R5 861 million (nine months to 31 December 2005: R3 443 million) and headline earnings per share of 1 724,6 cents (nine months to 31 December 2005: 1 072,6 cents). Earnings (net income attributable to ordinary shareholders) for the twelve months to 31 December 2006 amounted to R6 051 million (nine months to 31 December 2005: R3 431 million) and earnings per share of 1 799,0 cents (nine months to 31 December 2005: 1 068,8 cents). Headline earnings were derived from the following activities:

	Twelve months ended 31 December 2006		Nine months ended 31 December 2005	
	Rm	**%**	Rm	%
Retail banking	**4 095**	**62,3**	2 564	69,3
• Absa Private Bank	**260**	**4,0**	153	4,1
• Retail Banking Services	**1 318**	**20,0**	806	21,8
• Absa Home Loans and Repossessed Properties	**1 086**	**16,5**	762	20,6
• Absa Card	**700**	**10,6**	385	10,4
• Absa Vehicle and Asset Finance	**731**	**11,2**	458	12,4
Absa Corporate and Business Bank	**1 282**	**19,5**	845	22,8
Absa Capital	**928**	**14,1**	351	9,5
African operations	**(44)**	**(0,7)**	(8)	(0,2)
Corporate centre	**186**	**2,8**	8	0,2
Capital and funding centre	**131**	**2,0**	(59)	(1,6)
Total banking	**6 578**	**100,0**	3 701	100,0
Costs relating to the Barclays transaction	**—**	**—**	(120)	—
Total earnings from business areas	**6 578**	**100,0**	3 581	100,0
Integration costs (after tax)	**(454)**	**—**	(150)	—
Profit attributable to preference equity holders	**(73)**	**—**	—	—
Profit attributable to ordinary equity holder	**6 051**	**—**	3 431	—
Headline earnings adjustment	**(190)**	**—**	12	—
Total headline earnings	**5 861**	**100,0**	3 443	100,0

The Bank has reclassified certain segments to be more in line with the management of these segments. The new segment compositions are as follows:

- Retail banking includes Absa Private Bank, Retail Banking Services, Flexi Banking Services, Small Business, Absa Card, Absa Home Loans and Absa Vehicle and Asset Finance;
- Absa Corporate and Business Bank comprises corporates, medium and large businesses, agriculture, public sector and commercial property finance;
- Absa Capital comprises Absa's investment banking division. In May 2006, Absa Capital was launched, which represents a combination of the global expertise of Barclays Capital and the specialist local knowledge of Absa Corporate and Merchant Bank;
- African operations comprises Absa's Africa Desk;
- Corporate centre comprises Real Estate Asset Management, Absa Bank London and other head office and non-banking activities.

The change has no effect on the profit of the Bank and comparative information has been restated to reflect the above.

Subsidiaries, associated undertakings and joint venture companies

The interests in subsidiaries, associated undertakings and joint venture companies are set out in Annexure F of this report.

Directors' interest in Absa Bank Limited preference shares*

The direct and indirect preference shareholding of directors in Absa Bank Limited as at 31 December 2006 is as follows:

	Direct Number of shares	**Indirect Number of shares**
Present directors		
D C Cronjé (chairman)	**7 500**	**—**
S F Booysen** (chief executive)	**—**	**11 000**
D C Arnold	**400**	**—**
B P Connellan	**300**	**—**
A S du Plessis	**300**	**—**
L N Jonker	**200**	**200**
T M G Sexwale	**1 000**	**—**
P E I Swartz	**—**	**200**
	9 700	**11 400**

Acquisitions

The following interests were acquired since the date of the previous directors' report:

- Absa Bank Limited acquired a further 12% interest in Paramount Property Fund Limited at a cost of R57 million.
- Absa Bank Limited acquired an interest in African Trading Spirit (Proprietary) Limited at a cost of R20 million.
- Absa Bank Limited acquired an interest in Palm Hills Investments (Proprietary) Limited at a cost of R11 million.
- Absa Bank Limited acquired a 50% shareholding in Abseq Properties (Proprietary) Limited at a cost of R133 million.

Disposals

The following interests have been sold since the date of the previous directors' report:

- Absa Bank Limited sold its shares in Paramount Property Fund Limited to a third party.
- Bankhaus Wölbern & Co. was sold to a third party.

No comparatives are available for the previous period as the preference shares were only issued duing the year under review.

***Executive director*

Directors' report

Special resolutions

The following special resolution was passed by Absa Bank Limited:

- Replaced its articles of association with a new set of articles of association.

Directors

The directors of the Company during the year and to the date of this report are as follows:

Name

D C Cronjé# (chairman)
D C Brink# (deputy chairman)
S F Booysen* (chief executive)
L N Angel
D C Arnold
D E Baloyi
D Bruynseels*†
B P Connellan
Y Z Cuba (appointed 6 December 2006)
A S du Plessis#
R R Emslie* (alternate) (resigned 22 January 2007)
C Erasmus* (retired 30 December 2006)
G Griffin
M W Hlahla
L N Jonker#
P du P Kruger
N Kheraj†
L W Maasdorp (resigned 30 September 2006)
N P Mageza* (alternate) (resigned 22 January 2007)
D L Roberts (resigned 23 October 2006)
J H Schindehütte*
F F Seegers** (appointed 23 October 2006)
T M G Sexwale
I B Skosana* (resigned 20 February 2006)
F A Sonn
P E I Swartz#
J P van der Merwe* (retired 30 December 2006)
L L von Zeuner*

Secretary

The secretary of the Company is Mr W R Somerville. His contact details are as follows:

Business address

3rd Floor, Absa Towers East
170 Main Street, Johannesburg
2001

e-mail: williams@absa.co.za

**Executive director*
***Dutch*
†British
#Has been on the board for more than nine years.

Interest of directors and officers

No contracts were entered into, other than as disclosed in note 42 of the consolidated financial statements, in which directors and officers of the Company had an interest and which significantly affected the business of the Bank. The directors had no interest in any third party or company responsible for managing any of the business activities of the Bank. The emoluments and services of executive directors are determined by the Group Remuneration Committee. No long-term service contracts exist between executive directors and the Company.

Transactions with directors are entered into in the normal course of business under terms that are no more favourable than those arranged with third parties.

Authorised and issued share capital

Authorised

The authorised share capital of the Company of R322 800 000 is divided into:

- 320 000 000 ordinary par value shares of R1,00 each.
- 250 000 000 "A" ordinary shares of R0,01 each.
- 30 000 000 non-cumulative non-redeemable preference shares of R0,01 each.

Issued during the year

- On 20 March 2006, 4 394 961 'A' ordinary shares were issued at R170,65 per share, being R0,01 par value and R170,64 share premium.
- On 25 April 2006, 3 000 000 non-cumulative preference shares were issued at R1 000 per share, being R0,01 par value and R999,99 share premium, by way of a private placement on the JSE Limited to raise cost-effective permanent share capital as part of a general capital management programme to provide the Bank with funding for strategic initiatives.

Directors' emoluments

Directors' emoluments in respect of the Company's executive directors are disclosed in note 42 of the consolidated financial statements.

Dividends

- On 21 February 2006, a dividend of 248,8 cents per ordinary share was declared to ordinary shareholders registered on 17 March 2006.
- On 3 August 2006, a dividend of 383,7 cents per ordinary share was declared to ordinary shareholders registered on 1 September 2006.
- On 7 August 2006, a dividend of 2 435,4 cents per preference share was declared to preference shareholders registered on 1 September 2006.
- On 20 February 2007, a dividend of 208,2 cents per ordinary share was declared to ordinary shareholders registered on 16 March 2007.
- On 20 February 2007, a dividend of 3 784,3 cents per preference share was declared to preference shareholders registered on 16 March 2007.

Post-balance sheet events

No events, which are likely to have a material effect on the Bank's results in the current year, have occurred between the year-end date and the date of this report.

Code of corporate practices and conduct

The board is of the view that the Company complies with the recommendations of the Code of Corporate Practices and Conduct included in the King II Report on Corporate Governance.

Consolidated balance sheet

	Note	Bank 31 December 2006 Rm	31 December 2005 Rm
Assets			
Cash, cash balances and balances with central banks	2	**12 022**	11 334
Statutory liquid asset portfolio	3	**20 829**	16 219
Loans and advances to banks	4	**20 833**	19 912
Trading assets	5	**17 711**	23 484
Hedging assets	5	**672**	379
Loans and advances to customers	6	**368 320**	292 955
Loans to Absa Group companies	9	**3 029**	3 460
Other assets	10	**3 151**	3 441
Investments	11	**2 839**	1 548
Investments in associated undertakings and joint ventures	12	**601**	533
Intangible assets	13	**147**	120
Property and equipment	14	**3 509**	3 247
Deferred tax assets	15	**63**	55
Total assets		**453 726**	376 687
Liabilities			
Deposits from banks	16	**39 236**	28 400
Trading liabilities	17	**15 499**	20 915
Hedging liabilities	17	**1 898**	461
Deposits due to customers	18	**348 934**	289 113
Current tax liabilities	19	**941**	235
Policyholder liabilities under insurance contracts	20	**76**	82
Borrowed funds	21	**8 268**	6 326
Other liabilities and sundry provisions	22	**8 015**	7 822
Deferred tax liabilities	15	**2 133**	2 284
Total liabilities		**425 000**	355 638
Equity			
Capital and reserves			
Attributable to equity holders:			
Ordinary share capital	24	**303**	303
Ordinary share premium	24	**5 415**	4 665
Preference share capital	24	**1**	—
Preference share premium	24	**2 991**	—
Other reserves	25	**1 682**	1 817
Retained earnings		**18 334**	14 224
Minority interest		**—**	40
Total equity		**28 726**	21 049
Total equity and liabilities		**453 726**	376 687

	Note	Bank **Twelve months ended 31 December 2006 Rm**	Nine months ended 31 December 2005 Rm
Net interest income		**14 184**	8 765
Interest and similar income	26	**36 551**	22 000
Interest expense and similar charges	27	**(22 367)**	(13 235)
Impairment losses on loans and advances	7	**(1 515)**	(561)
Net interest income after impairment losses on loans and advances		**12 669**	8 204
Net fee and commission income		**9 434**	6 348
Fee and commission income	28	**9 468**	6 364
Fee and commission expense	28	**(34)**	(16)
Gains and losses from banking and trading activities	29	**1 274**	759
Gains and losses from investment activities	30	**169**	44
Other operating income	31	**897**	406
Operating income before expenses		**24 443**	15 761
Operating expenditure		**(15 943)**	(10 919)
Operating expenses	32	**(15 070)**	(10 196)
Impairments	34	**(71)**	(54)
Indirect taxation	35	**(802)**	(669)
Share of retained earnings from associated undertakings and joint venture companies	12	**48**	69
Operating profit before income tax		**8 548**	4 911
Taxation expense	36	**(2 424)**	(1 480)
Profit for the year/period		**6 124**	3 431
Attributable to:			
Ordinary equity holder of the Bank		**6 051**	3 431
Preference equity holders of the Bank		**73**	—
		6 124	3 431
• Basic earnings per share (cents)	37	**1 799,0**	1 068,8
• Diluted earnings per share (cents)	37	**1 799,0**	1 068,8
Headline earnings	38	**5 861**	3 443
• Headline earnings per share (cents)	38	**1 742,5**	1 072,6
• Diluted headline earnings per share (cents)	38	**1 742,5**	1 072,6

Consolidated statement of changes in equity

	Bank				
	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at 1 April 2005	305 048	292	1 606	—	—
IFRS adjustments applied prospectively	—	—	—	—	—
Shares issued	17 681	—	2 447	—	—
Less: costs incurred	—	—	(5)	—	—
Convertible bond – equity component	10 162	11	617	—	—
Movement in available-for-sale reserve and/or cash flow hedges reserve	—	—	—	—	—
Fair value gains and losses	—	—	—	—	—
Amount removed from equity and recognised in profit and loss for the period	—	—	—	—	—
Movement in share-based payments reserve	—	—	—	—	—
Share of net income attributable to minorities	—	—	—	—	—
Dividends declared	—	—	—	—	—
Foreign currency translation effects	—	—	—	—	—
Share of associated undertakings' and joint ventures' retained reserves	—	—	—	—	—
Profit attributable to ordinary equity holder	—	—	—	—	—
Balance at 31 December 2005	332 891	303	4 665	—	—

	Number of ordinary shares '000	**Share capital Rm**	**Share premium Rm**	**Preference share capital Rm**	**Preference share premium Rm**
Balance at 1 January 2006	**332 891**	**303**	**4 665**	**—**	**—**
Shares issued	**4 395**	**—**	**750**	**1**	**2 999**
Less: costs incurred	**—**	**—**	**—**	**—**	**(8)**
Movement in regulatory general credit risk reserve	**—**	**—**	**—**	**—**	**—**
Movement in available-for-sale reserve and/or cash flow hedges reserve	**—**	**—**	**—**	**—**	**—**
Fair value gains and losses	**—**	**—**	**—**	**—**	**—**
Amount removed from equity and recognised in profit and loss for the year	**—**	**—**	**—**	**—**	**—**
Movement in share-based payments reserve	**—**	**—**	**—**	**—**	**—**
Value of employee services	**—**	**—**	**—**	**—**	**—**
Transfer from share-based payment reserve	**—**	**—**	**—**	**—**	**—**
Net (disposals)/acquisitions	**—**	**—**	**—**	**—**	**—**
Share of net income attributable to minorities	**—**	**—**	**—**	**—**	**—**
Dividends declared – ordinary shares	**—**	**—**	**—**	**—**	**—**
Dividends declared – preference shares	**—**	**—**	**—**	**—**	**—**
Foreign currency translation effects	**—**	**—**	**—**	**—**	**—**
Profit attributable to ordinary equity holder	**—**	**—**	**—**	**—**	**—**
Profit attributable to preference equity holders	**—**	**—**	**—**	**—**	**—**
Balance at 31 December 2006	**337 286**	**303**	**5 415**	**1**	**2 991**
Note(s)	**24**	**24**	**24**	**24**	**24**

Note: All movements are reflected net of taxation.

Bank

Regulatory general credit risk reserve and other borrowed funds Rm	Available-for-sale reserve Rm	Cash flow hedges reserve Rm	Translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Associated companies and joint ventures Rm	Retained earnings Rm	Minority interest Rm	Total Rm
628	(54)	35	141	1 425	46	124	14 865	41	19 149
—	—	—	—	—	—	—	(278)	—	(278)
—	—	—	—	—	—	—	—	—	2 447
—	—	—	—	—	—	—	—	—	(5)
(628)	—	—	—	—	—	—	—	—	—
—	(16)	97	—	—	—	—	—	—	81
—	(37)	240	—	—	—	—	—	—	203
—	21	(143)	—	—	—	—	—	—	(122)
—	—	—	—	—	66	—	—	—	66
—	—	—	—	—	—	—	—	(1)	(1)
—	—	—	—	—	—	—	(3 725)	—	(3 725)
—	—	—	(116)	—	—	—	—	—	(116)
—	—	—	—	—	—	69	(69)	—	—
—	—	—	—	—	—	—	3 431	—	3 431
—	(70)	132	25	1 425	112	193	14 224	40	21 049

Regulatory general credit risk reserve and other borrowed funds Rm	**Available-for-sale reserve Rm**	**Cash flow hedges reserve Rm**	**Translation reserve Rm**	**Capital reserve Rm**	**Share-based payment reserve Rm**	**Associated companies and joint ventures Rm**	**Retained earnings Rm**	**Minority interest Rm**	**Total Rm**
—	**(70)**	**132**	**25**	**1 425**	**112**	**193**	**14 224**	**40**	**21 049**
—	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**3 750**
—	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(8)**
50	**—**	**—**	**—**	**—**	**—**	**—**	**(50)**	**—**	**—**
—	**67**	**(485)**	**—**	**—**	**—**	**—**	**—**	**—**	**(418)**
—	**36**	**(539)**	**—**	**—**	**—**	**—**	**—**	**—**	**(503)**
—	**31**	**54**	**—**	**—**	**—**	**—**	**—**	**—**	**85**
—	**—**	**—**	**—**	**—**	**55**	**—**	**23**	**—**	**78**
—	**—**	**—**	**—**	**—**	**(23)**	**—**	**23**	**—**	**—**
—	**—**	**—**	**—**	**—**	**78**	**—**	**—**	**—**	**78**
—	**—**	**—**	**—**	**—**	**—**	**(48)**	**48**	**(40)**	**(40)**
—	**—**	**—**	**—**	**—**	**—**	**48**	**(48)**	**—**	**—**
—	**—**	**—**	**—**	**—**	**—**	**—**	**(1 914)**	**—**	**(1 914)**
—	**—**	**—**	**—**	**—**	**—**	**—**	**(73)**	**—**	**(73)**
—	**—**	**—**	**178**	**—**	**—**	**—**	**—**	**—**	**178**
—	**—**	**—**	**—**	**—**	**—**	**—**	**6 051**	**—**	**6 051**
—	**—**	**—**	**—**	**—**	**—**	**—**	**73**	**—**	**73**
50	**(3)**	**(353)**	**203**	**1 425**	**167**	**193**	**18 334**	**—**	**28 726**
25	**25**	**25**	**25**	**25**	**25**	**12 & 25**			

Consolidated cash flow statement

	Note	Bank Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
Cash flows from operating activities			
Interest and commissions received		**23 459**	15 223
Net trading and other income		**1 722**	881
Cash payments to employees and suppliers		**(14 148)**	(9 609)
Income taxes paid	39	**(2 679)**	(1 335)
Cash flows from operating profit before changes in operating assets and liabilities		**8 354**	5 160
Net decrease/(increase) in trading securities		**5 480**	(3 029)
Net increase in loans and advances to customers		**(76 880)**	(53 651)
Net increase in other assets		**(9 920)**	(680)
Net decrease in insurance and investment funds		**(6)**	—
Net decrease in trading liabilities		**(3 979)**	(253)
Net increase in amounts due to customers and banks		**70 657**	50 249
Net increase in other liabilities		**240**	2 186
Net cash utilised from operating activities		**(6 054)**	(18)
Cash flows from investing activities			
Purchase of property and equipment	14	**(1 071)**	(969)
Proceeds from sale of property and equipment		**115**	187
Purchase of intangible assets	13	**(119)**	—
Disposal of subsidiaries, net of cash	48	**(133)**	—
Proceeds from disposal of intangible assets		**8**	—
Disposal of associates, net of cash		**360**	(7)
Acquisition of associates, net of cash		**(174)**	—
Net (increase)/decrease in securities		**(646)**	3 349
Net cash (utilised)/generated from financing activities		**(1 660)**	2 560
Cash flows from financing activities			
Issue of ordinary shares	24	**750**	2 442
Proceeds from borrowed funds		**2 000**	1 500
Repayment of borrowed funds		**—**	(750)
Issue of preference shares		**2 992**	—
Dividends paid		**(1 987)**	(3 725)
Net cash generated/(utilised) from financing activities		**3 755**	(533)
Net (decrease)/increase in cash and cash equivalents		**(3 959)**	2 009
Cash and cash equivalents at the beginning of the year/period		**7 462**	5 453
Effect of exchange rate movement on cash equivalents		**(5)**	—
Total cash and cash equivalents at the end of the year/period	46	**3 498**	7 462

1. Summary of significant accounting policies and estimates

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies comply with International Financial Reporting Standards (IFRS). The Bank transitioned to IFRS with effect from 1 April 2005.

(a) Amendments to published standards effective in 2006

IAS 19 – Employee benefits (amendment)

During the year, Absa adopted the amendments to IAS 19 – Employee benefits, which increased the level of disclosure in respect of defined benefit plans, but had no impact on the reported profits or financial position of the Bank. In accordance with the transitional requirements of the amendments, the Bank has provided full comparative information.

IAS 21 – The effect of changes in a foreign operation (amendment)

The amendment clarifies that a monetary receivable from or payable to a foreign operation may in substance be part of the net investment in a foreign operation and that the translation difference on this monetary item should be classified in reserves in the financial statements of the Bank. The impact of this amendment to IAS 21 on the Bank is not considered to be significant.

IAS 39 – Financial instruments: Recognition and measurement (amendments)

Cash flow hedge accounting of forecast intragroup transactions

The amendment allows the designation as a hedged item in the consolidated financial statements of the Bank, for the foreign currency risk of a highly probable forecast intragroup transaction under certain conditions.

Financial guarantee contracts

The amendment permits the measurement of a financial guarantee contract initially at fair value and subsequently at the higher of the amount recognised in terms of IAS 37 and the amount initially recognised less any cumulative amortisation.

Fair value option

The amendment restricts the extent to which the fair value option currently available in IAS 39 without restrictions can be applied to the Bank in designating any financial asset or financial liability at fair value through profit and loss. The internal criteria applied within the Bank for applying the fair value option under IAS 39 is restrictive enough and the amendment did not reduce the Bank’s usage of the option.

The impact of these amendments is not considered to be significant.

IFRIC 4 – Determining whether an arrangement contains a lease

The interpretation provides guidance regarding the determination of whether arrangements that do not take the legal form of a lease, in fact does contain a lease and should be accounted for under IAS 17. The impact of the interpretation on the Bank is not considered to be significant.

(b) Standards, amendments and interpretations effective in 2006 but not relevant

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Bank's operations:

- IFRS 6 – Exploration for and evaluation of mineral resources;
- IFRIC 5 – Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds; and
- IFRIC 6 – Liabilities arising from participating in a specific market – waste electrical and electronic equipment.

1.1 Basis of presentation

The consolidated and company financial statements have been prepared in accordance with IFRS and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), the going-concern principle and using the historical-cost basis, except where specifically indicated otherwise in the accounting policies.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The notes to financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated and company financial statements.

These accounting policies are consistent with the previous period, except for the changes set out in note 1.20 – Changes in accounting policies.

1.2 Consolidation

The consolidated financial statements include those of Absa Bank Limited and all its subsidiaries, associated undertakings, special purpose entities and joint venture companies.

1.2.1 Subsidiaries

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the date of their acquisition or to the date of their disposal. Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies, generally in conjunction with a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

At an entity level, investments in subsidiaries are held at cost less any accumulated impairment.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Bank's share of identifiable net assets is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains are eliminated upon consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries are consistent with the accounting policies adopted by the Bank.

1.2.2 Investments in associated undertakings and joint ventures

Associated undertakings are those companies which are not subsidiaries and in which the Bank holds an equity investment and exercises significant influence on the financial and operating policies. Significant influence is normally evidenced when Absa owns between 20% and 50% of a company's voting rights.

A joint venture is a contractual agreement between two or more parties to undertake an economic activity that is under joint control.

Investments in entities that form part of venture capital activities of the Bank have been designated at fair value through profit and loss. The designation has been made in accordance with IAS 39 – Financial instruments: Recognition and measurement, based on the scope exclusion that is provided in IAS 28 – Investments in associates.

At an entity level, investments in associates and joint ventures are held at cost less any accumulated impairment.

Venture capital associated investments are distinguished from other investments by considering the nature of the investments, expected returns and the manner in which it is managed by the Bank. These are private equity investments. Private equity is medium- to long-term finance that is provided in return for an equity stake in potentially high growth unquoted entities. The fair value of these investments is determined in accordance with international private equity and venture capital valuation guidelines.

Investments in associated companies that are not deemed to be part of the Bank's venture capital activities are initially carried at cost in the entity. The Bank's investment includes goodwill. The carrying values of associates are reassessed at least annually for impairment.

The results of associated undertakings and joint ventures are accounted for according to the equity method, based on their most recent audited financial statements. If the most recent available audited financial statements are for an accounting period that ended no more than three months prior to the Bank's year-end, these are adjusted in respect of material adjustments between their reporting date and the Absa reporting date. The Bank's share of its post-acquisition profits or losses is recognised in the income statement and the Bank's interest in the post-acquisition reserves of associated undertaking companies and joint ventures is treated as non-distributable in the Bank's financial statements. When the Bank's share of losses in an associated undertaking and joint venture company equals or exceeds its interest in that company, including any other unsecured receivables, the Bank does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated undertaking or joint venture company.

Unrealised gains on transactions between the Bank and its associates and joint ventures are eliminated to the extent of the Bank's interest in the associates and joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

1.2.3 Transactions with minority interests

The Bank applies a policy of treating transactions with minority interests as transactions with equity owners of the Bank. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals of minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

1.2.4 Special purpose entities

The Bank has established a number of special purpose entities (SPEs) for trading and investment purposes. An SPE is consolidated on the same basis as subsidiaries as set out in 1.2.1 if based on an evaluation of the substance of its relationship with the Bank and the SPE's risk and rewards, the Bank concludes that it controls the SPE. SPEs controlled by the Bank were established under terms that:

- impose strict limitations on the decision-making powers of the SPE's management;
- result in the Bank receiving the majority of the benefits related to the SPE's operations and net assets;
- enable the Bank to retain the majority of the residual or ownership risks related to the SPE or its assets; and
- the activities of the SPE are being conducted on behalf of the entity according to its specific business needs.

1.3 Segment reporting

1.3.1 Business segments

Business segments are distinguishable components of the Bank with products or services that are subject to risks and rewards that are different to those of other business segments.

The Bank is organised into the following business units:

- Retail banking: Offers a comprehensive range of banking products and services to individuals and small business customers.
- Absa Corporate and Business Bank: Provides a comprehensive range of banking products and services to corporates, medium and large business customers.
- Absa Capital: Provides investment banking solutions to the corporate market segment.
- African operations: Manages Absa Group Limited's shareholding in African entities.
- Other: Consists of various head office and non-banking activities.

1.3.2 Geographical segments

The segments operate in four principal geographical areas: South Africa, Rest of Africa, Asia and Europe.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

1.4 Foreign currencies

1.4.1 Functional and presentation currency

The consolidated financial statements are presented in South African rand, which is the Company's functional currency and the Bank's presentation currency.

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

1.4.2 Foreign currency translations

The results and financial position of all Bank entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- The assets and liabilities of foreign subsidiary companies are translated at the closing exchange rates ruling at year-end. Income statement items in respect of foreign entities are translated at the appropriate weighted average exchange rate for the period, where these approximate actual rates. Gains and losses arising on translation are transferred to non-distributable reserves (foreign currency translation reserve) as a separate component of equity.
- On consolidation, exchange differences arising on the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.
- Goodwill and fair value adjustments arising on the acquisition of foreign subsidiaries are maintained in foreign currency translated at the closing rate.

1.4.3 Foreign currency transactions

Foreign currency transactions are recorded at the closing exchange rate ruling at the date of the transaction. Monetary items denominated in foreign currencies are translated at the closing exchange rates ruling at year-end and unrealised differences on translation are recognised in the income statement in the period in which they arise, except where hedge accounting is applied.

Translation differences on non-monetary items, held at fair value through profit and loss, are reported as part of the movement in fair value. Translation differences on non-monetary items, classified as available-for-sale financial assets, are included in the fair value reserve in equity.

1.5 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

1.6 Financial instruments

Financial instruments are initially measured at fair value and are subsequently carried as set out below. Transaction costs of instruments carried at fair value through profit and loss are recognised immediately through the income statement. For other categories of financial instruments, transaction costs (which include incremental costs) and transaction income are capitalised to the initial carrying amount.

Financial instruments are recognised on the date when the Bank enters into contractual arrangements with counterparties to purchase or sell the financial instruments.

1.6.1 Held-to-maturity

Held-to-maturity investments are non-derivative instruments with a fixed maturity date and where the Bank has a firm intention and ability to hold the investments to such date. This typically includes short-dated instruments held for regulatory liquid asset purposes. These investments are held at amortised cost and reviewed for impairment, where appropriate. Premiums and discounts arising on purchase are included in the effective interest rate.

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires considerable judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity, other than for specific circumstances defined by the Bank, it will be required to reclassify the entire class as available-for-sale. The investments would then have to be measured at fair value and not amortised cost.

1.6.2 Trading assets and trading liabilities

Financial instruments such as treasury bills, debt securities, equity shares and short positions in securities are classified as held for trading, if they have been acquired principally for the purpose of selling and repurchasing in the near term, or if they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking.

Measurement is initially at fair value, with transaction costs taken to the income statement. Subsequently, their fair values are remeasured, and all gains and losses from changes therein are recognised in the income statement in “Gains and losses from banking and trading activities” as they arise.

1.6.3 Financial instruments designated at fair value

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below, and are so designated by management. The Bank may designate financial instruments at fair value when the designation:

- eliminates or significantly reduces valuation or recognition inconsistencies that would arise from measuring financial assets or financial liabilities, or recognising gains and losses on them, on different bases. Under this criterion, the main classes of financial instruments designated by the Bank are as follows:
  - Financial assets backing insurance contracts and financial assets backing investment contracts because the related liabilities have cash flows that are contractually based on the performance of the assets or the related liabilities. Fair valuing the assets through profit and loss significantly reduces the recognition inconsistencies that would arise if the financial assets were classified as available-for-sale.
  - Financial assets, loans to customers, financial liabilities and structured notes where doing so significantly reduces measurement inconsistencies that would arise if the related derivative were treated as held for trading and the underlying financial instruments were carried at amortised cost.
- applies to groups of financial assets, financial liabilities or combinations thereof that are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and where information about the groups of financial instruments is reported to management on that basis. Under this criterion, certain private equity and other investments are the main class of financial instruments so designated. The Bank has documented risk management and investment strategies designed to manage such assets at fair value, taking into consideration the relationship of assets to liabilities in a way that mitigates market risks; and

- relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments, which includes certain financial assets, loans to customers, financial liabilities and structured notes.

The fair value designation, once made, is irrevocable. Measurement is initially at fair value, with transaction costs taken directly to the income statement. Subsequently, the fair value is remeasured, and gains and losses from changes therein is recognised in "Gains and losses from banking and trading activities" and "Gains and losses from investment activities", depending on its nature. Net income from advances which are designated at fair value are included in "Interest and similar income" and "Interest expense and similar charges" in the income statement.

1.6.4 Available-for-sale assets

Available-for-sale assets include both debt and equity investments normally held for an indefinite period, but that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or other economic conditions. The category also includes longer-dated government stock held for regulatory liquid asset purposes.

This category of financial assets is initially recognised at fair value, which represents the consideration given plus transaction costs, and subsequently carried at fair value. The fair value which represents gains and losses, net of applicable taxes, is reported in shareholders' equity until such investments are sold or otherwise disposed of, or until such investments are determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. However, interest calculated using the effective interest rate method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Bank's right to receive payment is established.

Available-for-sale assets are regularly assessed for impairment. In assessing whether or not impairment has occurred, consideration is given to, inter alia, whether or not there has been a significant or prolonged decline in the fair value of the security below its cost. If impairment is assessed to have occurred, the cumulative unrealised loss previously recognised in shareholders' equity is included in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit and loss, the impairment loss is reversed through the income statement.

The foreign exchange adjustment related to a monetary foreign denominated instrument designated as available-for-sale is included in the income statement.

1.6.5 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention to trade the receivable.

Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses. Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loan's current carrying amount. Any loss is charged to the income statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of identified or unidentified impairment.

1.6.6 Impairment of assets at amortised cost

Amortised cost investments are considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of an amortised cost investment is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

The estimation of allowances for impairment is inherently uncertain and depends upon many factors, including general economic conditions, changes in individual customers' circumstances, structural changes within industries that alter competitive positions, and other external factors such as legal and regulatory requirements and other government policy changes.

Advances are stated net of identified and unidentified impairments.

A financial asset or group of financial assets is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (known as the loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably measured. In determining whether a loss event has occurred, advances are subjected to regular evaluations that take cognisance of, inter alia, past experience of the economic climate similar to the current economic climate, overall customer risk profile and payment record and the realisable value of any collateral.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank and may include the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter insolvency or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:
  - adverse changes in the payment status of borrowers in the Bank; or
  - national or local economic conditions that correlate with defaults on the assets in the Bank.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate (the recoverable amount). The estimated recoverable amount is the present value of expected future cash flows that may result from restructuring, liquidation or collateral held.

Details on the significant estimates made by the Bank are as follows:

Identified impairment

Impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows are taken into account, for example, the business prospects for the customer, the fair value of collateral, the Bank's position relative to other claimants, the reliability of customer information and the likely cost and duration of the workout process. Subjective judgements are made in this process. Furthermore, judgements change with time as new information becomes available or as workout strategies evolve, resulting in revisions to the impairment allowance as individual decisions are taken case by case.

Upon impairment, the accrual of interest income on the original terms of the claim is discontinued, but the increase of the present value of impaired loans owing to the passage of time is reported as interest income.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Unidentified impairment

An impairment allowance is recognised when observable data indicates there is a measurable decrease in the estimated future cash flows from a group of financial assets since the original recognition of those assets, even though the decrease cannot yet be identified for the individual assets in the Bank. The purpose of collective assessment of impairment is to test for latent losses on a portfolio of loans that have not been individually evidenced.

In cases where the collective impairment of a portfolio cannot be individually evidenced, the Bank sets out to prove that a risk condition has taken place that will result in an impairment of assets (based on historic experience), but the losses will only be identifiable at an individual obligor level at a future date.

The emergence period concept is applied to ensure that only impairments that exist at the balance sheet date are captured. The emergence period is defined as the time lapse between the occurrence of a trigger event and the impairment being identified at an individual account level.

The probability of default for each exposure class is based on historical default experience, scaled for the emergence period relevant to the exposure class. This probability of default is then applied to the total population for which specific impairments have not been recognised.

The resulting figure represents an estimation of the impairment that occurred during the emergence period and therefore has not specifically been identified by the Bank as at balance sheet date.

The impairment allowance also takes into account the expected severity of loss at default, or the loss given default (LGD), which is the amount outstanding when default occurs that is not subsequently recovered. Recovery varies by product and depends, for example, on the level of security held in relation to each loan, and the Bank's position relative to other claimants. The LGD estimates are based on historical default experience.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

To the extent that the unidentified impairments created by the banking operations of the Bank are insufficient to meet the minimum regulatory general provision, such shortfall is accommodated by a transfer of the applicable after-tax amount from distributable to non-distributable reserves.

1.6.7 Derecognition of financial assets

Financial assets (or where applicable, a part of a financial asset or a part of a group of similar financial assets) are derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank retains the right to receive cash flows from the asset, but has assumed, as obligation, to pay them in full without material delay to a third party under a pass-through arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all of the risks and rewards of the asset; or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

1.6.8 Derecognition of financial liabilities

A financial liability is extinguished and derecognised from the balance sheet when the obligation is discharged, cancelled or expires.

1.6.9 Fair value

The fair value of a financial instrument is the amount at which the instrument could be exchanged in an arm's length transaction between willing parties, other than in a forced or liquidation sale.

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist and valuation models. The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

For more complex instruments, the Bank uses proprietary models, which usually are developed from recognised valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on appropriate assumptions. When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference, usually an increase, in fair value indicated by valuation techniques is recognised in income depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable. Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank recognises the difference between the transaction price and fair value in the income statement in “Gains and losses from banking and trading activities” or “Other operating income”, depending on its nature. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the balance sheet.

1.6.10 Scrip lending

The Bank does not account for scrip lending transactions on its balance sheet, as the risks and rewards of ownership of these assets and liabilities never transfer to the Bank.

The fees earned for the administration of scrip lending transactions are accounted for on an accrual basis in the period in which the service is rendered.

1.6.11 Derivative financial instruments and hedge accounting

Derivatives are recognised at fair value on the date on which the derivative contract is entered into and subsequently remeasured at fair value (attributable transaction costs are recognised in profit and loss when incurred). Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow and option pricing models. All derivatives are carried as assets when fair value is positive and liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price, unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The Bank also uses derivative instruments as part of its asset and liability management activities to hedge exposures to interest rate, foreign currency and credit risks. The Bank applies either fair value or cash flow hedge accounting when transactions meet the criteria as set out in IAS 39.

At the time a financial instrument is designated as a hedge, the Bank formally documents the relationship between the hedging instruments and the hedged items, including its risk management objectives and its strategy in undertaking the hedge transaction, together with the methods that will be used to assess the hedge effectiveness. The Bank assesses, on an ongoing basis, whether the hedge has been “highly effective” (between 80% and 125%) in offsetting fair value changes or the cash flows of hedged items. Hedge accounting is discontinued when a derivative is not highly effective as a hedge, or is sold, terminated or exercised or where the forecast transaction is no longer highly probable to occur. The same applies if the hedged item is sold or repaid.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. Prospective testing is based on the estimation of certain parameters to assess whether the hedging relationship will be effective or not. The estimation of these parameters is performed using best practice statistical forecasting and simulation methodologies based on current and historical market data. Resultant simulated hedging relationships are assessed by calculating a statistically based hedge effectiveness test criterion.

Net investment hedge

When a derivative (or a non-derivative) financial liability is designated as a hedge of a net investment in a foreign operation, the effective portion of changes in fair value of the hedging instrument is recognised directly in equity, in the foreign currency translation reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit and loss. The amount recognised in equity is removed and included in profit and loss on disposal of the foreign operation.

Fair value hedges

For qualifying fair value hedges, the change in fair value of the hedging derivative is recognised on the “Net interest income” line in the income statement. Changes in fair value of the hedged risk within the hedged item are reflected as an adjustment to the carrying value of the hedged item, which is also recognised in the income statement.

Any ineffective portion of changes in the fair value of the derivative is recognised immediately in “Gains and losses from banking and trading activities” in the income statement.

If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point, to a hedge item for which the effective interest method is used, is amortised to profit and loss as part of the recalculated effective interest rate of the items over the remaining life.

Cash flow hedges

Gains and losses, arising from fair value adjustments associated with the effective portion of a derivative designated as a cash flow hedge, are recognised initially in shareholders’ equity. Any ineffective portion of the hedging instrument is recognised in the income statement immediately. When the cash flows that the derivative is hedging materialise, resulting in income or expense, the associated gain or loss on the hedging instrument is simultaneously transferred from shareholders’ equity to the corresponding line in the income statement.

If a cash flow hedge is deemed to be no longer effective or the hedge relationship is terminated, the cumulative gain or loss on the hedging derivative previously reported in shareholders’ equity remains in shareholders’ equity until the committed or forecast transaction occurs, at which time it is transferred to the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in shareholders’ equity is immediately transferred to the income statement.

Derivatives that do not qualify for hedge accounting

Derivatives used as hedges that do not qualify for hedge accounting in terms of IAS 39 are fair valued, with gains and losses reflected in the income statement which is the treatment for derivatives entered into for speculative purposes as well. Where appropriate, the underlying items of such non-qualifying hedges have been designated as fair value through profit and loss.

Embedded derivatives

A derivative may be embedded in a host contract. If the host contract is not carried at fair value with changes in fair value reported in the income statement, the embedded derivative is separated from the host contract and accounted for as a stand-alone derivative instrument at fair value. Embedded derivatives are separated from their host contract when the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract and the embedded derivatives meet the definition of a derivative.

1.6.12 Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.6.13 Repurchase agreements

Where the Bank sells financial instruments and agrees to repurchase these at future dates, the risks and rewards of ownership remain with the Bank and the considerations received are included under deposits and current accounts. The investments are shown on the balance sheet and valued according to the Bank's policy relevant to that category of investments.

The difference between the sale and repurchase price is treated as interest and accrued on the effective yield basis over the life of the repurchase agreements.

Conversely, where investments are purchased subject to commitments to resell these at future dates and the risk of ownership does not pass to the Bank, the considerations paid are included under advances and not under investments.

1.6.14 Compound financial instruments

Compound financial instruments issued by the Bank comprise convertible notes that are compulsorily convertible to share capital and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest rate method, unless it is designated at fair value through profit and loss. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

1.7 Share capital

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity.

Preference share capital

Preference share capital is 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.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit and loss.

Where preference shares contain both a liability and an equity component, such components are classified separately as financial liabilities and equity components.

1.8 Revenue recognition

1.8.1 Interest income

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value (other than loans and advances), are recognised in "Interest and similar income" and "Interest expense and similar charges" in the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates the cash flows considering all contractual terms of the financial instrument (for example early settlement penalty income) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate.

In calculating effective interest, the Bank estimates cash flows using projections based on its experience of customer behaviour considering all contractual terms of the financial instrument but excluding future credit losses. Fees are included in the calculation to the extent that they can be measured and are considered to be an integral part of the effective interest rate. Cash flows arising from the direct and incremental costs of issuing financial instruments are also taken into account in the calculation. This includes costs incurred to mortgage originators.

In terms of IAS 39 interest is also accrued in respect of impaired advances, based on the original effective interest rate used to determine the recoverable amount.

1.8.2 Net income from financial instruments designated at fair value

Net income from financial instruments designated at fair value (other than advances) includes all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value through profit and loss. Interest income and expense and dividend income arising on these financial instruments are also included and are accounted for as "Gains and losses from banking and trading activities" or "Gains and losses from investment activities" in the income statement, depending on their nature. Net income from advances which are designated at fair value, are recognised in "Interest and similar income" and "Interest expense and similar charges" in the income statement.

1.8.3 Instalment credit agreements

Leases, instalment credit and rental agreements are regarded as leases. Rentals and instalment receivables thereunder, less unearned finance charges, are included under advances. Finance charges are recognised in the income statement over the term of the lease using the net investment method (before tax) which reflects a constant periodic rate of return.

1.8.4 Fees and commissions

Income arising from the provision of services to customers is recognised on an accrual basis in the period in which the services are rendered.

Fees and commissions not integral to effective interest arising from negotiating or participating in the negotiation of a transaction from a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. When the Bank acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Bank.

Portfolio and other management advisory and service fees are recognised based on the applicable service contract as services are provided.

Asset management fees related to investment funds are recognised in the period in which the service is provided. The same principle is applied to wealth management, financial planning and custody services that are provided over an extended period of time.

1.8.5 Net trading income

This includes income arising from the margins that are achieved through market-making and customer business and from changes in market value caused by movements in interest and exchange rates, equity prices and other market variables. Financial instruments held for trading are measured at fair value and the resulting gains and losses are included in the income statement, together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

1.8.6 Dividends on equity instruments

Dividends are recognised in the period in which the right to receipt is established. Dividends are disclosed under “Gains and losses from banking and trading activities” if it relates to trading assets and liabilities or banking activities. Dividends related to investment activities are disclosed under “Gains and losses from investment activities”.

1.9 Intangible assets

1.9.1 Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Bank’s interest in the net undertaking fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associated undertaking or joint venture company at the acquisition date. Negative goodwill is any excess of the fair value of the Bank’s share of net assets of the entity acquired, on the acquisition date, over the cost of acquisition.

Should negative goodwill arise on an acquisition, the fair value of assets and liabilities acquired will be reassessed and should negative goodwill remain, it will be recognised in the income statement in full.

Goodwill is capitalised and reviewed annually for impairment or more frequently when there are indications that impairment may have occurred. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

The first step of the impairment review process requires the identification of independent operating units, by dividing the Bank business into as many largely independent income streams as is reasonably practicable. The goodwill is then allocated to these independent operating units. The first element of this allocation is based on the areas of the business expected to benefit from the synergies derived from the acquisition. The second element reflects the allocation of the net assets acquired and the difference between the consideration paid for those net assets and their fair value. The carrying value of the operating unit, including the allocated goodwill, is compared with the higher of fair value less cost to sell and value-in-use to determine whether any impairment exists. Detailed calculations may need to be carried out taking into consideration changes in the market in which a business operates (eg competition activity or regulatory change). In the absence of readily available market price data, this calculation is usually based on discounting expected cash flows at the Bank's cost of equity, the determination of both of which requires the exercise of judgement. An impairment loss in respect of goodwill is not reversed.

Goodwill on acquisitions of associates and joint venture companies is included in the amount of the investment. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

1.9.2 Computer software

Costs associated with developing computer software are recognised as an expense as incurred. Costs that are clearly associated with an identifiable and unique product, which will be controlled by the Bank and have probable benefit exceeding the cost beyond one year, are recognised as an intangible asset.

Computer software development costs recognised as assets are amortised using the straight-line method over their estimated useful lives, not exceeding a period of five years.

Computer software development costs are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Costs associated with the maintenance and modification of existing computer software are expensed as incurred.

1.10 Property and equipment

Property and equipment is shown at cost less accumulated depreciation and accumulated impairment, if any. Subsequent costs and additions are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

All property and equipment, other than land, is depreciated on the straight-line basis to allocate their cost to their residual value over their estimated useful life.

The Bank uses the following annual rates in calculating depreciation:

Item	Annual depreciation rate
Freehold property	2%
Furniture and other equipment	10%
Motor vehicles	25%
Computer equipment and systems	20%
Other equipment	15%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the income statement.

Property under construction is stated at cost. Cost includes the cost of the land and construction costs to date. Borrowing costs during construction are expensed in the period incurred.

The fair value of property and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of equipment, furniture, motor vehicles and computer systems is based on the quoted market prices for similar items.

1.10.1 Property subject to lease agreements

Finance leases

Leases, where the Bank assumes substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the leases' inception at the lower of the fair value of the leased asset and the present value of minimum lease payments. Lease payments are separated using the effective interest rate method to identify the finance cost, which is charged to operating expenses over the lease term and the capital repayment, which reduces the liability to the lessor. The property and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Operating leases

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and rewards of ownership. Leased assets under operating leases are not recognised on the Bank's balance sheet, while payments made are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

1.11 Non-current assets held for sale

Non-current assets (or disposal Banks comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal Bank) are remeasured in accordance with the Bank's accounting policies. Thereafter generally the assets (or disposal Bank) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal Bank is first allocated to goodwill and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, employee and benefit assets which continue to be measured in accordance with the Bank's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit and loss. Gains are not recognised in excess of any cumulative impairment loss.

1.12 Impairment of property, equipment and intangible assets

At each balance sheet date or more frequently where events or changes in circumstances dictate, property, equipment and intangible assets are assessed for impairment. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount, which is the higher of the asset's or the cash-generating unit's fair value less costs to sell and its value-in-use. Fair value less cost to sell is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value-in-use is calculated by discounting the expected future cash flows obtained as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

The carrying values of property, equipment and intangible assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs.

For the purposes of assessing impairment, assets are Banked at the lowest levels for which there are separately identifiable cash flows.

1.13 Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

1.14 Provisions

Provisions are recognised when the Bank has a present constructive or legal obligation as a result of past events and it is probable that an outflow of resources, embodying economic benefits, will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects the market assessments of the time value of money and the increases specific to the liability.

Transactions are classified as contingent liabilities where the Bank's obligations depend on uncertain future events and principally consist of third-party obligations underwritten by banking subsidiaries.

Items are classified as commitments where the Bank commits itself to future transactions or if the items will result in the acquisition of assets.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract is lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

1.15 Employee benefits

1.15.1 Post-retirement benefits

The Bank has different pension plans with defined benefit and defined contribution structures.

Defined benefit structures

The defined benefit structures define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as years of service and compensation.

The Bank's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and any unrecognised past service cost and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension fund liability. When the calculation results in a benefit to the Bank, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Cumulative actuarial gains and losses in excess of the greater of 10% of the assets or 10% of the obligations of the plan are recognised in the income statement over the remaining average service lives of the employees of the related plan, on a straight-line basis.

The Bank makes provision for post-retirement benefits to eligible employees. The cost in relation to eligible employees is assessed in accordance with actuarial principles and recognised on a systematic basis over an employee's remaining years of service based on the projected credit methodology. In respect of pensioners, the obligation is fully funded once the member reaches retirement.

Employees who retired prior to 1 April 1996 are eligible for the post-retirement medical aid benefits which are provided for under the Absa Group Limited Pension Fund. The pension fund is adequately funded to meet these obligations.

Defined contribution structures

Under the defined contribution structures, fixed contributions payable by the Bank and members are accumulated to provide retirement benefits. The Bank has no legal or constructive obligation to pay any further contributions than these fixed contributions.

Contributions to any defined contribution plan are expensed as incurred.

Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions and free services. They exclude equity-based benefits and termination benefits.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus, profit-sharing plans or accumulated leave if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1.15.2 Share-based compensation

The Bank operates equity-settled and cash-settled share-based compensation plans.

Employee services settled in equity instruments

The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options determined at the grant date, excluding the impact of any non-market vesting conditions (for example profitability). Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable or the number of shares that the employee will ultimately receive. This estimate is revised at each balance sheet date and the difference is charged or credited to the income statement, with a corresponding adjustment to equity. The proceeds received in exercise of the options net of any directly attributable transaction costs are credited to equity.

Employee services settled in cash

The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability is recognised as personnel expense in profit and loss.

Determination of fair values

The fair value of employee options and share appreciation rights are measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

1.16 Taxation

The taxation charge comprises current and deferred tax. Income tax expense is recognised in profit and loss except to the extent that it related to items recognised directly in equity, in which case it is recognised in equity.

1.16.1 Current taxation

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

The taxation charge in the financial statements for amounts due to fiscal authorities in the various territories in which the Bank operates includes estimates based on a judgement of the application of law and practice in certain cases to determine the quantification of any liability arising. In arriving at such estimates, management assesses the relative merits and risks of the tax treatment taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice.

1.16.2 Deferred taxation

Deferred tax is provided, using the liability method, for all temporary differences, with the exception of initial exclusions, arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes in the financial statements. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted by the reporting date.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will reverse in the foreseeable future.

Under this method, the Bank is required to make provision for deferred taxes on the revaluation of certain non-current assets and in relation to an acquisition, on the difference between the fair values of net assets acquired and their tax base. Provision for tax, mainly withholding taxes, which could arise on the remittance of retained earnings, principally relating to subsidiaries, is only made where there is a current intention and ability to remit such earnings.

The principal temporary differences arise from depreciation on equipment, revaluation of certain non-current assets, provisions for employee benefits and tax losses carried forward. Deferred tax assets relating to the carrying forward of unused tax losses are recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax related to the fair value remeasurement of available-for-sale investments and cash flow hedges, which are charged directly to equity, is also credited to or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss when realised.

1.16.3 Secondary tax on companies

Secondary tax on companies (STC) is provided for at 12,5% on the net of dividends declared less dividends received (unless exempt from STC) by the Bank at the same time as the liability to pay the related dividend is recognised. STC credits that arise from dividends received and receivable that exceed dividends paid are accounted for as a deferred tax asset.

1.17 Treasury shares

Where the Company or other members of the consolidated group purchases the Company’s equity share capital, the par value of the treasury shares is deducted from share capital, whereas the remainder of the cost price is deducted from share premium until the treasury shares are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders’ equity.

Treasury shares are deducted from the issued and weighted average number of shares on consolidation. Dividends received on treasury shares are eliminated on consolidation.

The Bank therefore does not recognise any gains or losses through the income statement when its own shares are repurchased.

1.18 Managed funds and trust activities

Where Bank companies operate unit trust schemes, hold and invest funds on behalf of customers and act as trustees in any fiduciary capacity and do not have control over the unit trust scheme, the assets and liabilities representing these activities are not reflected on the balance sheet as they are not assets of the Bank.

1.19 Comparatives

Barclays PLC acquired a controlling stake in Absa Group Limited with effect from 27 July 2005. At the Absa Group Limited annual general meeting, held on 19 August 2005, Absa’s year-end was changed from 31 March to 31 December with effect from 31 December 2005. This is to facilitate alignment of the year-end with that of Barclays PLC. Owing to the previous reporting period being nine months, comparative amounts for the income statement, changes in equity and cash flows and related notes are not directly comparable.

1.20 Changes in accounting policies

During 2006, the Bank changed the following accounting policies:

1.20.1 Pension fund accounting

Previously, actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions were charged or credited to income over the employees' expected average remaining working lives. Management has elected to change the accounting policy of the Bank, to recognise gains and losses in accordance with the "corridor method" allowed under IAS 19.

This method only requires actuarial gains and losses that fall outside a 10% threshold to be recognised. This results in the Bank's income statement providing more reliable and relevant information in relation to its underlying operations. The impact on the Bank as a result of this change is immaterial and therefore, for the Bank accounts, it has no impact on the reported earnings of the prior period or the opening retained earnings of the prior period.

1.20.2 Transactions with minority interests

The Bank adopted a policy of treating transactions with minority interests as transactions with equity owners of the Bank. There is no impact on the Bank as a result of this change. Accordingly, for the Bank accounts, reported earnings of the prior period or the opening retained earnings have not been restated.

1.20.3 Reclassification of business segments in segment report

The Bank has reclassified the segments to be more in line with the management of these segments. The new segment compositions are as follows:

- Retail banking includes Absa Private Bank, Retail Banking Services, Flexi Banking Services, Small Business, Absa Card, Absa Home Loans and Absa Vehicle and Asset Finance.
- Absa Corporate and Business Bank comprises corporates, medium and large businesses, agriculture, public sector and commercial property finance.
- Absa Capital comprises the Bank's investment banking division.
- African operations comprises the management of Absa Group Limited's equity holdings in African entities.
- "Other" comprises Absa Bank Singapore, Bankhaus Wölbern and Co. (prior period), Absa Bank (Asia) Limited and other head office and non-banking activities.

The change has no effect on the profit and loss of the Bank and comparative information has been restated to reflect the above.

1.21 Reclassifications

Certain income statement and balance sheet line items have been reclassified to enhance the usefulness of the Bank's financial reporting. Refer to Annexure I to the financial statements for additional explanation on these reclassifications.

1.22 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006 and have not been applied in preparing these consolidated financial statements:

IFRS 7 – Financial Instruments: Disclosures (including amendments to IAS 1 – Presentation of financial statements: Capital disclosures), deals with the disclosure of the related qualitative and quantitative risks associated with financial instruments. As IFRS 7 will supersede the current disclosure required in IAS 30 and IAS 32, the standard will not impact the results of the Bank, but will result in potentially more disclosure than what is currently provided in the Bank's financial statements. The Bank does not intend to adopt this standard early, which has an effective date of annual periods commencing on or after 1 January 2007.

IFRIC 7 – Applying the restatement approach under IAS 29 – Financial reporting in hyperinflationary economies, addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Bank's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 8 – Scope of IFRS 2 – Share-based payments, addresses the accounting for share-based payment transactions in which some or all of goods and services received cannot be specifically identified. IFRIC 8, which becomes mandatory for the Bank's 2007 financial statements, with retrospective application required, is not expected to have any impact on the consolidated financial statements as the Bank has already applied these principles.

IFRIC 9 – Reassessment of embedded derivatives, requires that a reassessment of whether an embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Bank's 2007 financial statements, is not expected to have a significant impact on the consolidated financial statements.

IFRIC 10 – Interim financial reporting and impairment (effective for annual periods beginning on or after 1 November 2006), prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Bank will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Bank's accounts.

IFRIC 11 – Bank and treasury share transactions (effective for annual periods beginning on or after 1 March 2007), requires a share-based payment arrangement in which an entity received goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. The interpretation also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements. The interpretation, which is effective for accounting periods beginning on or after 1 March 2007, is not expected to have any impact on the consolidated financial statements as the Bank has already applied these principles.

IFRS 8 – Operating segments, requires an entity to report financial and descriptive information about its reportable segments or aggregation of operating segments that meet specified criteria. IFRS 8, which becomes mandatory for the Bank's 2009 financial statements, is not expected to have a significant impact on the consolidated financial statements.

IFRIC 12 – Service concession arrangements, addresses the accounting by private sector operations involved in the provision of public sector infrastructure and services, such as schools and roads. The interpretation is effective for accounting periods beginning on or after 1 January 2008 and is not expected to have any impact on the consolidated financial statements of the Bank.

	Bank 31 December 2006 Rm	Bank 31 December 2005 Rm
1. Accounting policies		
Refer to pages 41 to 63 of this report.		
2. Cash, cash balances and balances with central banks		
Coins and bank notes	**3 620**	3 210
Money on call	**—**	575
Balances with the South African Reserve Bank (SARB)	**8 402**	6 729
Balances with other central banks	**—**	98
Money market assets	**—**	722
Included in cash and cash equivalents calculation (refer to note 46)	**12 022**	11 334
Portfolio analysis of money market assets		
Held-to-maturity	**—**	87
Fair value through profit and loss – amortised cost	**—**	635
	—	722
The carrying value of the held-to-maturity assets approximates their fair value.		
3. Statutory liquid asset portfolio		
RSA – government bonds	**13 166**	9 335
Treasury bills	**7 171**	6 223
Land Bank bills	**492**	661
Included in cash and cash equivalents calculation (refer to note 46)	**20 829**	16 219
Portfolio analysis		
Held-to-maturity	**—**	1 262
Available-for-sale	**17 085**	10 398
At amortised cost	**16 928**	10 183
Fair value adjustment	**157**	215
Fair value through profit and loss	**3 744**	4 559
At amortised cost	**3 678**	4 343
Fair value adjustment	**66**	216
	20 829	16 219
Included in the above are the following assets pledged with the SARB	**3 513**	3 283
The carrying value of the held-to-maturity assets approximates their fair value.		

	Bank	
	31 December 2006 Rm	31 December 2005 Rm
4. Loans and advances to banks		
Remittances in transit	**805**	265
Loans and advances to banks	**20 028**	19 647
Included in cash and cash equivalents calculation (refer to note 46)	**20 833**	19 912
Portfolio analysis		
Loans and receivables	**20 833**	19 912

The carrying value of the loans and receivables approximates their fair value.

Loans with variable rates are R19 614 million (December 2005: R16 230 million) and fixed rates are R414 million (December 2005: R3 417 million).

Included above are loans and advances with the Bank's ultimate parent company of R3 353 million (December 2005: R4 011 million), refer to note 42 for the full disclosure of related party transactions.

The comparatives have been reclassified in terms of Annexure I.

	Bank	
	31 December 2006 Rm	31 December 2005 Rm
5. Trading assets and hedging assets		
Non-qualifying hedging assets	**147**	620
Capital market assets	**176**	2 717
Equity securities	**99**	—
Trading assets	**16 584**	18 540
Money market assets	**705**	1 607
Total trading assets	**17 711**	23 484
Hedging assets	**672**	379
	18 383	23 863
Portfolio analysis		
Held for trading	**17 564**	22 864
Fair value through profit and loss	**147**	620
Hedging instruments	**672**	379
	18 383	23 863

All trading and hedging assets are carried at fair value.

Included above are derivative assets with the Bank's ultimate parent company of R187 million (December 2005: Rnil), refer to note 42 for the full disclosure of related party transactions.

For further details on derivatives refer to Annexure G.

Comparatives have been reclassified in terms of Annexure I.

	Bank	
	31 December 2006 Rm	31 December 2005 Rm
6. Loans and advances to customers		
Cheque accounts	**14 921**	13 490
Client liabilities under acceptances	**20**	961
Corporate overdrafts	**4 434**	2 556
Credit cards	**11 703**	6 980
Foreign currency loans	**4 719**	10 846
Instalment credit agreements (refer to note 6.1)	**53 782**	44 784
Gross advances	**67 275**	54 201
Unearned finance charges	**(13 493)**	(9 417)
Loans granted under resale agreements (Carries)	**8 561**	5 298
Loans to associated companies (refer to note 12)	**7 192**	5 058
Microloans	**1 432**	1 422
Mortgages	**214 671**	164 915
Other advances*	**5 735**	3 640
Overnight finance	**7 370**	3 888
Personal loans	**16 326**	12 672
Preference shares	**9 301**	10 514
Repossessed properties	**142**	249
Term loans	**84**	—
Specialised and project finance	**12 229**	10 557
Fair value adjustments	**306**	899
Mortgages	**258**	337
Specialised and project finance	**48**	590
Other advances	**—**	(28)
	372 928	298 729
Impairment losses on loans an advances (refer to note 7)	**(4 608)**	(5 774)
	368 320	292 955
Portfolio analysis		
Loans and receivables	**360 820**	275 273
Fair value through profit and loss	**12 108**	23 456
At amortised cost	**11 802**	22 557
Fair value adjustment	**306**	899
	372 928	298 729

The carrying value of loans and advances approximates their fair value.

Refer to "Interest and similar income" (note 26) for related income on the above loans and advances.

Comparatives have been reclassified in terms of Annexure I.

**Includes items such as head office agency loans, cheque account debit balances, factored debtors book and structured swaps.*

		Bank	
		31 December 2006 Rm	31 December 2005 Rm
6.	**Loans and advances to customers** *(continued)*		
	Sectoral analysis		
	Agricultural	**10 055**	9 732
	Construction and property	**27 044**	19 012
	Consumer	**216 447**	185 856
	Electricity	**629**	1 295
	Finance	**45 933**	36 391
	Government	**1 809**	4 737
	Manufacturing	**10 129**	9 842
	Mining	**5 110**	4 023
	Services	**29 519**	8 102
	Transport	**4 118**	2 467
	Wholesale	**10 444**	7 809
	Other*	**11 691**	9 463
		372 928	298 729
6.1	**Instalment credit agreements**		
	Maturity analysis		
	Gross advances in finance leases		
	Less than one year	**20 108**	15 800
	Between one and five years	**47 166**	38 340
	More than five years	**1**	61
		67 275	54 201
	Unearned finance charges		
	Less than one year	**(3 738)**	(2 769)
	Between one and five years	**(9 755)**	(6 648)
		(13 493)	(9 417)
	Net investment in finance leases		
	Less than one year	**16 370**	13 031
	Between one and five years	**37 411**	31 692
	More than five years	**1**	61
		53 782	44 784

Under the terms of the lease agreements, no contingent rentals are payable.

The Bank enters into instalment credit agreements for motor vehicles, equipment and medical equipment. All leases are denominated in South African rand. The average term of finance leases entered into is five years.

Unguaranteed residual values of instalment credit agreements at the balance sheet date are estimated at R5 775 million (December 2005: R4 029 million).

The accumulated allowance for uncollectable minimum lease payments receivable included in the allowance for impairments at the balance sheet date is R125 million (December 2005: R74 million).

**Includes items such as the communication sector and finance lease receivables.*

	Bank 31 December 2006 Rm	31 December 2005 Rm
7. Impairment losses on loans and advances		
Balance at the beginning of the year/period	**5 774**	6 259
Impact of IFRS adjustment applied prospectively	**—**	(132)
Exchange differences	**—**	(7)
Net present value unwinding on non-performing book (refer to note 26)	**(119)**	(88)
Disposal of subsidiary	**(92)**	—
Identified impairments	**(85)**	—
Unidentified impairments	**(7)**	—
Amounts written off during the year/period	**(2 848)**	(1 060)
	2 715	4 972
Impairments raised during the year/period (refer to note 7.1)	**1 893**	802
Balance at the end of the year/period (refer to note 6)	**4 608**	5 774
Comprising		
Identified impairments	**2 924**	4 770
Non-performing advances (refer to note 8)	**1 960**	3 492
Other impaired loans	**611**	1 076
Net present value adjustment	**353**	202
Unidentified impairments	**1 684**	1 004
	4 608	5 774

	Twelve months ended 31 December 2006	Nine months ended 31 December 2005
7.1 Income statement charge for impairment losses on loans and advances		
Net impairments raised during the year/period	**1 893**	802
Identified impairments	**936**	848
Identified impairments – net present value adjustment	**270**	(173)
Unidentified impairments	**687**	127
Recoveries of advances previously written off	**(378)**	(241)
Charge to the income statement	**1 515**	561

	Bank				
	31 December 2006				
	As a % of advances	**Outstanding balance**	**Security and recoveries**	**Net exposure***	**Impairments raised****
8. Non-performing advances					
Personal loans	**0,1**	**263**	**209**	**54**	**54**
Retail overdrafts and credit cards	**0,2**	**585**	**51**	**534**	**534**
Foreign currency loans	**—**	**100**	**—**	**100**	**100**
Instalment credit agreements	**0,1**	**515**	**219**	**296**	**296**
Mortgages	**0,6**	**2 346**	**2 075**	**271**	**271**
Microloans	**0,1**	**373**	**145**	**228**	**228**
Other	**0,2**	**621**	**144**	**477**	**477**
	1,3	**4 803**	**2 843**	**1 960**	**1 960**
Sectoral analysis					
Agriculture	**0,1**	**218**	**70**	**148**	**148**
Construction and property	**0,1**	**298**	**20**	**278**	**278**
Consumer	**0,7**	**2 935**	**2 398**	**537**	**537**
Electricity	**—**	**3**	**2**	**1**	**1**
Finance	**0,1**	**270**	**162**	**108**	**108**
Manufacturing	**0,1**	**504**	**12**	**492**	**492**
Mining	**—**	**28**	**5**	**23**	**23**
Services	**0,1**	**215**	**84**	**131**	**131**
Transport	**—**	**43**	**20**	**23**	**23**
Wholesale	**0,1**	**209**	**34**	**175**	**175**
Other	**—**	**80**	**36**	**44**	**44**
	1,3	**4 803**	**2 843**	**1 960**	**1 960**

	31 December 2005				
	As a % of advances	Outstanding balance	Security and recoveries	Net exposure*	Impairments raised**
Personal loans	0,1	200	126	74	74
Retail overdrafts and credit cards	0,2	631	112	519	519
Foreign currency loans	0,1	461	—	461	461
Instalment credit agreements	0,1	363	97	266	266
Mortgages	0,6	1 783	1 405	378	378
Microloans	0,5	1 416	228	1 188	1 188
Other	0,2	673	67	606	606
	1,8	5 527	2 035	3 492	3 492
Sectoral analysis					
Agriculture	0,1	248	118	130	130
Construction and property	0,1	395	106	289	289
Consumer	1,0	3 214	1 508	1 706	1 706
Electricity	—	2	1	1	1
Finance	0,1	203	98	105	105
Manufacturing	0,2	586	6	580	580
Mining	—	34	—	34	34
Services	0,1	230	113	117	117
Transport	—	18	2	16	16
Wholesale	0,1	370	39	331	331
Other	0,1	227	44	183	183
	1,8	5 527	2 035	3 492	3 492

**Refer to note 7.*

***Impairments raised do not include the net present value adjustment on future cash flows as these are disclosed separately under note 7.*

	Bank 31 December 2006 Rm	Bank 31 December 2005 Rm
9. Loans to Absa Group companies		
Group companies	**1 728**	2 058
Holding company	**1 301**	1 402
	3 029	3 460
10. Other assets		
Accounts receivable and prepayments	**2 833**	3 230
Deferred costs	**20**	14
Constructed assets held for resale	**298**	197
	3 151	3 441
11. Investments		
Debt securities	**1 237**	250
Listed equity securities	**858**	671
Unlisted equity securities	**744**	627
	2 839	1 548
Directors' valuation and market value		
Market value of debt securities	**1 237**	250
Market value of listed equity securities	**858**	671
Directors' valuation of unlisted equity securities	**744**	627
	2 839	1 548
Portfolio analysis		
Available-for-sale	**118**	51
At amortised cost	**93**	51
Fair value adjustment	**25**	—
Fair value through profit and loss	**2 721**	1 497
At amortised cost	**2 609**	1 403
Fair value adjustment	**112**	94
	2 839	1 548

	Bank 31 December 2006 Rm	Bank 31 December 2005 Rm
12. Investments in associated undertakings and joint ventures		
Shares at book value	**408**	340
Balance at the beginning of the year/period	**340**	100
Acquisitions (refer to note 12.1)	**402**	240
Disposals (refer to note 12.1)	**(324)**	—
Impairment charge (refer to note 34)	**(10)**	—
Loans to associated undertakings and joint venture companies	**—**	—
Total loan exposure	**7 192**	5 030
Included in other liabilities	**—**	28
Less: amounts included in advances (refer to note 6)	**(7 192)**	(5 058)
Share of post-acquisition reserves	**193**	193
Share of current year/period income before taxation	**76**	91
Less: dividends received	**(6)**	—
Less: taxation on current year/period income	**(22)**	(22)
Share of current year/period retained income	**48**	69
Realisation on disposal of an associated undertaking or joint venture company (refer to note 12.1)	**(48)**	—
Amount transferred to non-distributable reserve	**—**	69
Balance at the beginning of the year/period	**193**	124
Carrying value	**601**	533
Directors' valuation and market value		
Market value of listed associates	**156**	344
Directors' valuation of unlisted shares	**459**	290
	615	634

12. Investments in associated undertakings and joint ventures *(continued)*

12.1 Acquisitions and disposals

	Bank 31 December 2006 Rm	Bank 31 December 2005 Rm
The following acquisitions were concluded during the current year, at cost:		
Paramount Property Fund Limited	**57**	—
On 1 April 2006, the Bank acquired a further interest in Paramount Property Fund Limited.		
Ballito Junction Development (Proprietary) Limited	**35**	—
The investment in Ballito Junction Development (Proprietary) Limited was recognised as an associate from 1 January 2006.		
Ambit Properties Limited	**146**	—
On 1 April 2006, the Bank acquired an additional 3,64% interest in Ambit Properties Limited. The Bank's shareholding is now 21,29%.		
Campus on Rigel (Proprietary) Limited	**0**	—
On 21 April 2006, the Bank acquired a 33,33% interest in Campus on Rigel (Proprietary) Limited.		
Abseq Properties (Proprietary) Limited	**133**	—
On 1 April 2006, the Bank acquired a 50% interest in Abseq Properties (Proprietary) Limited.		
African Trading Spirit (Proprietary) Limited	**20**	—
On 1 November 2006, the Bank acquired a 50% interest in African Trading Spirit (Proprietary) Limited.		
Palm Hills Investments (Proprietary) Limited	**11**	—
On 1 November 2006, the Bank acquired a 40% interest in Palm Hills Investments (Proprietary) Limited		
The following acquisitions were concluded during the previous period, at cost:		
Maravedi Group (Proprietary) Limited	**—**	7
On 1 May 2005, the Bank acquired a 45% stake in Maravedi Group (Proprietary) Limited		
Paramount Property Fund Limited	**—**	226
Lynmor Trading Company (Proprietary) Limited	**—**	7
Absa Corob Trust Joint Venture	**—**	0
Alamo Trading Company (Proprietary) Limited	**—**	0
During the period, certain of the Bank's venture capital fund investments met the definition of an associate. Previously these investments were held at fair value through profit and loss.		
Total acquisitions	**402**	240
The following disposals were concluded during the current year:		
Paramount Property Fund Limited	**(335)**	—
On 17 October 2006, the Bank sold its share in Paramount Property Fund Limited to a third party.		
Conbros Limited	**(37)**	—
Conbros Limited is now recognised as a subsidiary.		
Total disposals	**(372)**	—

For further information on the Bank's associated undertakings and joint venture companies, refer to Annexure F of this report.

13. Intangible assets

Bank

	31 December 2006			31 December 2005		
	Cost Rm	**Accumulated amortisation and impairments Rm**	**Carrying value Rm**	Cost Rm	Accumulated amortisation and impairments Rm	Carrying value Rm
Computer software development costs	**177**	**(142)**	**35**	66	(58)	8
Goodwill	**116**	**(4)**	**112**	138	(26)	112
	293	**(146)**	**147**	204	(84)	120

Reconciliation of intangible assets – 2006

	Opening balance Rm	**Additions Rm**	**Disposals Rm**	**Amortisation Rm**	**Impairment charge Rm**	**Closing balance Rm**
Computer software development costs	**8**	**119**	**(8)**	**(18)**	**(66)**	**35**
Goodwill	**112**	**—**	**—**	**—**	**—**	**112**
	120	**119**	**(8)**	**(18)**	**(66)**	**147**

Reconciliation of intangible assets – 2005

	Opening balance Rm	Additions Rm	Impairment loss Rm	Closing balance Rm
Computer software development costs	8	40	(40)	8
Goodwill	112	—	—	112
	120	40	(40)	120

	31 December 2006 Rm	31 December 2005 Rm
Goodwill comprises:		
Absa Vehicle Management (Proprietary) Limited	**112**	112

Intangible assets with a cost and accumulated amortisation or impairment of R124 million (December 2005: R58 million) are fully amortised or impaired and are still in use by the Bank.

During the year, goodwill in Bankhaus Wölbern & Co., with a cost of R22 million and an accumulated amortisation/impairment of R22 million, was disposed of.

14. Property and equipment

	Bank					
	31 December 2006			31 December 2005		
	Cost Rm	**Accumulated depreciation Rm**	**Carrying value Rm**	Cost Rm	Accumulated depreciation Rm	Carrying value Rm
Freehold property	**1 229**	**(129)**	**1 100**	1 335	(340)	995
Leasehold property	**491**	**(325)**	**166**	490	(298)	192
Furniture and other equipment	**2 817**	**(1 771)**	**1 046**	2 579	(1 624)	955
Motor vehicles	**3**	**(3)**	**—**	5	(4)	1
Computer equipment	**3 082**	**(1 885)**	**1 197**	2 976	(1 872)	1 104
	7 622	**(4 113)**	**3 509**	7 385	(4 138)	3 247

Reconciliation of property and equipment – 2006

	Opening balance Rm	**Additions Rm**	**Disposals Rm**	**Foreign exchange movements Rm**	**Depreciation Rm**	**Closing balance Rm**
Freehold property	**995**	**141**	**(6)**	**—**	**(30)**	**1 100**
Leasehold property	**192**	**—**	**—**	**—**	**(26)**	**166**
Furniture and other equipment	**955**	**435**	**(73)**	**1**	**(272)**	**1 046**
Motor vehicles	**1**	**—**	**—**	**—**	**(1)**	**—**
Computer equipment	**1 104**	**495**	**(25)**	**—**	**(377)**	**1 197**
	3 247	**1 071**	**(104)**	**1**	**(706)**	**3 509**

Reconciliation of property and equipment – 2005

	Opening balance Rm	Additions Rm	Disposals Rm	Depreciation Rm	Closing balance Rm
Freehold property	1 056	58	(97)	(22)	995
Leasehold property	211	—	—	(19)	192
Furniture and other equipment	853	326	(48)	(176)	955
Motor vehicles	2	1	(1)	(1)	1
Computer equipment	886	532	(12)	(302)	1 104
	3 008	917	(158)	(520)	3 247

Leasehold properties are encumbered under finance leases (refer to note 23).

Revaluations

Freehold property is officially revalued every three years for regulatory purposes by both external and internal valuers, using the income yield method. The most recent valuation was performed on 31 March 2005, which reflected a surplus amounting to R369 million. R298 million of this surplus was added to the deemed cost at 1 April 2004 in terms of IFRS 1.

In terms of the Companies Act, details regarding freehold property are kept at each company's registered office and this information will be made available to shareholders on written request.

	Bank 31 December 2006 Rm	Bank 31 December 2005 Rm
15. Deferred tax		
15.1 Reconciliation of net deferred tax liability		
Balance at the beginning of the year/period	**2 229**	1 585
Impact of IFRS adjustments applied prospectively	**—**	(9)
Deferred tax on unrealised capital gains	**—**	2
Deferred tax asset (raised)/released on STC credits (refer to note 15.4)	**(22)**	20
Disposal of subsidiary (refer to note 48)	**(31)**	—
Income statement charge (refer to note 36)	**42**	588
Deferred tax on amounts (charged)/transferred directly to equity	**(188)**	36
Tax effect of translation and other differences	**40**	7
Balance at the end of the year/period	**2 070**	2 229
15.2 Deferred tax liability/(asset)		
Tax effects of temporary differences between tax and book value for:		
Accruals and provisions	**2 679**	2 524
Impairment of advances	**(348)**	(267)
Property allowances	**70**	45
Gains on investments and derivatives	**(495)**	(320)
Lease and rental debtor allowances	**255**	247
Other differences	**(28)**	55
Deferred tax liability	**2 133**	2 284
Deferred tax asset – normal	**(41)**	(55)
Deferred tax asset – STC (refer to note 15.4)	**(22)**	—
Deferred tax assets	**(63)**	(55)
Net deferred tax liability	**2 070**	2 229

Deferred tax assets and liabilities are offset when the income taxes relate to the same fiscal authority and there is a legal right to offset at settlement.

Deferred income taxes are calculated on all temporary differences under the liability method at the appropriate effective tax rate.

15.3 Future tax relief

The Bank has estimated tax losses of R6 million (December 2005: R122 million).

The above figures exclude tax losses and reversing timing differences of R97 million (December 2005: R100 million) for which deferred tax assets have been raised.

	Bank 31 December 2006 Rm	Bank 31 December 2005 Rm
Balance at the beginning of the year/period	**122**	149
Operating losses utilised	**(119)**	(5)
Movement in temporary differences	**3**	(22)
Balance at the end of the year/period	**6**	122
15.4 Secondary tax on companies (STC)		
Accumulated STC credits	**174**	—
Deferred tax asset raised (refer to note 15.2)	**22**	—
Movement in deferred tax asset for the year/period (refer to note 15.1)	**22**	(20)

If the total reserves of R20 016 million as at 31 December 2006 (December 2005: R16 041 million) were to be declared as dividends, the secondary tax impact at a rate of 12,5% would be R2 502 million (December 2005: R2 005 million).

	Bank	
	31 December 2006 Rm	31 December 2005 Rm
16. Deposits from banks		
Deposits from banks	**39 236**	28 400
Portfolio analysis		
Amortised cost	**39 236**	28 400

The carrying value of deposits from banks approximates their fair value.

All deposits from banks have variable interest rates.

Included above are deposits with the Bank's ultimate parent company of R8 420 million (December 2005: R4 777 million). Refer to note 42 for the full disclosure of related party transactions.

Comparatives have been reclassified in terms of Annexure I.

	Bank	
17. Trading liabilities and hedging liabilities		
Non-qualifying hedging liabilities	**643**	1 518
Trading liabilities	**14 856**	19 397
Total trading liabilities	**15 499**	20 915
Hedging liabilities	**1 898**	461
	17 397	21 376
Portfolio analysis		
Held for trading	**14 856**	19 397
Fair value through profit and loss	**643**	1 518
Hedging instruments	**1 898**	461
	17 397	21 376

All trading and hedging liabilities are carried at fair value.

Included in trading liabilities are derivative liabilities with the Bank's ultimate parent company of R1 237 million (December 2005: Rnil), refer to note 42 for the full disclosure of related party transactions.

For further information on derivatives, refer to Annexure G.

Comparatives have been reclassified in terms of Annexure I.

	Bank	
	31 December 2006 Rm	31 December 2005 Rm
18. Deposits due to customers		
Call deposits	**42 181**	42 749
Cheque account deposits	**88 774**	74 384
Fixed deposits**	**91 000**	67 649
Negotiable certificates of deposit	**57 461**	38 915
Savings and transmission deposits	**25 396**	21 619
Foreign currency deposits	**12 001**	15 395
Promissory notes	**16 066**	9 604
Other deposits*	**6 876**	8 817
Notice deposits**	**6 879**	6 754
Credit card deposits	**2 291**	2 233
Liabilities to clients under acceptances	**20**	961
Fair value adjustment	**(11)**	33
	348 934	289 113
Portfolio analysis		
Loans and receivables	**344 669**	287 997
Fair value through profit and loss	**4 265**	1 116
	348 934	289 113

The carrying value of deposits due to customers approximates their fair value.

Refer to "Interest expense and similar charges" (note 27) for related income on the above deposits.

Comparatives have been reclassified in terms of Annexure I.

	Bank	
19. Current tax liabilities		
Normal tax	**941**	207
Secondary tax on companies (STC)	**—**	28
	941	235
20. Policyholder liabilities under insurance contracts		
Maintenance contracts accounted for as insurance contracts	**76**	82
	76	82

**Includes items such as securitised deposits and preference share funding.*

***Previously reported as "Fixed and notice deposits".*

		Bank	
		31 December 2006 Rm	31 December 2005 Rm
21. Borrowed funds			
The subordinated debt instruments listed below qualify as secondary capital in terms of the Banks Act of 1990.		**8 268**	6 326
Interest rate	*Final maturity date*		
14,25%	22 March 2014	**3 100**	3 100
10,75%	26 March 2015	**1 100**	1 100
3-month JIBAR + 0,75%	26 March 2015	**400**	400
8,75%	1 September 2017	**1 500**	1 500
8,10%	27 March 2020	**2 000**	—
Accrued interest and fair value adjustment		**168**	226

The 14,25% notes may be redeemed in full at the option of Absa Bank Limited on 22 March 2009. Interest is paid semi-annually in arrear on 22 March and 22 September of each year, on the basis that the last date for payment shall be 22 March 2009. Should the notes not be redeemed on 22 March 2009, interest will be paid quarterly in arrear thereafter on 22 March, 22 June, 22 September and 22 December, with the first quarterly payment commencing on 22 June 2009.

The 10,75% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 26 March 2010. Interest is paid semi-annually in arrear on 26 March and 26 September of each year, provided that the last date for payment shall be 26 March 2010. If Absa Bank Limited does not exercise the redemption option, then interest is payable thereafter at a floating rate of three-month JIBAR plus 4,35% quarterly in arrear on 26 March, 26 June, 26 September and 26 December, with the first quarterly payment commencing on 26 June 2010.

The three-month JIBAR floating rate notes may be redeemed in full at the option of Absa Bank Limited on 26 March 2010. Interest is paid quarterly in arrear on 26 March, 26 June, 26 September and 26 December of each year, provided that the last date for payment shall be 26 March 2010. If Absa Bank Limited does not exercise the redemption option, then the coupon rate payable after 26 March 2010 reprices from three-month JIBAR plus 0,75% to three-month JIBAR plus 3,70%.

The 8,75% notes may be redeemed in full at the option of Absa Bank Limited on 1 September 2012. Interest is paid semi-annually in arrear on 1 March and 1 September of each year, provided that the last date for payment shall be 1 September 2012. If Absa Bank Limited does not exercise the redemption option, interest is payable thereafter at a floating rate of three-month JIBAR plus 1,13% quarterly in arrear on 1 March, 1 June, 1 September and 1 December. These notes were issued on 1 September 2005.

The 8,10% notes may be redeemed in full at the option of Absa Bank Limited on 27 March 2015. Interest is paid semi annually in arrear on 27 March and 27 September of each year, provided that the last date for payment shall be 27 March 2015. If Absa Bank Limited does not exercise the redemption option, interest is payable thereafter at a floating rate at three-month JIBAR plus 1,185% quarterly in arrear on 27 March, 27 June, 27 September and 27 December. These notes were issued on 27 March 2006.

	Bank	
	31 December 2006 Rm	31 December 2005 Rm

21. Borrowed funds *(continued)*

The notes are listed on the Bond Exchange of South Africa. Preliminary expenses relating to the placement of the notes were capitalised and are expensed on a systematic basis over the period of the notes.

	31 December 2006 Rm	31 December 2005 Rm
	8 268	6 326
Fair value	**8 670**	7 206
Maturity analysis		
Current	**253**	213
Non-current	**8 015**	6 113
	8 268	6 326
Portfolio analysis		
At amortised cost	**5 953**	5 913
Fair value through profit and loss	**2 315**	413
At amortised cost	**2 400**	400
Fair value adjustment	**(85)**	13
	8 268	6 326

22. Other liabilities and sundry provisions

	31 December 2006 Rm	31 December 2005 Rm
Audit fee accrual	**19**	26
Creditors and other accruals	**5 240**	5 704
Deferred income	**126**	154
Leave pay accrual	**420**	366
Liabilities under finance leases (refer to note 23)	**908**	913
Share-based payment liability (refer to note 47)	**78**	—
Staff bonus and incentive accrual	**1 224**	659
	8 015	7 822

The Bank, in the normal course of business, is subject to legal claims and legal action. Each claim is evaluated on its merits and where considered probable that an obligation exists that may result in an economic outflow, a provision is raised. The Bank does not expect the ultimate resolution of any of the proceedings to which the Bank is party to, to have a significantly adverse effect on the financial position of the Bank and the Bank has not disclosed the contingent liabilities associated with these claims either because they cannot reasonably be estimated or because such disclosure could be prejudicial to the conduct of the claims.

All of the above amounts are expected to be settled within 12 months with the exception of liabilities under finance leases (refer to note 23) and the abovementioned legal claims.

	Bank	
	31 December 2006 Rm	31 December 2005 Rm
23. Liabilities under finance leases		
Minimum lease payments due		
Less than one year	**199**	171
Between one and two years	**221**	189
Between two and three years	**243**	210
Between three and four years	**222**	233
Between four and five years	**231**	212
More than five years	**497**	844
	1 613	1 859
Less interest		
Less than one year	**156**	161
Between one and two years	**147**	157
Between two and three years	**130**	150
Between three and four years	**108**	136
Between four and five years	**86**	118
More than five years	**78**	224
	705	946
Principal		
Less than one year	**43**	10
Between one and two years	**74**	32
Between two and three years	**113**	60
Between three and four years	**114**	97
Between four and five years	**145**	94
More than five years	**419**	620
Present value of minimum lease payments	**908**	913

Under the terms of the lease, no contingent rentals are payable.
Refer to note 14 for details of property subject to finance leases.

	Bank	
	31 December 2006 Rm	31 December 2005 Rm
24. Share capital and premium		
Ordinary share capital		
Authorised		
320 000 000 (December 2005: 320 000 000) ordinary shares of R1 each	**320**	320
250 000 000 (December 2005: 250 000 000) "A" ordinary shares of R0,01 each	**3**	3
Issued		
302 609 359 (December 2005: 302 609 359) ordinary shares of R1 each	**303**	303
34 676 057 (December 2005: 30 281 096) "A" ordinary shares of R0,01 each	**0**	0
	303	303

Unissued shares

The unissued shares are under the control of the directors, in terms of a general authority to allot and issue them on such terms and conditions and at such times as they deem fit. This authority expires at the 2007 annual general meeting of Absa Group Limited.

Shares issued during the year

On 10 March 2006, 4 394 961 "A" ordinary shares were issued at a par value of R0,01 and R170,64 share premium, on the payment of a R750 million special dividend to Absa Group Limited.

Preference share capital		
Authorised		
30 000 000 (December 2005: 30 000 000) non-cumulative, non-redeemable preference shares of R0,01 each	**1**	1
Issued		
3 000 000 (December 2005: 0) non-cumulative, non-redeemable preference shares of R0,01 each	**1**	—

The holders of such shares shall not be entitled to voting rights unless a declared preference dividend remains in arrears and unpaid after six months from the due date thereof, or a resolution of the Company is proposed which directly affects the rights attached to the non-redeemable preference shares or the interest of the holders thereof.

Shares issued during the year

On 25 April 2006, 3 000 000 non-cumulative, non-redeemable preference shares were issued at R1 000 per share, being R0,01 par value and R999,99 share premium, by way of a private placement on the JSE Limited to raise cost-effective permanent share capital as part of a general capital management programme to provide the Company with funding for strategic initiatives.

Total issued capital		
Ordinary share capital	**303**	303
Ordinary share premium	**5 415**	4 665
Preference share capital	**1**	—
Preference share premium	**2 991**	—
	8 710	4 968

25. Other reserves

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Bank's net investment in a foreign subsidiary.

Available-for-sale reserve

The available-for-sale reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investment is derecognised.

Cash flow hedges reserve

The cash flow hedges reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Associated undertakings' and joint ventures' distributable reserves

The associated undertakings' and joint ventures' distributable reserves comprise the Bank's share of an associate's and/or joint venture's distributable reserves.

Regulatory general credit risk reserve

Total impairments, consisting of identified and unidentified impairments, computed in terms of IAS 39 should exceed provisions computed for regulatory purposes. Should this not be the case, the additional general credit risk reserve, calculated on a pre-tax basis equal to or exceeding the shortfall, is created and maintained through an appropriation of distributable reserves to eliminate the shortfall.

Share-based payment reserve

The reserve comprises the credit to equity for equity-settled share-based payment arrangements. The reserve is transferred to share capital and/or share premium when equity instruments are transferred to employees.

Capital reserve

The capital reserve relates to the amalgamation of the banks.

	Bank	
	Twelve months ended 31 December 2006	Nine months ended 31 December 2005
26. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	**56**	104
Money market assets	**91**	138
Statutory liquid asset portfolio	**1 446**	1 029
Capital market assets	**26**	69
Loans and advances to customers and banks (refer to note 26.1)	**34 828**	20 501
Fair value adjustments on hedging instruments (refer to note 26.2)	**—**	159
Net other interest	**104**	—
	36 551	22 000
26.1 Loans and advances to customers and banks		
Cheque accounts	**1 799**	1 190
Corporate overdrafts	**379**	119
Credit cards	**1 340**	626
Foreign currency loans	**758**	711
Instalment credit agreements	**5 610**	3 363
Loans granted under resale agreements (Carries)	**1 540**	263
Microloans	**258**	168
Mortgage loans	**18 402**	10 209
Net present value unwinding on non-performing book (refer to note 7)	**119**	88
Other advances*	**229**	556
Overnight finance	**545**	320
Personal loans	**1 796**	1 060
Preference shares	**1 023**	741
Specialised and project finance	**1 030**	1 087
	34 828	20 501
26.2 Fair value adjustment on hedging instruments		
Cash flow hedges	**—**	(89)
Fair value hedges	**—**	248
	—	159
Fair value adjustment included in interest and similar income		
Mortgage loans	**—**	(22)
Other advances	**(9)**	(2)
Specialised and project finance	**9**	–
Instalment credit agreements	**—**	(55)
	—	(79)

Refer to notes 2, 3, 4, 5 and 6 for the assets to which the above interest income relates.

Included above is interest received from the Bank's ultimate parent company of R42 million (December 2005: R7 million) and interest received from Absa Group Limited amounting to R233 million (December 2005: Rnil), refer to note 42 for the full disclosure of related party transactions.

The comparatives have been reclassified in terms of Annexure I.

**Includes items such as intragroup interest received and interest on loans and advances to associates and joint ventures.*

	Bank	
	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
27. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	**746**	631
Deposits from customers and banks (refer to note 27.1)	**21 288**	12 319
Fair value adjustments on hedging instruments (refer to note 27.2)	**172**	—
Interest incurred on finance leases	**161**	122
Net other interest	**—**	163
	22 367	13 235
27.1 Deposits from customers and banks		
Call deposits	**3 901**	1 955
Cheque account deposits	**3 550**	2 062
Fixed deposits	**5 847**	3 810
Notice deposits	**337**	230
Savings and transmission deposits	**526**	311
Foreign currency deposits	**853**	578
Other deposits*	**918**	577
Negotiable certificates of deposit	**5 295**	2 751
Credit card deposits	**61**	45
	21 288	12 319
27.2 Fair value adjustment on hedging instruments		
Cash flow hedges	**99**	—
Fair value hedges	**73**	—
	172	—
Fair value adjustment included in interest expense and similar charges		
Negotiable certificates of deposits	**(2)**	1
Other deposits	**(22)**	10
	(24)	11

Refer to notes 16, 17, 18 and 21 for the liabilities to which the above interest charges relate.

Included above is interest paid to the Bank's ultimate parent company of R143 million (December 2005: R46 million) and interest received from Absa Group Limited amounting to Rnil (December 2005: R47 million), refer to note 42 for the full disclosure of related party transactions.

The comparatives have been reclassified in terms of Annexure I.

Includes items such as intragroup interest paid and interest paid on repurchase agreements.

		Bank	
		Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
28.	**Net fee and commission income**		
	Fee and commission income		
	Credit related fees and commissions (refer to note 28.1)	**8 637**	5 590
	Corporate finance fees	**136**	258
	Portfolio and other management fees	**16**	17
	Asset management and related fees	**22**	—
	Insurance commission received	**453**	319
	External administration fees	**204**	180
		9 468	6 364
	Fee and commission expense		
	Fees and commissions paid	**(34)**	(16)
		9 434	6 348
28.1	**Credit related fees and commissions**		
	Credit cards	**1 383**	856
	Cheque accounts	**2 384**	1 604
	Electronic banking	**2 248**	1 528
	Other	**2 622**	1 602
		8 637	5 590
	Included in "Other" are fees received from Absa Group Limited of Rnil (December 2005: R50 million).		
29.	**Gains and losses from banking and trading activities**		
	Fair value through profit and loss (refer to note 29.1)		
	Equity securities	**430**	322
	Available-for-sale		
	Equity securities	**—**	5
	Associates		
	Profit on sale	**167**	—
	Held for trading (refer to note 29.2)		
	Net trading income	**879**	686
	Non-qualifying hedges	**(202)**	(254)
		1 274	759
29.1	**Fair value through profit and loss**		
	Fair value adjustment	**306**	251
	Net interest received	**98**	54
	Dividends received	**26**	17
		430	322
29.2	**Held for trading**		
	Fair value adjustment	**306**	359
	Net interest received	**392**	213
	Dividends received	**181**	114
		879	686

The comparatives have been reclassified in terms of Annexure I.

	Bank	
	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
30. Gains and losses from investment activities		
Fair value through profit and loss (refer to note 30.1)		
Equity securities	**119**	44
Subsidiaries		
Profit on sale	**50**	—
	169	44
30.1 Fair value through profit and loss		
Fair value adjustment	**46**	—
Dividends received	**73**	44
	119	44

The comparatives have been reclassified in terms of Annexure I.

31. Other operating income

Unit/property trust commission	**17**	29
Property rental	**90**	53
Property development profit	**148**	95
Other banking income	**559**	212
Profit on sale of property and equipment (refer to note 38)	**11**	17
Profit and loss on exchange differences	**72**	—
	897	406

Included in other banking income are fees earned from transactions with the Bank's ultimate parent company of R25 million (December 2005: Rnil) and fees received from Absa Group Limited of R222 million (December 2005: R58 million), refer to note 42 for the full disclosure of related party transactions.

The comparatives have been reclassified in terms of Annexure I.

	Bank	
	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
32. Operating expenses		
Lease rentals on operating leases	**699**	513
Amortisation of intangible assets (refer to note 13)	**18**	—
Depreciation (refer to note 14)	**706**	520
Freehold property	**30**	22
Leasehold property	**26**	19
Furniture and other equipment	**272**	176
Motor vehicles	**1**	1
Computer equipment	**377**	302
Staff costs (refer to note 33)	**7 850**	5 230
Other operating costs	**2 719**	1 766
Information technology	**1 064**	748
Other professional fees	**1 234**	836
Marketing costs	**728**	526
Audit fees	**52**	57
Audit fees current year/period	**43**	45
Other fees	**9**	12
	15 070	10 196

Included in other operating costs are fees from other entities within the Absa Group of R206 million (December 2005: R159 million).

33. Staff costs (refer to note 32)		
Salaries	**5 504**	3 825
Bonuses	**1 361**	730
Training costs	**125**	129
Other staff costs	**283**	190
Employer contributions to post-retirement funds	**427**	290
Share-based payments (refer to note 47)	**150**	66
	7 850	5 230
34. Impairments		
Computer software development costs (refer to note 13)	**66**	40
Investments in associated undertakings and joint ventures (refer to note 12)	**10**	—
Available-for-sale investments	**(5)**	14
	71	54

The quantum of future economic benefit of certain computer software capitalised during the year could not, in accordance with the criteria set out in the accounting standards, be demonstrated to exceed one year. As a consequence, it has been impaired.

Impairment losses relating to investments in associated undertakings and joint ventures are reported in the corporate and business banking segment and available-for-sale investments and computer software development costs are reported in the other segment.

	Bank	
	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
35. Indirect taxation		
Regional Services Council levies	**46**	52
Value-added tax net of input credits	**615**	397
Payments to third parties	**92**	189
Training levy	**49**	31
	802	669
36. Taxation expense		
Current		
South African current taxation	**2 133**	755
South African current taxation prior period/year	**50**	14
Secondary taxation on companies (STC)	**135**	65
Foreign taxation	**64**	58
	2 382	892
Deferred		
Deferred taxation (refer to note 36.1)	**42**	588
	2 424	1 480
Reconciliation between accounting profit and tax expense is as follows:		
Profit before tax	**8 548**	4 911
Tax calculated at 29%	**2 479**	1 424
Effect of different tax rates in other countries	**58**	20
Income not subject to tax	**(427)**	(145)
Expenses not deductible for tax purposes	**192**	199
Secondary tax on companies (STC)	**135**	65
Other	**(13)**	(83)
	2 424	1 480
36.1 The deferred tax charge in the income statement comprises the following temporary differences:		
Accelerated tax depreciation	**25**	(21)
Allowances for loan losses	**(81)**	(104)
Other provisions	**(181)**	(60)
Other temporary differences	**279**	773
	42	588

	Bank	
	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
37. Earnings per share		
Basic earnings per share		
Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year/period.		
Profit attributable to ordinary equity holders of the Bank	**6 051**	3 431
Weighted average number of ordinary shares in issue (millions)	**336,3**	321,0
Issued shares at the beginning of the year/period (millions)	**332,9**	305,0
Effect of shares issued during the year/period (weighted millions)	**3,4**	16,0
Basic earnings per share (cents)	**1 799,0**	1 068,8
Diluted earnings per share (cents)	**1 799,0**	1 068,8
The average market value of the Bank's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the year/period under review.		
38. Headline earnings per share		
Headline earnings is determined as follows:		
Net income attributable to ordinary equity holders of the Bank	**6 051**	3 431
Adjustments for:		
Net profit on disposal of property and equipment (refer to note 31)	**(11)**	(17)
Net (profit)/loss on disposal of available-for-sale assets and strategic investments	**(184)**	15
Impairment costs:		
Available-for-sale assets and strategic investments	**(5)**	14
Investments in associated undertakings and joint venture companies (refer to note 12)	**10**	—
Headline earnings	**5 861**	3 443
Diluted headline earnings	**5 861**	3 443
Headline earnings per share (cents)	**1 742,5**	1 072,6
Diluted headline earnings per share (cents)	**1 742,5**	1 072,6
39. Income taxes paid/(refunded)		
Balance at the beginning of the year/period		
Current taxation (refer to note 19)	**235**	65
Deferred taxation (refer to note 15)	**2 229**	1 585
Income statement charge		
Current and deferred taxation (refer to note 36)	**2 424**	1 480
Indirect taxation (refer to note 35)	**802**	669
Balance at the end of the year/period		
Current taxation (refer to note 19)	**(941)**	(235)
Deferred taxation (refer to note 15)	**(2 070)**	(2 229)
	2 679	1 335

	Bank	
	31 December 2006	31 December 2005
40. Retirement benefit obligations		
Funded status		
Present value of funded obligations	**(3 928)**	(3 641)
Fair value of plan assets	**5 511**	4 618
Net assets before contingency and investment reserves	**1 583**	977
Less: contingency reserves as per the rules of the fund	**(100)**	(119)
Less: investment reserve account	**(1 377)**	(831)
Net unrecognised actuarial gain	**106**	27
Reconciliation of movement in obligation:		
Balance at the beginning of the year/period	**3 641**	3 475
Current service cost	**1**	1
Interest cost	**349**	246
Actuarial losses	**239**	131
Benefits paid	**(302)**	(212)
Balance at the end of the year/period	**3 928**	3 641
Reconciliation of movement in plan assets:		
Balance at the beginning of the year/period	**4 618**	4 214
Expected return on plan assets	**447**	296
Actuarial gains	**747**	319
Employer contributions	**1**	1
Benefits paid	**(302)**	(212)
Balance at the end of the year/period	**5 511**	4 618
Plan assets comprise the following:		
Equity securities	**2 331**	1 882
Debt securities	**2 270**	2 264
Other assets	**910**	472
Total assets	**5 511**	4 618

Pension plan assets include ordinary shares and interest-bearing instruments, issued by Absa Group Limited, with a fair value of R220 million (December 2005: R314 million). Refer to note 42 for the full disclosure of related party transactions.

The actual return on assets was R955 million (December 2005: R819 million).

The expected return on assets is determined by calculating a total return estimate based on weighted average returns for each class. Asset class returns are estimated using current and projected economic and market factors such as inflation, credit spreads and equity risk premiums.

	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
Total costs comprise:		
Current service cost	**1**	1
Interest cost	**349**	246
Expected return on plan assets	**(447)**	(296)
	(97)	(49)

	Bank	
	31 December 2006	31 December 2005

40. Retirement benefit obligations *(continued)*

The principal actuarial assumptions used were as follows:		
Discount rate	**7,75%**	10,00%
Expected return on plan assets	**8,00%**	10,00%
Future salary increases	**6% + merit**	7,5% + merit
Assumptions regarding future mortality experience are set based on advice from published statistics and experience.		
The average life expectancy in years of a pensioner retiring at the age of 60 is as follows:		
Male	**20,3**	20,2
Female	**25,2**	25,1

Expected rate of future pension increases

Depending on the member's choice with regard to threshold rates, pension increases are granted each year to the extent that the investment return exceeds the post-retirement valuation rate of 4,5%, 6,0% or 7,0% per annum (threshold rates). If in any year/period the investment return is less than the threshold rates, the difference is recouped at the next date of pension increases. Assumptions regarding future mortality experience are set based on advice from published statistics and experience.

With the exception of certain employees who have exercised an option not to become members, all full-time permanent employees are members of the Absa Group Limited Pension Fund (the fund), which has a defined benefit and a defined contribution structure. All members at 31 March 1997 had the option to convert to the defined contribution structure of which the majority did. Members joining the fund on or after 1 April 1997 are only entitled to benefits under the defined contribution structure.

Of the employees belonging to the fund, 99,8% (December 2005: 99,8%) were members of the defined contribution structure, while 0,2% (December 2005: 0,2%) were members of the defined benefit structure. As at December 2006, the defined benefit structure had 58 (December 2005: 62) contributing members.

The fund is financed by company and employee contributions and investment income. Company contributions in respect of the defined benefit structure are based on actuarial advice and are expensed in the income statement. It is Absa Group Limited's policy to ensure that the fund is adequately funded to provide for the benefits of members and particularly to ensure that any shortfall with regard to the defined benefit structure is being met by way of additional contributions.

The benefits provided by the defined benefit structure are based on a formula taking into account years of membership and remuneration levels. The benefits provided by the defined contribution structure are determined by accumulated contributions and returns on investments.

The fund is governed by the Pension Funds Act of 1956, which requires that an actuarial valuation be carried out at least every three years. The most recent valuation of the fund was effected on 1 April 2006 and confirmed that the fund was in a sound financial position. This valuation was in accordance with the Pension Funds Second Amendment Act of 2001 (the Act). The Act facilitates the determination of the surplus apportionment to members, while avoiding the inappropriate distribution of surpluses. The Act requires that a fund explicitly establish additional contingency reserves to ensure the financial soundness of the fund going forward. The valuation has been performed using a projected benefit method in respect of the defined benefit structure, which is consistent with the prior period.

Liabilities in respect of the defined benefit structure are calculated based on assumptions regarding the expected experience in respect of death, withdrawals, early retirement, family statistics, rate of increase in pensionable remuneration and medical allowances, administration costs and the expected yield on assets.

	Bank	
	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
41. Dividends per share		
Dividends paid to ordinary equity holders		
Special dividend paid to Absa Group Limited – April 2005	**—**	1 250
Final dividend number 39 of 248,8 cents per ordinary share (March 2005: 205,1 cents)	**753**	600
Special dividend paid to Absa Group Limited – September 2005	**—**	1 200
Interim dividend number 40 of 383,7 cents per ordinary share (September 2005: 223,1 cents)	**1 161**	675
Total dividends paid during the year/period	**1 914**	3 725
Special dividend paid to Absa Group Limited – April 2005	**—**	1 250
Interim dividend number 40 of 383,7 cents per ordinary share (September 2005: 223,1 cents)	**1 161**	675
Special dividend paid to Absa Group Limited – September 2005	**—**	1 200
Final dividend number 41 of 208,2 cents per ordinary share (March 2006: 248,8 cents)	**630**	753
Total dividends relating to income for the year/period	**1 791**	3 878

A final dividend of 208,2 cents per ordinary share was approved by the board on 20 February 2007. The total dividend amounts to R630 million and the STC payable by the Bank in respect of the dividend approved and declared subsequent to 31 December 2006 amounts to R78,8 million. No provision has been made for this dividend and the related STC in the financial statements for the year ended 31 December 2006.

Dividends paid to preference equity holders		
Interim dividend number 1 of 2 435,4 cents per preference share	**73**	—
Interim dividend number 1 of 2 435,4 cents per preference share	**73**	—
Final expected dividend number 2 of 3 784,3 cents per preference share	**114**	—
Total dividends relating to income for the year/period	**187**	—

A final dividend of 3 784,3 cents per preference share was approved by the board on 20 February 2007. The total dividend amounts to R114 million and the STC payable by the Bank in respect of the dividend approved and declared subsequent to 31 December 2006 amounts to R14 million. No provision has been made for this dividend and the related STC in the financial statements for the year ended 31 December 2006.

42. Related party transactions

The Bank's ultimate parent company is Barclays PLC (incorporated in the United Kingdom), which owns 56,45% (December 2005: 56,61%) of Absa Group Limited's ordinary shares. The remaining 43,55% (December 2005: 43,39%) of the shares are widely held on the JSE Limited.

The following are defined as related parties of the Bank:

- Ultimate parent company – Barclays PLC
- The parent company – Absa Group Limited
- Subsidiaries (refer to Annexure F)
- Associated undertakings and joint ventures (refer to Annexure F)
- Key management personnel
- Post-retirement benefit funds

IAS 24 – related parties, requires the identification of "key management personnel", who are individuals responsible for planning, directing and controlling the activities of the entity, including directors. The Bank has accordingly defined key management personnel to include:

(i) executive and non-executive directors;
(ii) members of the Absa Group Executive Committee (Exco);
(iii) minor children and spouses of executive and non-executive directors and members of Exco; and
(iv) an entity controlled/jointly controlled or significantly influenced by any individual referred to in (i) to (iii) above.

A number of banking and insurance transactions are entered into in the normal course of business. These include loans, deposits and foreign currency transactions. The related party transactions, outstanding balances at year-end and relating expenses and income for the year are as follows:

42.1 Transactions with parent company

The following transactions were entered into with the ultimate parent company:

- Loans and advances: R3 353 million (December 2005: R4 011 million).
- Derivative assets: R187 million (December 2005: Rnil) with a nominal value of R161 331 million (December 2005: Rnil).
- Deposits: R8 420 million (December 2005: R4 777 million).
- Derivative liabilities: R1 237 million (December 2005: Rnil) with a nominal value of R52 458 million (December 2005: Rnil).
- Dividends paid: R1 289 million (December 2005: R602 million).
- Interest paid: R143 million (December 2005: R46 million).
- Interest received: R42 million (December 2005: R7 million).
- Non-interest income received: R25 million (December 2005: Rnil).

All transactions entered into are on the same commercial terms and conditions in the normal course of business.

The following transactions were entered into with the parent company:

- Refer to note 9 (Loans to Absa Group companies).

42.2 Subsidiaries

Details of the principal subsidiaries are shown in Annexure F.

42.3 Associates, joint ventures and retirement benefit funds

At December 2006, the Absa Group Limited Pension Fund held shares to the value of R39 million (December 2005: R29 million) and other securities to the value of R181 million (December 2005: R285 million) in Absa Group.

The Bank provides certain banking and financial services to associated undertakings and joint ventures. The Bank also provides a number of normal current and interest-bearing cash accounts to the Absa Group Limited pension fund. The Bank also provides normal banking services for unit trusts and investment funds managed by Bank companies. These transactions are conducted on similar terms to third party transactions and are not individually material.

Details of investments in associates and joint venture companies are given in Annexure F.

42. Related party transactions *(continued)*

In aggregate, the amounts included in the accounts are as follows:

	Bank			
	Associated companies Rm	**Joint ventures Rm**	**Retirement benefit funds Rm**	**Total Rm**
For the year ended 31 December 2006				
Interest and similar income	**(551)**	**(10)**	**—**	**(561)**
Interest expense and similar charges	**7**	**—**	**—**	**7**
Fees received	**(137)**	**—**	**(12)**	**(149)**
Fees paid	**137**	**—**	**419**	**556**
Impairment loss for the year	**3**	**—**	**—**	**3**
Loans and advances	**7 088**	**104**	**—**	**7 192**
Value of investments managed by Absa	**—**	**—**	**4 438**	**4 438**
Deposits	**—**	**—**	**(63)**	**(63)**
Other liabilities	**(150)**	**—**	**—**	**(150)**
For the period ended 31 December 2005				
Interest and similar income	(325)	(2)	—	(327)
Interest expense and similar charges	7	—	—	7
Fees received	(105)	—	(8)	(113)
Fees paid	—	—	274	274
Loans and advances	5 034	24	—	5 058
Other assets	60	—	—	60
Value of investments managed by Absa	—	—	4 837	4 837
Deposits	(234)	—	(26)	(260)
Other liabilities	(39)	—	—	(39)

42.4 Transactions with key management personnel and/or directors

	31 December 2006		31 December 2005	
	Transactions with key management/ directors Rm	**Transactions with entities controlled by key management/ directors Rm**	Transactions with key management/ directors Rm	Transactions with entities controlled by key management/ directors Rm
Loans				
Loans outstanding at the beginning of the year/period	**9**	**13**	4	18
Loans issued during the year/period	**22**	**31**	13	11
Loan repayments during the year/period	**(14)**	**(9)**	(8)	(16)
Discontinuance of related party relationship and other	**(0)**	**—**	—	—
Loans outstanding at the end of the year/period	**17**	**35**	9	13
Interest income earned	**1**	**3**	1	—

The above transactions are entered into in the normal course of business, under terms, including collateral requirements, that are no more favourable than those arranged with third parties. Loans include mortgage loans, asset finance transactions and overdraft facilities. Interest rates on loans outstanding are at the fringe benefit tax rate that all employees of the Bank are entitled to.

42. Related party transactions *(continued)*

	Bank			
	31 December 2006		31 December 2005	
	Transactions with key management/ directors Rm	**Transactions with entities controlled by key management/ directors Rm**	Transactions with key management/ directors Rm	Transactions with entities controlled by key management/ directors Rm
Deposits				
Deposits at the beginning of the year/period	**16**	**77**	12	238
Deposits received during the year/period	**75**	**21**	106	226
Deposits repaid during the year/period	**(67)**	**(88)**	(101)	(284)
Discontinuance of related party relationships and other	**—**	**—**	(1)	(103)
Deposits at the end of the year/period	**24**	**10**	16	77
Interest expense charged	**2**	**1**	—	7
Guarantees issued by the Bank	**—**	**4**	42	—

The above transactions are entered into in the normal course of business under terms that are no more favourable than those arranged with third parties.

Other investments

At 31 December 2006, the Bank managed on behalf of key management personnel certain investments. These management agreements are entered into in the normal course of business under terms that no more favourable than those arranged with third parties.

Insurance premiums paid and claims received

Key management personnel paid insurance premiums of R0,3 million (December 2005: R0,1 million). Key management personnel received claims which in total were R0,3 million (December 2005: R0,1 million). These transactions are entered into in the normal course of business under terms that are no more favourable than those arranged with third parties.

	Bank	
	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
42.5 Key management personnel compensation		
Directors		
Salaries and other short-term benefits	**70**	64
Post-employment benefits	**1**	1
Share-based payments	**25**	10
	96	75
Other key management personnel		
Salaries and other short-term benefits	**20**	29
Post-employment benefits	**1**	—
Share-based payments	**10**	2
	31	31

	Bank	
	31 December 2006 Rm	31 December 2005 Rm
43. Managed funds		
Portfolio management	**1 340**	683
Unit trusts	**145**	143
Property funds	**—**	15 263
Other	**2 111**	1 544
	3 596	17 633
44. Commitments		
Authorised capital expenditure		
Contracted but not provided for	**116**	140
The Bank has capital commitments in respect of computer equipment and property purchases.The Bank's management is confident that future net revenues and funding will be sufficient to cover these commitments.		
Operating lease commitments		
Minimum lease payments due		
No later than one year	**653**	580
Later than one year and no later than five years	**1 401**	1 557
Later than five years	**506**	403
	2 560	2 540
No contingent rent is payable. Operating lease payments represent rentals payable by the Bank for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years.		
Undrawn facilities	**273 162**	256 330
45. Contingencies		
Guarantees	**10 431**	13 881
Letters of credit	**1 994**	2 139
Other contingencies	**16**	—
	12 441	16 020

The letters of credit are predominantly denominated in South African rand.

The Bank has contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business.

	Bank	
	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
46. Cash and cash equivalents		
Cash, cash balances and balances with central banks (refer to note 2)	**12 022**	11 334
Statutory liquid asset portfolio (refer to note 3)	**20 829**	16 219
Loans and advances to banks (refer to note 4)	**20 833**	19 912
Less: amounts not held for cash flow purposes	**(50 186)**	(40 003)
	3 498	7 462

47. Share-based payments

During 2006, R95 million (31 December 2005: R66 million) and R55 million (31 December 2005: Rnil) was charged to the income statement in respect of equity-settled and cash-settled share-based payment transactions respectively.

Absa Group Limited Share Incentive Trust (Share Incentive Trust)

In terms of the rules of the Absa Group Limited Share Incentive Trust, the maximum number of shares of Absa Group Limited that may be issued or transferred and/or in respect of which options may be granted to the participants, shall be limited to shares representing 10% of the total number of issued shares from time to time. Options are allocated to Absa Group employees according to the normal human resources talent management processes. The options issued up to August 2005 (issue 192) had no performance criteria linked to them and vested in equal tranches after three, four and five years respectively. No dividends accrue to the option holder over the period. The options expire after a period of 10 years from the issuing date. Options issued since August 2005 (issue 193) have vesting performance criteria associated with them, which require Absa Group's headline earnings per share to exceed an agreed benchmark over a three-year period from July 2005 for the options to vest. As required by IFRS, the trust has been consolidated into the Absa Group Limited's financial statements.

The number and weighted average exercise prices of share options are as follows:

	Number of options ’000	**Weighted exercise price R**
2006		
Outstanding at the beginning of the year	**23 809**	**47,76**
Granted during the year	**331**	**79,91**
Less: exercised during the year	**(5 742)**	**35,70**
Less: forfeited during the year	**(1 007)**	**50,88**
Outstanding at the end of the year	**17 391**	**53,19**
Of which are exercisable	**4 824**	**—**
2005		
Outstanding at the beginning of the period	29 556	36,19
Granted during the period	4 193	91,48
Less: exercised during the period	(9 208)	30,50
Less: forfeited during the period	(732)	44,98
Outstanding at the end of the period	23 809	47,76
Of which are exercisable	3 218	—

Options exercised in 2006 resulted in 5 742 175 shares (December 2005: 9 208 000 shares) being allocated at an average price of R35,70 each (December 2005: R30,50). The related weighted average share price at the time of exercise was R109,85 (December 2005: R82,54).

47. Share-based payments *(continued)*

Share options outstanding at the end of the year/period have the following weighted average remaining contractual life and exercise prices:

Exercise price ranges* (R)	Average option exercise price R	Weighted average contractual remaining life Years	Weighted average fair value R	Number of options outstanding '000
2006				
27,75 – 38,05	**30,47**	**0,66**	*****	**139**
17,85 – 43,92	**23,59**	**2,25**	*****	**341**
21,16 – 36,19	**26,79**	**3,39**	**7,52**	**422**
24,74 – 39,27	**36,63**	**4,53**	**13,71**	**1 293**
27,05 – 35,97	**33,57**	**5,55**	**11,71**	**2 617**
32,00 – 46,05	**35,11**	**6,74**	**12,39**	**2 742**
44,39 – 73,35	**49,89**	**7,72**	**19,47**	**5 653**
74,97 – 94,63	**91,47**	**8,78**	**28,60**	**3 880**
89,57 – 113,95	**108,86**	**9,30**	**35,52**	**304**
2005				
21,00 – 73,00	47,00 – 76,00	7,2	6,00 – 27,00	23 809

The following shares and options are available for allocation:

	% of total issued shares	Number of shares
31 December 2006		
Maximum shares and options available in Absa Group Limited	**10,0**	**67 195 507**
Shares and options subject to the trust	**(2,8)**	**(18 778 473)**
Balance of shares and options available	**7,2**	**48 417 034**
31 December 2005		
Maximum shares and options available in Absa Group Limited	10,0	66 685 507
Shares and options subject to the trust	(3,8)	(25 125 744)
Balance of options and shares available	6,2	41 559 763

	Bank	
	31 December 2006	31 December 2005
Fair value of share options and assumptions		
Fair values for the Share Incentive Trust are calculated at the date of grant using a modified Black-Scholes model. The significant weighted average assumptions used to estimate the fair value of the options granted are as follows:		
Weighted average fair value of options at grant date (R)	**33,69**	28,60
Weighted average share price (R)	**111,22**	89,73
Exercise price (R)	**107,94**	89,10
Expected volatility** (%)	**29**	n/a
Expected option life for Absa Group Executive Committee members (%)	**5 years**	8 years
Expected option life for all employees	**5 years**	5 years
Expected lapse ratio for Absa Group Executive Committee members (%)	**6,70**	2,78
Expected lapse ratio for business unit heads (%)	**5,83**	3,04
Expected lapse ratio for senior management (%)	**16,51**	15,69
Expected lapse ratio for middle and junior management levels (%)	**22,44**	21,08

It is assumed that all Share Incentive Trust options issued since August 2005 (issue 193) will meet the performance criteria set.

For purposes of determining the expected life and number of options to vest, historical exercise and lapse patterns were utilised.

**Absa Group Limited shares.*

***Volatility assumptions vary according to the bipolar distribution observed over five-year rolling periods up to the end of the financial period in which the grant occurs.*

47. Share-based payments *(continued)*

Absa Group Limited Employee Share Ownership Administration (ESOP) Trust

All employees (as of the implementation date – 1 July 2004) of South African wholly owned subsidiaries, including South African employees on secondment elsewhere in the Absa Group (excluding executive directors of Absa Group Limited and Absa Bank Limited), were eligible to participate in this one-off offer. Each employee who elected to participate was issued and allotted 200 redeemable cumulative option-holding preference shares against a receipt of the R400 subscription price. On 1 July 2004, 6 085 200 preference shares were issued. The preference shares receive a dividend calculated on the par value of the preference shares at a rate of 72% of the prime overdraft rate. These dividends are compounded and paid semi-annually in arrear on 30 September and 31 March each year. Absa Group Limited will redeem the preference shares on exercise of the options by the employee or on lapse of the options on the final option exercise date. Options vest after three years from the date of issue and lapse after five years from the date of issue. Options can be exercised on 1 March, 1 June, 1 September or 1 December each year. Exercise may occur in lots of 100 only and on payment of the option strike price, which will vary between R48,00 and R69,00 dependent on the 30-day volume weighted trading price on the JSE Limited. A maximum of 7 315 200 preference shares were available for allocation to the trust. The trust has also been consolidated into the Absa Group Limited's financial statements. The trust held 6 085 200 redeemable cumulative option-holding preference shares at the end of the year (December 2005: 6 085 200).

The number and weighted average exercise price of share options are as follows:

	Weighted average exercise price* R	**31 December 2006 Number of options '000**	31 December 2005 Number of options '000
Outstanding at the beginning of the year/period	48 – 69	**5 002**	5 269
Forfeited during the year/period	48 – 69	**(557)**	(267)
Outstanding at the end of the year/period	48 – 69	**4 445**	5 002

There were no options exercisable as at 31 December 2006 (31 December 2005: nil).

The options outstanding at 31 December 2006 have an exercise price in the range of R48,00 to R69,00 (31 December 2005: range of R48,00 to R69,00) and a weighted average contractual life of 2,5 years (31 December 2005: 3,5 years).

Fair value of share options and assumptions

Fair values for the Absa Group Limited Employee Share Ownership Administrative (ESOP) Trust are calculated at the date of grant using a 250-step binomial model, adjusted to incorporate the Bermudan option structure (ie a hybrid of a European and American call option) of the transaction. The valuation is based on the average of 10 000 fair values calculated by Monte-Carlo simulation, varying the volatility according to the approximate bipolar distribution observed in the period leading up to the date of the grant.

**Absa Group Limited shares.*

47. Share-based payments *(continued)*

The significant weighted average assumptions used to estimate the fair value of the one-off options granted on 1 July 2004 are as follows:

	As at 1 July 2004
Weighted average fair value of options at grant date (R)	14,76
Weighted average share price (R)	50,25
Exercise price* (R)	48 – 69
Expected volatility	26,0 – 39,6
Expected option life (%)	5 years
Expected lapse ratio for ESOP Trust (%)	22,56
Dividend ratio (%)	3,7
Risk-free rate of return on a South African government five-year zero coupon bond (%)	10,2

The risk-free rate of return represents the yield, recorded on the date of option grant, on a South African government zero coupon bond of a term equal to the expected life of the option.

Absa Group Limited Phantom Performance Share Plan (Phantom PSP)

The Phantom PSP was implemented during the year under review as an alternative to the Absa Group Limited Share Incentive Trust Scheme. The Phantom PSP is a cash-settled plan and payments made to participants in respect of their awards are in the form of cash. The Phantom PSP Shares (and any associated notional dividend shares) are awarded at no cost to the participants. The amount that is ultimately paid out to the participants is equal to the market value of a number of ordinary shares equal to the number of phantom shares awarded to that participant, as determined after a three-year vesting period. The vesting of the Phantom PSP awards will be subject to two non-market performance conditions which will be measured over a three-year period, starting on the first day of the financial year in which the award is made. The first performance condition is subject to a profit after tax hurdle, while the second condition is subject to an earnings per share target. The awards will be released to the employees according to a sliding scale from 40% to 300% of the award, dependent upon the scale of achievement against the earnings per share benchmark and provided that a threshold has been passed. If the threshold is not passed, the award will not vest. The awards will vest after three years to the extent that the performance conditions are satisfied. These awards are forfeited in total if Absa Group Limited fails to meet the minimum performance criteria.

	31 December 2006 Number of options '000
Granted during the year	1 060
Outstanding at the end of the year	**1 060**

The options outstanding at 31 December 2006 have no exercise price and a weighted average contractual life of 2,4 years. None of these options were exercisable at the balance sheet date.

Fair value of share options and assumptions

The fair value of the Phantom PSP awards at grant date is based on the share price at grant date. The Bank multiplies the initial fair value by a factor as determined by the rules of the scheme to reflect expectations for the number of shares that will vest based on the performance conditions. At each reporting date the Bank adjusts the liability to reflect differences:

- between the share price at grant date and the share price at the valuation date;
- in expectation as to the number of shares that will vest subject to performance of Absa Group Limited; and
- between actual and expected lapsed shares.

**The exercise price is determined in accordance with the circular issued on 28 May 2004, as follows:*

If the 30-day volume-weighted average trading price on the JSE Limited of an Absa Group Limited ordinary share on the effective date of exercise of the option (option exercise date) is:

- *less than or equal to R70,00, then the option strike price is R48,00; or*
- *greater than R70,00 but less than or equal to R100,00, then the option strike price is R48,00 plus R0,70 for each complete R1,00 increment in the ordinary share price over R70,00; or*
- *greater than R100,00, then the option price is R69,00.*

The option strike price may be changed at the election of Absa Group Limited, after consultation with Batho Bonke Capital (Proprietary) Limited, if there is a change as envisaged by the proposed new article 176, including a change in interpretation of accounting standards, which has the effect of any adjustments having to be made to the existing and/or any prior income statements and/or balance sheets and/or earnings per ordinary share and/or prior year's profits of Absa Group Limited, to a fixed option strike price of R58,00 per ordinary share.

47. Share-based payments *(continued)*

The Absa Group Limited Executive Share Award Scheme (ESAS) – voluntary (restricted) method

Certain qualifying participants with banked bonuses under any of Absa Group Limited's existing employee incentive schemes were allowed a one-off opportunity during the year to utilise banked bonuses to purchase nil-cost options in the ESAS.

In terms of the ESAS, the participant's notional bonus comprises a number of restricted nil-cost options, based on the allocation price of ordinary shares. Such an initial allocation is held in trust or in the name of the participant. If the participant is in the employ of Absa Group after the three-year vesting period, the participant will receive 20% matched shares. If the bonus award is retained in the ESAS trust for another two years, the participant receives another 10% matched shares. Dividend shares are paid to participants on the ordinary shares as if the shares were held from inception. The number of dividend shares awarded is therefore calculated on the initial allocation and on the 20% and 10% match, over the five-year period.

	31 December 2006 Number of options '000
Granted during the year	37
Outstanding at the end of the period	**37**

The options outstanding at 31 December 2006 have no exercise price and a weighted average contractual life of 3,7 years. None of these options were exercisable at balance sheet date.

Fair value of share options and assumptions

The fair value of the Absa Group Limited Executive Share Award Scheme (ESAS) awards at grant date is based on the share price at grant date. The Bank considers adjustments to reflect expectations for options that might lapse before the shares vest.

For purposes of determining the expected life and number of awards to vest, historical exercise and lapse patterns were determined.

Absa Group Limited Phantom Joiners Share Award Plan (JSAP)

The JSAP is a cash-settled, share-based payment arrangement that enables Absa Group to attract and motivate new employees by buying out the "in the money" portion of a participant's shares or options under the previous employer's share scheme. There is no consideration payable for the grant of an award and the vesting of the awards is not subject to performance conditions. Dividends accrue to the participant over the vesting period which can be over two, three, five or six years.

	31 December 2006 Number of options '000
Granted during the year	77
Outstanding at the end of the year	**77**

The options outstanding at 31 December 2006 have no exercise price and a weighted average contractual life of 3,01 years. None of these options were exercisable at the balance sheet date.

Fair value of share options and assumptions

The fair value of the Absa Group Limited Phantom Joiners Share Award Plan (JSAP) awards at grant date is based on the share price at grant date. The Bank considers adjustments to reflect expectations for options that might lapse before the shares vest. At each reporting date the Bank adjusts the liability to reflect differences:

- between the share price at grant date and the share price at the valuation date; and
- between actual and expected lapsed shares.

47. Share-based payments *(continued)*

Staff costs

The income statement charge for share-based payments is as follows (refer to note 32):

	Bank	
	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
Equity-settled arrangements		
Absa Group Limited Share Incentive Trust	**79**	51
Absa Group Limited Share Ownership Administrative Trust	**15**	15
Absa Group Limited Executive Share Award Scheme	**1**	—
Cash-settled arrangements		
Absa Group Limited Phantom Joiners Share Award Plan	**1**	—
Absa Group Limited Phantom Performance Share Plan	**54**	—
	150	66

	31 December 2006 Rm	31 December 2005 Rm
Total carrying amount of liabilities for cash-settled arrangements (refer to note 22)	**78**	—

The total intrinsic value of the liability for vested benefits was Rnil at 31 December 2006 (31 December 2005: Rnil).

48. Disposal of subsidiary

48.1 Disposal of subsidiary

On 1 January 2006, the Bank disposed of Bankhaus Wölbern & Co.

The net assets of Bankhaus Wölbern & Co. and its subsidiaries at the date of disposal were as follows:

	31 December 2006 Rm
Property and equipment	**24**
Intangible assets	**7**
Investments	**3**
Loans and advances	**2 303**
Trading portfolio assets	**2 628**
Other assets	**482**
Cash, cash balances and balances with central banks	**579**
Deferred tax liabilities (refer to note 15)	**(31)**
Other liabilities	**(579)**
Deposits	**(5 062)**
Share capital	**(96)**
Minority interest	**(41)**
Net asset value	**217**
Gain on disposal	**50**
Investment in subsidiary	**96**
Less: release of foreign currency translation reserve	**(25)**
Total consideration	**338**
Satisfied by:	
Cash	**338**
Net cash inflow arising on disposal:	
Cash consideration received	**338**
Final dividend	**108**
Cash and cash equivalents disposed of	**(579)**
	(133)

	Bank				
	31 December 2006				
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Assets					
Cash, cash balances and balances with central banks	3 647	8 375	—	—	12 022
Statutory liquid asset portfolio	5	9 117	7 727	3 980	20 829
Loans and advances to banks	8 321	3 889	5 760	2 863	20 833
Trading assets	1 967	9 354	4 864	1 526	17 711
Hedging assets	—	245	319	108	672
Loans and advances to customers	66 519	41 497	74 505	185 799	368 320
Loans to Absa Group companies	—	—	—	3 029	3 029
Other assets	409	2 531	185	26	3 151
Investments	197	905	1 427	310	2 839
Investments in associated undertakings and joint ventures	—	344	64	193	601
Intangible assets	—	—	35	112	147
Property and equipment	42	146	1 734	1 587	3 509
Deferred tax assets	—	24	39	—	63
Total assets	81 107	76 427	96 659	199 533	453 726
Liabilities					
Deposits from banks	7 396	31 703	137	—	39 236
Trading liabilities	15 499	—	—	—	15 499
Hedging liabilities	—	545	1 131	222	1 898
Deposits due to customers	149 698	177 416	15 122	6 698	348 934
Current tax liabilities	—	941	—	—	941
Policyholder liabilities under insurance contracts	—	—	76	—	76
Borrowed funds	—	253	4 600	3 415	8 268
Other liabilities and sundry provisions	567	5 710	853	885	8 015
Deferred tax liabilities	—	104	531	1 498	2 133
Total liabilities	173 160	216 672	22 450	12 718	425 000
Equity					
Capital and reserves					
Attributable to equity holders:					
Share capital	—	—	—	303	303
Share premium	—	—	—	5 415	5 415
Preference share capital	—	—	—	1	1
Preference share premium	—	—	—	2 991	2 991
Other reserves	10	21	69	1 578	1 678
Retained earnings	593	1 669	412	15 664	18 338
Total equity	603	1 690	481	25 952	28 726
Total equity and liabilities	173 763	218 362	22 931	38 670	453 726
Net liquidity position	(92 656)	(141 935)	73 728	160 863	—

Annexure A: Residual maturity analysis

	Bank				
	31 December 2005				
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Assets					
Cash, cash balances and balances with central banks	3 438	7 896	—	—	11 334
Statutory liquid asset portfolio	4	7 099	6 017	3 099	16 219
Loans and advances to banks	7 954	3 717	5 505	2 736	19 912
Trading assets	2 608	12 404	6 449	2 023	23 484
Hedging assets	—	138	180	61	379
Loans and advances to customers	52 908	33 006	59 260	147 781	292 955
Loans to Absa Group companies	—	—	—	3 460	3 460
Other assets	447	2 764	202	28	3 441
Investments	107	493	779	169	1 548
Investments in associated undertakings and joint ventures	—	305	57	171	533
Intangible assets	—	—	29	91	120
Property and equipment	39	135	1 605	1 468	3 247
Deferred tax assets	—	21	34	—	55
Total assets	67 505	67 978	80 117	161 087	376 687
Liabilities					
Deposits from banks	5 353	22 948	99	—	28 400
Trading liabilities	20 915	—	—	—	20 915
Hedging liabilities	—	132	275	54	461
Deposits due to customers	124 034	147 000	12 529	5 550	289 113
Current tax liabilities	—	235	—	—	235
Policyholder liabilities under insurance contracts	—	—	82	—	82
Borrowed funds	—	213	—	6 113	6 326
Other liabilities and sundry provisions	553	5 573	832	864	7 822
Deferred tax liabilities	—	111	569	1 604	2 284
Total liabilities	150 855	176 212	14 386	14 185	355 638
Equity					
Capital and reserves					
Attributable to ordinary equity holders:					
Share capital	—	—	—	303	303
Share premium	—	—	—	4 665	4 665
Other reserves	11	23	75	1 708	1 817
Retained earnings	460	1 295	320	12 149	14 224
	471	1 318	395	18 825	21 009
Minority interest	—	—	—	40	40
Total equity	471	1 318	395	18 865	21 049
Total equity and liabilities	151 326	177 530	14 781	33 050	376 687
Net liquidity position	(83 821)	(109 552)	65 336	128 037	—

	Bank					
	31 December 2006					
	ZAR Rm	USD Rm	GBP Rm	Euro Rm	Other Rm	Total Rm
Assets						
Cash, cash balances and balances with central banks	12 022	—	—	—	—	12 022
Statutory liquid asset portfolio	20 829	—	—	—	—	20 829
Loans and advances to banks	14 541	5 301	780	207	4	20 833
Trading assets	12 822	4 233	163	487	6	17 711
Hedging assets	672	—	—	—	—	672
Loans and advances to customers	362 436	2 723	1 440	1 047	674	368 320
Loans to Absa Group companies	3 029	—	—	—	—	3 029
Other assets	3 135	12	—	4	—	3 151
Investments	2 839	—	—	—	—	2 839
Investments in associated undertakings and joint ventures	601	—	—	—	—	601
Intangible assets	147	—	—	—	—	147
Property and equipment	3 504	1	4	—	—	3 509
Deferred tax assets	56	—	7	—	—	63
Total assets	436 633	12 270	2 394	1 745	684	453 726
Liabilities						
Deposits from banks	30 781	7 915	121	419	—	39 236
Trading liabilities	9 152	5 769	141	355	82	15 499
Hedging liabilities	1 898	—	—	—	—	1 898
Deposits due to customers	343 881	3 222	1 163	438	230	348 934
Current tax liabilities	941	—	—	—	—	941
Policyholder liabilities under insurance contracts	76	—	—	—	—	76
Borrowed funds	8 268	—	—	—	—	8 268
Other liabilities and sundry provisions	7 990	—	25	—	—	8 015
Deferred tax liabilities	2 133	—	—	—	—	2 133
Total liabilities	405 120	16 906	1 450	1 212	312	425 000
Equity						
Capital and reserves						
Attributable to equity holders:						
Share capital	303	—	—	—	—	303
Share premium	5 415	—	—	—	—	5 415
Preference share capital	1	—	—	—	—	1
Preference share premium	2 991	—	—	—	—	2 991
Other reserves	1 614	106	(42)	—	—	1 678
Retained earnings	18 246	(163)	255	—	—	18 338
Total equity	28 570	(57)	213	—	—	28 726
Total equity and liabilities	433 690	16 849	1 663	1 212	312	453 726
Gross currency position		(4 579)	731	533	372	(2 943)
Foreign currency derivative						3 598
Net currency position						655
Credit commitments	12 264	—	177	—	—	12 441

Annexure B: Currency analysis

	Bank					
	31 December 2005					
	ZAR Rm	USD Rm	GBP Rm	Euro Rm	Other Rm	Total Rm
Assets						
Cash, cash balances and balances with central banks	11 334	—	—	—	—	11 334
Statutory liquid asset portfolio	16 219	—	—	—	—	16 219
Loans and advances to banks	13 897	5 067	746	198	4	19 912
Trading assets	17 001	5 613	216	646	8	23 484
Hedging assets	379	—	—	—	—	379
Loans and advances to customers	288 275	2 166	1 145	833	536	292 955
Loans to Absa Group companies	3 460	—	—	—	—	3 460
Other assets	3 424	13	—	4	—	3 441
Investments	1 548	—	—	—	—	1 548
Investments in associated undertakings and joint ventures	533	—	—	—	—	533
Intangible assets	120	—	—	—	—	120
Property and equipment	3 242	1	4	—	—	3 247
Deferred tax assets	49	—	6	—	—	55
Total assets	359 481	12 860	2 117	1 681	548	376 687
Liabilities						
Deposits from banks	22 280	5 729	88	303	—	28 400
Trading liabilities	12 350	7 785	190	479	111	20 915
Hedging liabilities	461	—	—	—	—	461
Deposits due to customers	284 925	2 670	964	363	191	289 113
Current tax liabilities	235	—	—	—	—	235
Policyholder liabilities under insurance contracts	82	—	—	—	—	82
Borrowed funds	6 326	—	—	—	—	6 326
Other liabilities and sundry provisions	7 798	—	24	—	—	7 822
Deferred tax liabilities	2 284	—	—	—	—	2 284
Total liabilities	336 741	16 184	1 266	1 145	302	355 638
Equity						
Capital and reserves						
Attributable to ordinary equity holders:						
Share capital	303	—	—	—	—	303
Share premium	4 665	—	—	—	—	4 665
Other reserves	1 747	115	(45)	—	—	1 817
Retained earnings	14 152	(126)	198	—	—	14 224
	20 867	(11)	153	—	—	21 009
Minority interest	—	—	—	40	—	40
Total equity	20 867	(11)	153	40	—	21 049
Total equity and liabilities	357 608	16 173	1 419	1 185	302	376 687
Gross currency position		(3 313)	698	496	246	(1 873)
Foreign currency derivative						2 354
Net currency position						481
Credit commitments	15 516	17	380	107	—	16 020

	Bank					
	31 December 2006			31 December 2005		
	Average balance Rm	Average rate %	Interest income/ expense Rm	Average balance Rm	Average rate %	Interest income/ expense Rm
Assets						
Liquid assets						
Cash, cash balances and balances with central banks	10 517	1,40	147	10 961	2,95	242
Statutory liquid asset portfolio	18 629	7,76	1 446	15 258	9,00	1 029
	29 146	5,47	1 593	26 219	6,47	1 271
Other assets						
Loans and advances to customers and banks	351 697	9,94	34 932	285 842	9,57	20 501
Investments and trading assets	4 954	0,53	26	24 985	0,37	69
Hedging assets	19 017	—	—	486	43,63	159
Other assets	5 210	—	—	8 046	—	—
Current tax assets	8	—	—		—	—
Deferred tax asset	30	—	—	63	—	—
Investments in associated undertakings and joint ventures	684	—	—	379	—	—
Subsidiary shares	42	—	—	—	—	—
Property and equipment and intangible assets	3 380	—	—	3 248	—	—
Total assets	414 168	8,83	36 551	349 268	8,40	22 000
Liabilities						
Deposits from customers and banks	353 337	5,98	21 126	291 908	5,71	12 482
Trading liabilities	6 310	—	—	20 471	—	—
Hedging liabilities	15 157	0,54	82	1 032	—	—
Other liabilities and sundry provisions	6 180	6,69	413	7 635	2,13	122
Current tax liabilities	584	—	—	228	—	—
Deferred tax liabilities	2 223	—	—	1 970	—	—
Liabilities under insurance contracts	7	—	—	41	—	—
Borrowed funds	7 703	9,68	746	5 883	14,31	631
Total liabilities	391 501	5,71	22 367	329 168	5,36	13 235
Equity						
Share capital	185	—	—	303	—	—
Share premium	5 247	—	—	3 444	—	—
Preference share premium	2 053	—	—	—	—	—
Other reserves	1 607	—	—	1 767	—	—
Retained earnings	13 575	—	—	14 545	—	—
	22 667	—	—	20 059	—	—
Minority interest	—	—	—	41	—	—
Total equity	22 667	—	—	20 100	—	—
Total equity and liabilities	414 168	5,40	22 367	349 268	5,06	13 235
Net interest margin		3,42			3,29	

Daily averages have been used to calculate the average balances.

Annexure D: Segment reporting – per geographical segment

	Bank				
	Twelve months ended 31 December 2006				
	South Africa Rm	Rest of Africa Rm	Europe Rm	Asia Rm	Total Rm
Net interest income	**14 074**	**(3)**	**109**	**4**	**14 184**
Impairment of advances	**(1 328)**	**—**	**(188)**	**1**	**(1 515)**
Non-interest income	**11 762**	**—**	**12**	**0**	**11 774**
Operating expenditure	**(14 985)**	**(56)**	**(27)**	**(2)**	**(15 070)**
Taxation and other	**(3 551)**	**15**	**28**	**(4)**	**(3 512)**
Headline earnings	**5 972**	**(44)**	**(66)**	**(1)**	**5 861**
Other assets	**83 124**	**27**	**2 001**	**254**	**85 406**
Advances	**367 164**	**—**	**1 156**	**—**	**368 320**
Total assets	**450 288**	**27**	**3 157**	**254**	**453 726**
Other liabilities	**73 708**	**68**	**2 210**	**80**	**76 066**
Deposits and current accounts	**348 889**	**—**	**45**	**—**	**348 934**
Total liabilities	**422 597**	**68**	**2 255**	**80**	**425 000**
Capital expenditure	**1 559**	**—**	**—**	**—**	**1 559**

	Nine months ended 31 December 2005*				
	South Africa Rm	Rest of Africa Rm	Europe Rm	Asia Rm	Total Rm
Net interest income	8 543	(2)	195	29	8 765
Impairment of advances	(517)	—	(14)	(30)	(561)
Non-interest income	7 204	3	340	10	7 557
Operating expenditure	(9 755)	(10)	(369)	(62)	(10 196)
Taxation and other	(2 083)	1	(43)	3	(2 122)
Headline earnings	3 392	(8)	109	(50)	3 443
Other assets	77 159	30	6 216	327	83 732
Advances	286 906	—	5 923	126	292 955
Total assets	364 065	30	12 139	453	376 687
Other liabilities	65 510	38	753	224	66 525
Deposits and current accounts	278 905	—	10 197	11	289 113
Total liabilities	344 415	38	10 950	235	355 638
Capital expenditure	1 232	—	—	—	1 232

**Reclassified in terms of Annexure I.*

	Retail banking		Absa Corporate and Business Bank	
	Twelve months ended 31 December 2006	Nine months ended 31 December 2005*	**Twelve months ended 31 December 2006**	Nine months ended 31 December 2005*
Income statement (Rm)				
Net interest income	**9 958**	6 445	**3 079**	2 007
Net interest income – external	**22 628**	12 721	**838**	1 145
Net interest income – internal	**(12 670)**	(6 276)	**2 241**	862
Impairment of advances	**(1 184)**	(356)	**(331)**	(112)
Non-interest income	**8 077**	4 766	**1 931**	1 424
Non-interest income – external	**7 493**	4 610	**1 771**	1 284
Non-interest income – internal	**584**	156	**160**	140
Depreciation and amortisation	**(57)**	(38)	**(6)**	(3)
Other operating expenditure	**(10 512)**	(6 930)	**(2 813)**	(1 888)
Equity accounted earnings	**15**	55	**34**	—
Other	**(291)**	(127)	**(48)**	(69)
Profit before taxation	**6 006**	3 815	**1 846**	1 359
Taxation	**(1 911)**	(1 251)	**(564)**	(514)
Profit for the year/period	**4 095**	2 564	**1 282**	845
Earnings attributable to:				
Ordinary equity holders	**4 095**	2 564	**1 282**	845
Preference equity holders	**—**	—	**—**	—
Headline earnings	**4 095**	2 564	**1 186**	845
Operating performance (%)				
Net interest margin on average assets	**3,22**	3,25	**4,10**	4,27
Charge for impairment of advances to average advances	**0,49**	0,25	**0,67**	0,39
Non-interest income as % of operating income	**44,8**	42,5	**38,5**	41,5
Cost-to-income ratio	**58,6**	62,2	**56,3**	55,1
Cost-to-assets ratio	**3,4**	3,7	**3,8**	4,0
	31 December 2006	31 December 2005*	**31 December 2006**	31 December 2005*
Balance sheet (Rm)				
Other assets	**71 724**	60 514	**23 967**	26 577
Other assets – external	**21 148**	16 765	**5 640**	5 087
Other assets – internal	**50 576**	43 749	**18 327**	21 490
Loans and advances to customers	**273 028**	213 284	**56 606**	42 891
Investments in associates	**274**	240	**344**	—
Total assets	**345 026**	274 038	**80 917**	69 468
Deposits due to customers	**80 855**	70 518	**69 150**	60 053
Other liabilities	**248 504**	190 766	**6 897**	5 561
Other liabilities – external	**10 624**	8 193	**5 781**	4 773
Other liabilities – internal	**237 880**	182 573	**1 116**	788
Total liabilities	**329 359**	261 284	**76 047**	65 614
Financial performance (%)				
Return on average equity	**28,80**	30,60	**27,20**	35,40
Return on average assets	**1,56**	1,36	**1,57**	1,46

**Reclassified in terms of Annexure I.*

Note: The Bank has classified the segments to be more in line with the management of these segments. AVAF moved to the retail banking segment and a portion of Absa's corporate operations moved to Absa Corporate and Business Bank. Absa Bank London was split into three separate entities during the year, based on the nature of their advances: commercial property finance, corporate and other.

Annexure E: Segment reporting – per market segment

	Absa Capital		African operations	
	Twelve months ended 31 December 2006	Nine months ended 31 December 2005*	**Twelve months ended 31 December 2006**	Nine months ended 31 December 2005*
Income statement (Rm)				
Net interest income	**907**	450	**(3)**	(2)
Net interest income – external	**(10 457)**	(5 299)	**—**	—
Net interest income – internal	**11 364**	(149)	**(3)**	(2)
Impairment of advances	**(5)**	1 1013	**—**	—
Non-interest income	**1 461**	1 258	**—**	3
Non-interest income – external	**1 801**	(245)	**—**	3
Non-interest income – internal	**(340)**	(4)	**—**	—
Depreciation and amortisation	**(9)**	(631)	**—**	—
Other operating expenditure	**(972)**	—	**(56)**	(10)
Equity accounted earnings	**—**	—	**—**	—
Other	**(113)**	(168)	**(2)**	(2)
Profit before taxation	**1 269**	511	**(61)**	(11)
Taxation	**(341)**	(160)	**17**	3
Profit for the year/period	**928**	351	**(44)**	(8)
Earnings attributable to:				
Ordinary equity holders	**928**	351	**(44)**	(8)
Preference equity holders	**—**	—	**—**	—
Headline earnings	**929**	351	**(44)**	(8)
Operating performance (%)				
Net interest margin on average assets	**n/a**	n/a	**n/a**	n/a
Charge for impairment of advances to average advances	**0,01**	0,46	**n/a**	n/a
Non-interest income as % of operating income	**61,7**	69,2	**n/a**	n/a
Cost-to-income ratio	**41,4**	43,3	**n/a**	n/a
Cost-to-assets ratio	**0,4**	0,5	**n/a**	n/a
	31 December 2006	31 December 2005*	**31 December 2006**	31 December 2005*
Balance sheet (Rm)				
Other assets	**217 388**	168 753	**27**	30
Other assets – external	**40 295**	40 392	**27**	30
Other assets – internal	**177 093**	128 361	**—**	—
Loans and advances to customers	**38 686**	29 291	**—**	—
Investments in associates	**—**	37	**—**	—
Total assets	**256 074**	198 081	**27**	30
Deposits due to customers	**198 564**	147 276	**—**	—
Other liabilities	**56 991**	53 339	**123**	73
Other liabilities – external	**56 991**	53 339	**68**	38
Other liabilities – internal	**—**	—	**55**	35
Total liabilities	**265 715**	—	**123**	73
Financial performance (%)				
Return on average equity	**32,90**	16,20	**n/a**	n/a
Return on average assets	**1,21**	0,25	**n/a**	n/a

**Reclassified in terms of Annexure I.*

Note: The Bank has classified the segments to be more in line with the management of these segments. AVAF moved to the retail banking segment and a portion of Absa's corporate operations moved to Absa Corporate and Business Bank. Absa Bank London was split into three separate entities during the year, based on the nature of their advances: commercial property finance, corporate and other.

	Other		Absa Bank	
	Twelve months ended 31 December 2006	Nine months ended 31 December 2005*	**Twelve months ended 31 December 2006**	Nine months ended 31 December 2005*
Income statement (Rm)				
Net interest income	**243**	(135)	**14 184**	8 765
Net interest income – external	**1 068**	151	**14 077**	8 718
Net interest income – internal	**(825)**	(286)	**107**	47
Impairment of advances	**5**	56	**(1 515)**	(561)
Non-interest income	**305**	351	**11 774**	7 557
Non-interest income – external	**487**	294	**11 552**	7 449
Non-interest income – internal	**(182)**	57	**222**	108
Depreciation and amortisation	**(652)**	(475)	**(724)**	(520)
Other operating expenditure	**7**	(217)	**(14 346)**	(9 676)
Equity accounted earnings	**(1)**	14	**48**	69
Other	**(419)**	(357)	**(873)**	(723)
Profit before taxation	**(512)**	(763)	**8 548**	4 911
Taxation	**375**	442	**(2 424)**	(1 480)
Profit for the year/period	**(137)**	(321)	**6 124**	3 431
Earnings attributable to:				
Ordinary equity holders	**(210)**	(321)	**6 051**	3 431
Preference equity holders	**73**	—	**73**	—
Headline earnings	**(305)**	—	**5 861**	3 443
Operating performance (%)				
Net interest margin on average assets	**n/a**	n/a	**3,42**	3,29
Charge for impairment of advances to average advances	**n/a**	n/a	**3,71**	3,64
Non-interest income as % of operating income	**n/a**	n/a	**45,40**	46,30
Cost-to-income ratio	**n/a**	n/a	**58,10**	62,50
Cost-to-assets ratio	**n/a**	n/a	**3,60**	3,90
	31 December 2006	31 December 2005*	**31 December 2006**	31 December 2005*
Balance sheet (Rm)				
Other assets	**21 607**	22 239	**334 713**	278 113
Other assets – external	**17 695**	20 925	**84 805**	83 199
Other assets – internal	**3 912**	1 314	**249 908**	194 914
Loans and advances to customers	**—**	7 489	**368 320**	292 955
Investments in associates	**(17)**	256	**601**	533
Total assets	**21 590**	29 984	**703 634**	571 601
Deposits due to customers	**365**	11 266	**348 934**	289 113
Other liabilities	**10 430**	8 239	**322 945**	257 978
Other liabilities – external	**2 602**	182	**76 066**	66 525
Other liabilities – internal	**7 828**	8 057	**246 879**	191 453
Total liabilities	**10 795**	19 505	**671 879**	547 091
Financial performance (%)				
Return on average equity	**n/a**	n/a	**25,10**	22,80
Return on average assets	**n/a**	n/a	**1,42**	1,31

**Reclassified in terms of Annexure I.*

Note: The Bank has classified the segments to be more in line with the management of these segments. AVAF moved to the retail banking segment and a portion of Absa's corporate operations moved to Absa Corporate and Business Bank. Absa Bank London was split into three separate entities during the year, based on the nature of their advances: commercial property finance, corporate and other.

Annexure E: Segment reporting – per market segment

	Absa Private Bank**		Retail Banking Services***		Absa Home Loans****	
	Twelve months ended 31 December 2006	Nine months ended 31 December 2005*	**Twelve months ended 31 December 2006**	Nine months ended 31 December 2005*	**Twelve months ended 31 December 2006**	Nine months ended 31 December 2005*
Retail banking						
Headline earnings (Rm)	**260**	153	**1 318**	806	**1 086**	762
Total assets (Rm)	**26 741**	22 518	**63 510**	54 127	**177 762**	137 616
Total advances (Rm)	**24 768**	20 672	**13 845**	9 469	**165 218**	128 191
Total deposits and current accounts (Rm)	**18 889**	16 354	**59 679**	51 864	**—**	—
Return on average equity (%)	**19,3**	17,6	**116,9**	116,2	**16,5**	20,1
Cost-to-income ratio (%)	**66,4**	69,0	**72,0**	75,8	**40,8**	44,5

	Absa Card		Absa Vehicle and Asset Finance		Total	
	Twelve months ended 31 December 2006	Nine months ended 31 December 2005*	**Twelve months ended 31 December 2006**	Nine months ended 31 December 2005*	**Twelve months ended 31 December 2006**	Nine months ended 31 December 2005*
Retail banking						
Headline earnings (Rm)	**700**	385	**731**	458	**4 095**	2 564
Total assets (Rm)	**11 189**	7 470	**65 824**	52 307	**345 026**	274 038
Total advances (Rm)	**9 998**	6 630	**59 199**	48 322	**273 028**	213 284
Total deposits and current accounts (Rm)	**2 247**	2 230	**40**	70	**80 855**	70 518
Return on average equity (%)	**104,4**	108,4	**16,3**	17,1	**28,8**	30,6
Cost-to-income ratio (%)	**42,3**	45,7	**46,5**	50,0	**58,6**	62,2

**Reclassified in terms of Annexure I.*
***Includes the results of Personal Financial Services.*
****Includes the results of Flexi Banking Services, UB Micro Loans and Small Business.*
*****Includes the results of Repossessed Properties.*
These results are after the allocation of all head office and support charges.
Capital is allocated based on a Basel I risk-weighted assets calculation. As a consequence, business units that have relatively lower asset levels attract a lower capital requirement.

Detailed information on the associated undertakings and joint venture companies of the Bank

Name	Nature of business
Conbros Limited	Provides offshore loan facilities (currently winding down). Became a subsidiary in 2006.
FFS Finance South Africa (Proprietary) Limited	Provides financing solutions to Ford Motor Company customers.
MAN Financial Services (S.A.) (Proprietary) Limited	Joint venture between Absa Bank and MAN Financial Services GmbH for financing of trucks and buses.
Unitrans Finance (Proprietary) Limited	Strategic alliance between Absa Bank and Unitrans Motors.
Maravedi Group (Proprietary) Limited	Provides debtor management.
Paramount Property Fund Limited	Property investment company with investments in retail, industrial and commercial properties in South African major centres (sold during the year).
Lynmor Trading Company (Proprietary) Limited	Property development.
Alamo Trading Company (Proprietary) Limited	Property development.
Ballito Junction Development (Proprietary) Limited	Retail property development of a shopping centre complex in Ballito Bay.
Ambit Properties Limited	Property loan stock company.
Ambit Management Services (Proprietary) Limited	Property management company.
Paramount Management Services (Proprietary) Limited	Property management company (sold during the year).
Campus on Rigel (Proprietary) Limited	Property investment company.
Abseq Properties (Proprietary) Limited	Property development and investment company.
African Trading Spirit (Proprietary) Limited	Property development.
Palm Hills Investments (Proprietary) Limited	Property development.
Absa Corob Trust Joint Venture	Acquires immovable property for investments.
Sanlam Home Loans (Proprietary) Limited	Manages and administers the granting of loans as well as secure funding for these loans.
Axial Finance (Proprietary) Limited	Provides vehicle financing.
Virgin Money (Proprietary) Limited	Joint venture between Absa Bank and Virgin Money to provide retail financial services products under the Virgin brand.

Annexure F: Subsidiaries, associated undertakings and joint venture companies

Detailed information on the associated undertakings and joint venture companies of the Bank

		31 December 2006	
Name	**Country of incorporation**	**Carrying values Rm**	**Current assets Rm**
Conbros Limited**	Isle of Man	—	—
FFS Finance South Africa (Proprietary) Limited	South Africa	**211**	**20**
MAN Financial Services (S.A.) (Proprietary) Limited	South Africa	**35**	**15**
Unitrans Finance (Proprietary) Limited*	South Africa	**3**	**1**
Axial Finance (Proprietary) Limited**	South Africa	**0**	—
Maravedi Group (Proprietary) Limited***	South Africa	**8**	**65**
Virgin Money (Proprietary) Limited	South Africa	**0**	**5**
Paramount Property Fund Limited****	South Africa	—	**103**
Lynmor Trading Company (Proprietary) Limited*	South Africa	**11**	—
Alamo Trading Company (Proprietary) Limited*	South Africa	—	—
Ballito Junction Development (Proprietary) Limited*	South Africa	**26**	**4**
Ambit Properties Limited******	South Africa	**143**	**77**
Ambit Management Services (Proprietary) Limited******	South Africa	**0**	**1**
Paramount Management Services (Proprietary) Limited****	South Africa	—	—
Campus on Rigel (Proprietary) Limited*****	South Africa	**0**	**0**
Abseq Properties (Proprietary) Limited	South Africa	**132**	**13**
African Trading Spirit (Proprietary) Limited	South Africa	**20**	—
Palm Hills Investments (Proprietary) Limited*****	South Africa	**11**	**0**
Absa Corob Trust Joint Venture*****	South Africa	**1**	—
Sanlam Home Loans (Proprietary) Limited	South Africa	—	**13**
		601	**317**

Details are given in respect of companies that are material to the proper appreciation of the affairs of the Bank.

The summary financial information for equity accounted investees has not been adjusted for the percentage ownership held by the Bank.

In addition to the above, the Bank's share of commitments and contingencies incurred in relation to its joint ventures is Rnil (2005: Rnil).

**30 June year-end*
***31 March year-end*
****31 August year-end*
*****31 October year-end*
******28 February year-end*
*******30 September year-end*

31 December 2006

Non-current assets Rm	Total assets Rm	Current liabilities Rm	Non-current liabilities Rm	Total liabilities Rm	Equity accounted earnings Rm	Loans (from)/to entities Rm	Ownership %
—	—	—	—	—	—	—	100
9 133	9 153	309	8 316	8 625	13	4 426	50
1 770	1 785	12	1 702	1 714	5	1 195	50
8	9	0	—	0	(0)	(8)	35
—	—	—	—	—	—	—	25
1	66	47	16	63	0	—	45
0	5	4	12	16	—	—	50
2 803	2 906	156	1 265	1 421	35	309	—
—	—	—	—	—	(0)	27	20
—	—	—	—	—	—	—	50
152	156	3	80	83	1	84	50
920	997	39	316	355	(3)	143	21
—	1	0	—	0	0	—	50
—	—	—	—	—	0	—	—
—	—	0	1	1	(0)	—	33
663	676	4	379	383	(1)	384	50
—	—	—	—	—	—	—	50
16	16	—	1	1	(0)	—	40
—	—	—	—	—	1	20	50
2 838	2 851	27	2 828	2 855	(3)	612	50
18 304	18 621	601	14 916	15 517	48	7 192	

Detailed information on the associated undertakings and joint venture companies of the Bank

		31 December 2005	
Name	Country of incorporation	Carrying values Rm	Current assets Rm
Conbros Limited	Isle of Man	34	46
FFS Finance South Africa (Proprietary) Limited	South Africa	199	7 483
MAN Financial Services (S.A.) (Proprietary) Limited	South Africa	30	1 428
Unitrans Finance (Proprietary) Limited	South Africa	3	12
Maravedi Group (Proprietary) Limited***	South Africa	8	64
Paramount Property Fund Limited****	South Africa	245	144
Lynmor Trading Company (Proprietary) Limited	South Africa	11	68
Alamo Trading Company (Proprietary) Limited	South Africa	—	1
Absa Corob Trust Joint Venture*****	South Africa	—	—
Sanlam Home Loans (Proprietary) Limited	South Africa	3	2 008
		533	11 254

****31 August year-end*
*****31 October year-end*
******28 February year-end*

31 December 2005

Non-current assets Rm	Total assets Rm	Current liabilities Rm	Non-current liabilities Rm	Total liabilities Rm	Equity accounted earnings Rm	Loans (from)/to entities Rm	Ownership %
—	46	11	—	11	—	(28)	100
—	7 483	7 073	—	7 073	45	3 016	50
—	1 428	1 368	—	1 368	10	1 122	50
—	12	3	—	3	—	(4)	35
—	64	47	16	63	—	395	45
1 248	1 392	26	1 212	1 238	18	29	28
—	68	—	41	41	4	—	20
—	1	1	—	1	—	—	50
25	25	—	25	25	—	24	50
84	2 092	40	2 037	2 077	(8)	480	50
1 357	12 611	8 569	3 331	11 900	69	5 034	

Annexure F: Subsidiaries, associated undertakings and joint venture companies

Detailed information on the subsidiaries of the Bank

Name	Nature of business	Country of incorporation
Subsidiaries		
Banking related		
Absa Bank Limited and its major divisions/subsidiaries:		South Africa
Retail banking		
Segment-focused business units		
Absa Private Bank	Offers banking and wealth management services to the affluent market.	
Retail Banking Services	Provides customer-centric financial solutions to middle-market customers.	
Flexi Banking Services	Provides affordable and appropriate financial services to the lower income segment of the market.	
UB Micro Loans Limited	Provides microlending services to the underbanked market of UniFer customers.	
Small Business	Offers a comprehensive range of commercial banking products and services to small business customers.	
Product-focused business units		
Absa Card	Provides global card acceptance, electronic payment and financial solutions in selected market segments.	
Absa Home Loans	Offers innovative products and services to suit the needs of residential property customers.	
Absa Vehicle and Asset Finance	Offers asset-based finance through customised products and services ranging from tax-efficient finance and insurance to finance packages structured to suit a customer's particular needs.	
Shared services		
Retail Delivery	Provides the physical and electronic delivery footprint for the Bank's customers.	
Commercial banking		
Absa Corporate and Business Bank	Offers a comprehensive range of commercial banking products and services to corporates, medium and large business customers.	
Wholesale banking		
Absa Capital	Provides investment banking solutions to the corporate market segment.	
Conbros Limited	Used to provide offshore loan facilities (currently winding down).	Isle of Man
Absa Bank London	Offered a range of niche corporate and merchant banking and treasury products and services to selected customer bases.	London
Absa Bank Singapore**	Offered a range of niche corporate and merchant banking and treasury products and services to selected customer bases.	Singapore
Bankhaus Wölbern & Co.*	Provided commercial banking and closed-end property investment products to predominantly high net worth customers.	Germany
Absa Bank (Asia) Limited**	Offered a range of niche corporate and merchant banking and treasury products and services to selected customer bases.	Hong Kong

Subsidiaries' aggregate profits and losses after taxation
Aggregate profits after taxation
Aggregate losses after taxation

Issued capital 31 December 2006 Rm	**Direct holding 31 December 2006 %**	Issued capital 31 December 2005 Rm	Direct holding 31 December 2005 %	Shares at book value **31 December 2006 Rm**	Shares at book value 31 December 2005 Rm	Net indebtedness **31 December 2006 Rm**	Net indebtedness 31 December 2005 Rm
302	**100**	302	100	**7 297**	6 546	**(1 784)**	(1 902)
2	**100**	2	100	**21**	21	**—**	—
—	**—**	—	—	**—**	—	**—**	—
—	**—**	—	—	**—**	—	**—**	—
—	**—**	0	100	**—**	97	**—**	—
140	**100**	140	100	**100**	100	**—**	

Twelve months ended 31 December 2006	Nine months ended 31 December 2005
5 885	3 409
—	(35)

Annexure G: Derivative assets and liabilities

Derivatives held for trading

The Bank trades derivative instruments on behalf of customers and for its own positions. The Bank transacts derivative contracts to address customer demands both as a market maker in the wholesale markets and in structuring tailored derivatives for customers. The Bank also takes proprietary positions for its own account. Trading derivative products include the following derivative instruments:

Foreign exchange derivatives

Foreign exchange derivatives are used to hedge foreign currency risks on behalf of customers and for the Bank's own positions. Foreign exchange derivatives primarily consist of forward exchange contracts, foreign exchange futures and foreign exchange options.

Interest rate derivatives

Interest rate derivatives are used to modify the volatility and interest rate characteristics of interest-earning assets and interest-bearing liabilities on behalf of customers and for the Bank's own positions. Interest rate derivatives primarily consist of forward rate agreements, caps and floors, swaps, swaptions, future options and bond options.

Equity derivatives

Equity derivatives are used to address customer equity demands and to take proprietary positions for the Bank's own account. Equity derivatives primarily consist of options, index options, forwards, futures, swaps and other equity related financial derivative instruments.

Commodity derivatives

Commodity derivatives are used to address customer commodity demands and to take proprietary positions for the Bank's own account. Commodity derivatives primarily consist of commodity forwards, commodity futures and commodity options.

Credit derivatives

Credit derivatives are used to hedge the credit risk from one counterparty to another and manage the credit exposure to selected counterparties on behalf of customers and for the Bank's own positions. Credit derivatives primarily consist of credit default swaps, credit linked notes and total return swaps.

Derivatives held for hedging

The Bank enters into derivative transactions, which are designated and qualify as either fair value or cash flow hedges for recognised assets or liabilities or forecasted transactions. Derivatives held for hedging consist of:

Derivatives designated as fair value hedges

The Bank's fair value hedges principally consist of interest rate swaps that are used to protect against changes in market interest rates.

Derivative financial instruments entered into in terms of asset and liability management strategies are defined as hedging transactions and such instruments are accounted for in terms of the Bank's accounting policies as set out in note 1.6.

Derivatives designated as cash flow hedges

The Bank uses interest rate swaps to protect against changes in cash flows of certain variable rate debt issues. The Bank applies hedge accounting for its non-trading interest rate risk in major currencies by analysing expected cash flows on an Absa Group basis. The objective is to protect against changes in future interest cash flows resulting from the impact of changes in market interest rates and reinvestment or reborrowing of current balances.

The Bank uses the following derivative instruments for both hedging and non-hedging purposes:

Foreign exchange contracts represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the exchange.

Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (ie cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps.

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange traded or negotiated between the Bank and a customer (OTC).

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates on hand, the extent to which instruments are favourable or unfavourable and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments are set out in the pages that follow:

Annexure G: Derivative assets and liabilities

	Bank					
	31 December 2006				31 December 2005	
Trading	**Notional amount Rm**	**Fair value Rm**	**Fair value assets Rm**	**Fair value liabilities Rm**	Notional amount Rm	Fair value Rm
Foreign exchange derivatives						
Forward exchange contracts	**193 897**	**(208)**	**4 917**	**(5 125)**	296 076	1
Currency swaps	**41 255**	**(845)**	**1 257**	**(2 102)**	33 406	(1 565)
Currency interest rate swaps	**15 293**	**59**	**160**	**(101)**	11 939	22
OTC foreign exchange options	**9 153**	**—**	**97**	**(97)**	1 762	(7)
OTC foreign exchange options purchased	**4 577**	**97**	**97**	**—**	892	14
OTC foreign exchange options written	**4 576**	**(97)**	**—**	**(97)**	870	(21)
Other OTC foreign exchange derivatives	**460**	**—**	**—**	**—**	—	—
	260 058	**(994)**	**6 431**	**(7 425)**	**343 183**	**(1 549)**
Interest rate derivatives						
Forward rate agreements (FRAs)	**354 565**	**28**	**257**	**(229)**	343 186	4
Swap contracts	**15 293**	**(75)**	**24**	**(99)**	2 628	(6)
Interest rate swaps	**392 006**	**(773)**	**2 990**	**(3 763)**	368 634	(2 059)
OTC options on FRAs and swaps	**10 422**	**11**	**34**	**(23)**	22 002	14
OTC options on FRAs and swaps purchased	**5 258**	**34**	**34**	**—**	10 796	39
OTC options on FRAs and swaps written	**5 164**	**(23)**	**—**	**(23)**	11 206	(25)
OTC bond option contracts	**1 835**	**6**	**17**	**(11)**	55	—
OTC bond options purchased	**961**	**17**	**17**	**—**	25	1
OTC bond options written	**874**	**(11)**	**—**	**(11)**	30	(1)
Total OTC derivatives	**774 121**	**(803)**	**3 322**	**(4 125)**	**736 505**	**(2 047)**
Equity derivatives						
OTC options purchased	**8 091**	**1 224**	**1 224**	**—**	9 161	1 003
OTC options written	**8 028**	**(1 199)**	**—**	**(1 199)**	8 046	(1 126)
Equity futures	**2 750**	**2 212**	**2 275**	**(63)**	1 372	1 008
Other OTC equity derivatives	**501**	**91**	**111**	**(20)**	366	90
OTC derivatives	**19 370**	**2 328**	**3 610**	**(1 282)**	18 945	975
Exchange traded options purchased	**19 956**	**—**	**—**	**—**	9 885	—
Exchange traded options written	**19 080**	**(20)**	**—**	**(20)**	12 683	(35)
Exchange traded futures	**12 140**	**—**	**—**	**—**	3 832	—
Exchange traded derivatives	**51 176**	**(20)**	**—**	**(20)**	26 400	(35)
Total	**70 546**	**2 308**	**3 610**	**(1 302)**	45 345	940
Balance carried forward	**1 104 725**	**511**	**13 363**	**(12 852)**	1 125 033	(2 656)

Trading (continued)	Bank 31 December 2006 Notional amount Rm	Fair value Rm	Fair value assets Rm	Fair value liabilities Rm	31 December 2005 Notional amount Rm	Fair value Rm
Balance brought forward	**1 104 725**	**511**	**13 363**	**(12 852)**	1 125 033	(2 656)
Commodity derivatives						
Agricultural forwards	**20**	**2**	**2**	**—**	9	1
OTC agricultural options purchased	**17**	**2**	**2**	**—**	8	1
OTC agricultural options written	**24**	**(1)**	**—**	**(1)**	8	(1)
OTC options on gold	**7 588**	**77**	**1 118**	**(1 041)**	4 721	35
OTC gold options purchased	**3 794**	**1 118**	**1 118**	**—**	2 360	574
OTC gold options written	**3 794**	**(1 041)**	**—**	**(1 041)**	2 361	(539)
Other OTC commodity derivatives	**1 975**	**(12)**	**375**	**(387)**	2 117	(11)
OTC derivatives	**9 624**	**68**	**1 497**	**(1 429)**	6 863	25
Exchange traded agricultural options purchased	**5**	**—**	**—**	**—**	12	—
Exchange traded agricultural options written	**29**	**—**	**—**	**—**	8	—
Exchange traded agricultural futures	**166**	**—**	**—**	**—**	14	—
Exchange traded derivatives	**200**	**—**	**—**	**—**	34	—
	9 824	**68**	**1 497**	**(1 429)**	6 897	25
Credit derivatives						
Credit derivatives written (swaps)	**1 556**	**27**	**27**	**—**	1 704	29
Embedded derivatives	**1 261**	**(5)**	**—**	**(5)**	636	(1)
Non-qualifying hedges						
Interest rate swaps	**54 119**	**(496)**	**147**	**(643)**	75 089	(897)
Total trading	**1 171 485**	**105**	**15 034**	**(14 929)**	1 209 359	(3 500)
Hedging						
Cash flow hedges						
Interest rate swaps	**110 928**	**(1 178)**	**124**	**(1 302)**	61 941	157
OTC options bought and sold	**—**	**—**	**—**	**—**	8 500	10
	110 928	**(1 178)**	**124**	**(1 302)**	70 441	167
Fair value hedges						
Interest rate swaps	**20 837**	**(71)**	**525**	**(596)**	10 977	(250)
Equity options	**23**	**23**	**23**	**—**	—	—
	20 860	**(48)**	**548**	**(596)**	10 977	(250)
Total hedges	**131 788**	**(1 226)**	**672**	**(1 898)**	81 418	(83)
Total derivative instruments	**1 303 273**	**(1 121)**	**15 706**	**(16 827)**	1 290 777	(3 583)

Annexure G: Derivative assets and liabilities

	Bank					
	31 December 2006					
	Less than 1 year Rm	**1 to 2 years Rm**	**2 to 3 years Rm**	**3 to 4 years Rm**	**More than 4 years Rm**	**Total Rm**
Maturity analysis						
Trading						
Foreign exchange derivatives	**(253)**	**(295)**	**(75)**	**(160)**	**(211)**	**(994)**
Interest rate derivatives	**—**	**(102)**	**(56)**	**(88)**	**(557)**	**(803)**
Equity derivatives	**2 304**	**(57)**	**(8)**	**69**	**—**	**2 308**
Commodity derivatives	**55**	**—**	**53**	**(40)**	**—**	**68**
Credit derivatives	**—**	**—**	**2**	**5**	**20**	**27**
Embedded derivatives	**(1)**	**—**	**—**	**—**	**(4)**	**(5)**
Non-qualifying hedges	**(91)**	**(186)**	**(109)**	**13**	**(123)**	**(496)**
Total trading	**2 014**	**(640)**	**(193)**	**(201)**	**(875)**	**105**
Qualifying for hedge accounting						
Cash flow hedges	**(531)**	**(140)**	**(228)**	**(206)**	**(73)**	**(1 178)**
Interest rate swaps	**(531)**	**(140)**	**(228)**	**(206)**	**(73)**	**(1 178)**
Fair value hedges	**232**	**3**	**(227)**	**139**	**(195)**	**(48)**
Interest rate swaps	**232**	**(20)**	**(227)**	**139**	**(195)**	**(71)**
Equity options	**—**	**23**	**—**	**—**	**—**	**23**
Total qualifying for hedge accounting	**(299)**	**(137)**	**(455)**	**(67)**	**(268)**	**(1 226)**
Total derivative instruments	**1 715**	**(777)**	**(648)**	**(268)**	**(1 143)**	**(1 121)**

	31 December 2005					
	Less than 1 year Rm	1 to 2 years Rm	2 to 3 years Rm	3 to 4 years Rm	More than 4 years Rm	Total Rm
Trading						
Foreign exchange derivatives	123	11	(518)	(148)	(1 017)	(1 549)
Interest rate derivatives	71	(253)	(261)	(408)	(1 197)	(2 047)
Equity derivatives	942	(56)	—	(4)	59	940
Commodity derivatives	3	20	—	24	(22)	25
Credit derivatives	—	1	—	4	24	29
Embedded derivatives	—	(1)	—	—	—	(1)
Non-qualifying hedges	(126)	(95)	(147)	(216)	(313)	(897)
Total trading	1 013	(373)	(926)	(748)	(2 466)	(3 500)
Qualifying for hedge accounting						
Cash flow hedges	86	72	4	4	1	167
Interest rate swaps	76	72	4	4	1	157
OTC options bought and sold	10	—	—	—	—	10
Fair value hedges	1	(13)	(27)	(160)	(51)	(250)
Interest rate swaps	1	(13)	(27)	(160)	(51)	(250)
Total qualifying for hedge accounting	87	59	(23)	(156)	(50)	(83)
Total derivative instruments	1 100	(314)	(949)	(904)	(2 516)	(3 583)

The amount of movement in fair value that has been recognised in net interest income in relation to ineffectiveness is:

	31 December 2006		
	Cash flow hedges Rm	Fair value hedges Rm	Hedges of net investment Rm
Ineffectiveness	(45)	47	—

To the extent that the Bank has ISDA agreements with the same counterparty, the Bank's net exposure was R1 605 million (December 2005: R3 726 million).

	31 December 2006	
	Fair value assets Rm	Fair value liabilities Rm
Classification		
Total derivative instruments	15 706	(16 827)
Add: other trading instruments	2 677	(570)
Total trading and hedging instruments (refer to notes 5 and 17)	18 383	(17 397)

Derivative financial instruments

Derivative financial instruments are entered into in the normal course of business to manage various financial risks.

Derivative financial instruments entered into in terms of asset and liability management strategies are defined as hedging transactions and such instruments are accounted for in terms of the Bank's accounting policies as set out in note 1.6.

Notional amount

The gross notional amount is the sum of the absolute value of all bought and sold contracts. The notional amount will not generally reflect the amount receivable or payable under a derivative contract. The notional amount should be viewed only as a means of assessing the Bank's participation in derivative contracts and not the market risk position or the credit exposure arising on such contracts.

Fair value

The amounts disclosed represent the net fair value as at year-end of all derivative financial instruments held. The fair value of a derivative financial instrument represents the market value if the rights and obligations arising from derivative instruments were closed out by the Bank in orderly market conditions at year-end. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, where appropriate.

Fair value assets and liabilities

The fair value assets and liabilities represent the fair value of derivative financial instruments aggregated per counterparty. The impact of master netting agreements is taken into account on an aggregate basis in determining the on-balance sheet fair value of assets which represents the credit exposure arising on such contracts.

Other information

Information regarding derivative financial instruments and other banking risks, additional to those included in this annexure, is provided in Annexure H of this report.

Introduction

The overall objective of the risk management process in Absa is to enhance shareholder value. Controls are focused on risks that could prevent the Bank from achieving its business objectives and the desired added value for shareholders.

This objective is met by ensuring that Absa has an integrated and effective enterprise-wide risk management framework, where all risks are consistently assessed and managed to achieve an optimal risk-reward profile. This entails coordinated risk assessment and management techniques across the various risk types facing the Bank, as well as integrated risk evaluation across Absa's various geographical locations, legal entities and business units.

The responsibility for risk management resides with management at all levels, from members of the board to individuals throughout the Bank. Overall risk management policies and risk appetite are established, comprehensively and organisation-wide, by senior management, and reviewed with and, where appropriate, approved by the board of directors. These policies and appetites are clearly communicated throughout the Bank and apply to all business units in the various divisions and wholly owned subsidiaries, as well as non-wholly owned subsidiaries and majority equity stakes over which Absa has management control.

Oversight of risk management is the responsibility of two board committees: the Group Audit and Compliance Committee (GACC) and the Group Risk Committee (GRC). The GACC assists the board with regard to financial information, accounting policies, internal control and compliance matters. The GRC's function is to assist the board with regard to risk management and to ensure compliance with the requirements of the Banks Act regarding risk and capital management.

A description of the Bank's risk management processes for each financial risk type is set out in the pages that follow.

Risk appetite

Risk appetite is the Bank's chosen method for balancing return and risks, recognising a range of possible outcomes as business plans are implemented. Absa's framework, approved by the GRC, uses a formal, quantitative method based on advanced risk analysis. The risk appetite is set annually by the Absa board.

During 2006, Absa aligned its measurement methodologies with those of Barclays, and both methodologies were used for reporting on risk appetite to the GRC.

Absa previously used a one-year horizon for setting risk appetite that incorporated all business units and all risk types at a selected confidence level. As part of the alignment with the Barclays methodology, this approach was enhanced by the introduction of additional confidence levels and economic capital measurement. The measurement methodologies of all the risk types were individually assessed and aligned where necessary. The aligned measurement was then incorporated into the risk appetite setting and monitoring process to ensure that the Bank's use of risk appetite was coherently and comprehensively assessed.

Credit risk

Definition of credit risk

Credit risk is defined as the risk of counterparties failing to honour their on- and off-balance sheet obligations to Absa. Counterparties include governments, banks, non-bank financial institutions, corporations and individuals. Credit risk consists of the following types:

- **Counterparty/borrower risk** is the risk of a counterparty being unable to meet its financial and/or contractual obligations during the lifetime of a transaction.
- **Country risk** is the risk of a counterparty being prevented from meeting its foreign financial obligations because its country is either not in a position to, or not willing to, honour foreign financial obligations.
- **Delivery/settlement risk** is the risk of a counterparty not delivering on its contractual commitment on maturity date. This includes the settlement of money, the delivery of securities and deposits drawn on another bank/party being dishonoured.

Credit risk arises in many of Absa's business activities through lending and trading transactions. These include loans, advances and conditional contracts to lend money in future under specific terms, settlement receivables, and unconditional contracts to support customers' obligations to third parties. The Bank has processes in place to identify, measure, monitor, control and report credit risk.

Objectives of credit risk management

Growth, consistent returns and capital are jeopardised if credit risk is not controlled. The goal of Absa's credit risk management framework is to maximise the Bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Such parameters apply to not only the total portfolio(s), but also the risks inherent in individual transactions.

Absa limits its credit and overall risk profile by diversifying risk and revenue sources and growing fee-based and recurring revenues. Other credit risk management objectives include closely monitoring risk-taking and exposure to long-term illiquid assets. Absa continually looks for opportunities to strengthen its credit risk controls, with particular attention on avoiding undue concentrations.

At all levels of Absa, sound corporate governance and oversight policies and employee integrity are recognised as critical to effectively managing risk and protecting the interests of shareholders.

Credit risk responsibility and governance

The Absa credit risk control framework sets out the minimum acceptable standards to be adhered to by those responsible for credit related businesses in Absa. The framework is aligned to board governance standards on credit risk and supplemented by ancillary credit policies/subpolicies and procedures that are applicable to the specific business areas.

The effectiveness of the credit risk control framework and its supporting processes is a responsibility of the board. The GRC is the board appointed risk committee and is informed through the Absa Credit Risk Committee (CRC), a Group executive appointed risk subcommittee.

The purpose of the CRC is to govern, direct and coordinate Absa's credit risk profile and appetite, in accordance with the board and GRC/GACC-approved framework, to achieve an acceptable credit risk profile to facilitate compliance with Basel II and other best practice credit risk frameworks.

The GRC and various credit risk committees are responsible for the approval of the relevant credit policies and the ongoing review of the credit exposure of the Bank. These responsibilities include, but are not limited to, monitoring and approving the following:

- Methodologies for credit risk measurement and credit risk economic capital attribution;
- Model implementation criteria;
- Credit risk appetite and related mandate and scale limits;
- Concentration risk;
- The sensitivity of credit risk exposures to extreme market conditions;
- Credit strategies impacting on approved risk profiles;
- The impact of economic scenarios on the credit risk profile;
- Credit risk forecasting and planning and the related stress testing;
- Credit risk transfer strategies;
- Risk-reward; and
- The adequacy of loss provisions and impairments.

Credit risk measurement

Absa measures risk by using a variety of methodologies, including calculating probable loss and unexpected loss, and by conducting stress tests and making comparisons to external benchmarks. Measurement models and related assumptions are routinely reviewed to ensure that the risk estimates are reasonable and reflect underlying positions*.

During the year, Absa introduced significant improvements in its credit risk management practices to achieve alignment with the Barclays Group. These changes encompassed adopting the Barclays risk appetite framework, establishing mandate and scale limits, implementing the Barclays 21-grade internal risk categories (master ratings scale), the associated realignment of wholesale sanctioning mandates, as well as substantial reviews of policies and procedures (including model risk policy and governance) to align with international best practices. Further changes included the integration of credit risk drivers in the organisational financial planning processes and strategy setting, including forecasting and stress testing.

The graphs that follow are representative of the distributions for both Absa Group and Absa Bank.

Absa uses statistical modelling techniques throughout its business in its credit rating systems to measure credit risk. These systems assist Absa in frontline credit decisions on new commitments and in managing the portfolio of existing exposures. They enable the application of consistent risk measurement across all retail and wholesale credit exposures. Losses generated by retail loans are more predictable than wholesale losses, but are subject to cyclical and seasonal factors. Although the frequency of loss is higher on retail loans than on wholesale loans, the severity of loss on the former is typically lower and more manageable. As a result of these differences, methodologies vary depending on certain factors, including type of asset (for example, consumer instalment versus wholesale loan), risk measurement parameters (for example, delinquency status and credit bureau score versus wholesale risk rating) and risk management and collection processes (for example, retail collection centre versus a centrally managed unit specialising in wholesale recoveries and restructuring).

The key building blocks in the measurement system, which are described below, are the **probability of customer default** (expressed through an internal risk rating), **exposure in the event of default,** and **severity of loss given default.** Using these, Absa builds the analyses that feed into its decision support systems in the risk appetite context described previously. However, it should be noted that credit risk measurement, particularly risk tendency, can be contrasted with impairment allowances required under accounting standards, which are based on losses known to have been incurred at the balance sheet date, and not on expected loss.

Probability of default (PD)

Absa assesses the credit quality of and assigns an internal risk rating to all borrowers and other counterparties, including retail customers. Each internal rating corresponds to the statistical probability of a customer in that rating class defaulting within the next twelve-month period. Multiple rating methodologies may be used to inform the rating decision on individual large credits. For smaller credits, a single source, such as a rating model result, may suffice.

During 2006, Absa adopted the Barclays 21-grade internal rating scale, which has been mapped to long-term agency ratings and represents the best estimate of the level of credit risk for each counterparty based on current economic conditions.

Exposure at default (EAD)

Exposure in the event of default represents the expected level of use of the credit facility when default occurs. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so exposure is typically less than the approved loan limit.

When the Bank evaluates loans, it takes exposure at default into consideration, using its extensive historical experience. It recognises that customers may make heavier than average use of their facilities as they approach default.

Contingent liabilities consist of financial and performance guarantees, standby letters of credit and indemnity agreements.

For derivative instruments, exposure in the event of default is the estimated cost of replacing contracts with a positive value if counterparties should fail to perform their obligations.

Loss given default (LGD)

When a customer defaults, much of the amount outstanding on its loan(s) is usually recovered from collateral held (if any). The part that is not recovered, the actual loss, is called the loss given default (LGD). The severity of the loss is measured as a percentage of the amount outstanding when the default occurs.

From historical information, Absa can estimate how much is likely to be lost, on average, for various types of loans. To illustrate, LGD is low for residential mortgages because of the property pledged as collateral. In contrast, average LGD for unsecured personal lending and for corporate loans is high. The level of LGD depends on the type of collateral (if any), the seniority or subordination of the exposure, the industry in which the customer operates (if a business), the jurisdiction applicable and workout expenses. The outcome is also dependent on economic conditions that may determine, for example, the prices that can be realised for assets or whether businesses can readily be refinanced. Individual defaults show a wide range of outcomes, varying from full to nil recovery and including all points in between.

Expected loss (EL): Risk tendency (RT)

The three components described – PD, EAD and LGD – are building blocks used in a variety of applications that measure credit risk across the entire portfolio. One of these applications is a measurement of expected loss called risk tendency (RT). RT is a statistical estimate of the average loss for the loan portfolio for the forthcoming twelve months, taking into account the portfolio's size and risk characteristics under current credit conditions. RT provides insight into the credit quality of the portfolio and assists management in tracking risk changes as the Bank's stock of credit exposures evolves in the course of business.

RT is calculated for both corporate and retail loans as follows:

RT = probability of default x expected exposure at default x loss given default.

The RT of each individual loan is aggregated to produce the RT of the various subportfolios in the Bank, and ultimately for the whole Group. At this aggregate level, RT is a statistical estimate of the loss inherent in Absa's credit exposures over the next twelve months. Many models are used to estimate the components of RT in each of the Group's businesses. The majority of the models are internally developed using Absa's own historical data and other external information. Absa also uses externally developed models and rating tools. These are validated for use within Absa before they are introduced. It is Absa's policy, consistent with Barclays Group model risk policy and governance, that all models are validated annually to ensure their applicability to the current portfolios and credit conditions.

To interpret RT, the following should be considered:

- RT is calculated using probabilities of default that are relevant to the current credit conditions for each customer. The RT figures are therefore a point-in-time estimate based on current economic and credit conditions;
- RT is calculated for different purposes and using different methods to impairment allowances, so RT cannot be used as a forecast of the total allowances for impairment. It is rather a statistical estimate that reflects changes in the size and quality of the loan portfolio. RT does not equate to the Bank's budget or internal forecast of impairment allowance in the coming year; and
- The principal reasons for the difference between impairment and RT are:
  - RT is a forecast estimate of the average loss associated with the current performing portfolio, whereas impairment is the accounting value of incurred loss realised on the whole portfolio;
  - RT covers only the loans at the date of estimation and does not make allowance for subsequent growth or change in the composition of the loan book, which can affect impairment;
  - RT is a statistical estimate of losses arising over the next twelve months and therefore it is not calculated for non-performing loans in the wholesale portfolio or for retail loans in recovery;
  - Impairment can include significant additional charges, write-backs and recoveries arising from impaired loans during the year. These items can materially affect the impairment allowance, but are not included in RT; and
  - The actual credit impairment charges arising from new defaults in any one year, from loans that are performing at the start of the year, vary significantly around the RT value. This can be owing to changes in the economic environment or in the business conditions in specific sectors or countries during the year, as well as from unpredictable or unexpected external events. This applies especially to wholesale portfolios, where the default of a small number of large exposures will significantly increase the period's impairment allowance, but will not have been included in the RT figure. For retail portfolios consisting of a very large number of small exposures, the variation in the rate of change in new impairment compared with the RT figure is usually much smaller.

RT increased by 47% to R2 053 million for the year under review (December 2005: R1 390 million) and was attributable to a number of contributing factors such as growth in retail advances and changes owing to a methodology adjustment (partly relating to EAD for wholesale assets). In relative terms, however, an increase in RT percentage, which represents risk profile changes, occurred within the Absa retail subportfolios, notably Absa Home Loans (58%) and Absa Card (37%), comprising R300 million.

Risk profile changes (as noted above) are attributable to planned increases that are well within credit risk appetite constraints, established through strategic planning processes and approved at board level, and are mitigated through improved collections, enhanced credit monitoring and control mechanisms, revised credit policies and improved senior management oversight.

There is clear evidence that the credit cycle has turned and a normalisation of credit conditions is becoming apparent after a prolonged period of interest rate improvements. The recent increases in credit loss attributable to recent interest rate increases and external conditions are factored into the impairment forecasting and planning process. Various stress scenarios are generated to establish appropriate tolerances against plan.

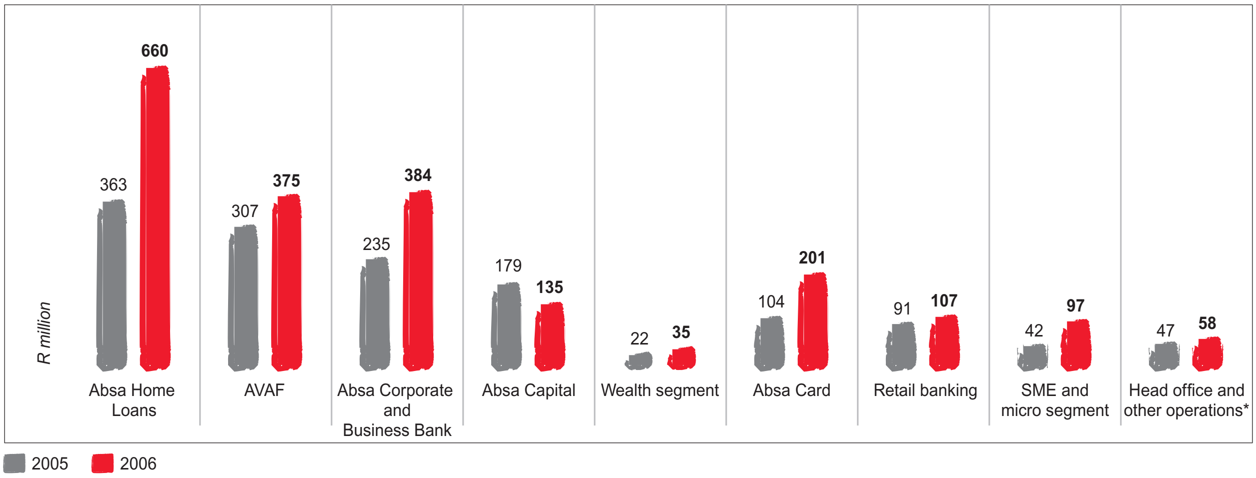
Absa Card's risk tendency increased from R104 million to R201 million. The increase primarily reflects the significant growth in facility limits and balances (41%) attributable to targeted campaigns during the year to regain market share and to take advantage of lagging credit cycle improvements. Risk profile changes fall within forecast expectations and well within credit risk appetite constraints and are managed against appropriate mandate and scale limits. They are considered to be adequately provided for.

Absa Home Loans' risk tendency increased from R363 million to R660 million. The increase reflects the substantial growth in mortgage facilities in line with the recent boom in the property market. However, an increase attributable to risk profile changes (as noted above), outweighs balance growth, showing the knock-on effects of interest rate increases and the general rise in personal indebtedness during the period.

For Absa Vehicle and Asset Finance, RT increased from R307 million to R375 million. This is attributable to book growth.

For Absa Corporate and Business Bank, RT increased from R235 million to R384 million. This was partly owing to asset reallocation from Absa Capital in line with revised operating strategies for wholesale business and owing to changes in methodology that bring into account EAD based on a proportional recognition of irrevocable facilities, the extent of which is dependent on facility type. RT for Absa Capital was correspondingly lower in 2006.

Risk tendency by business

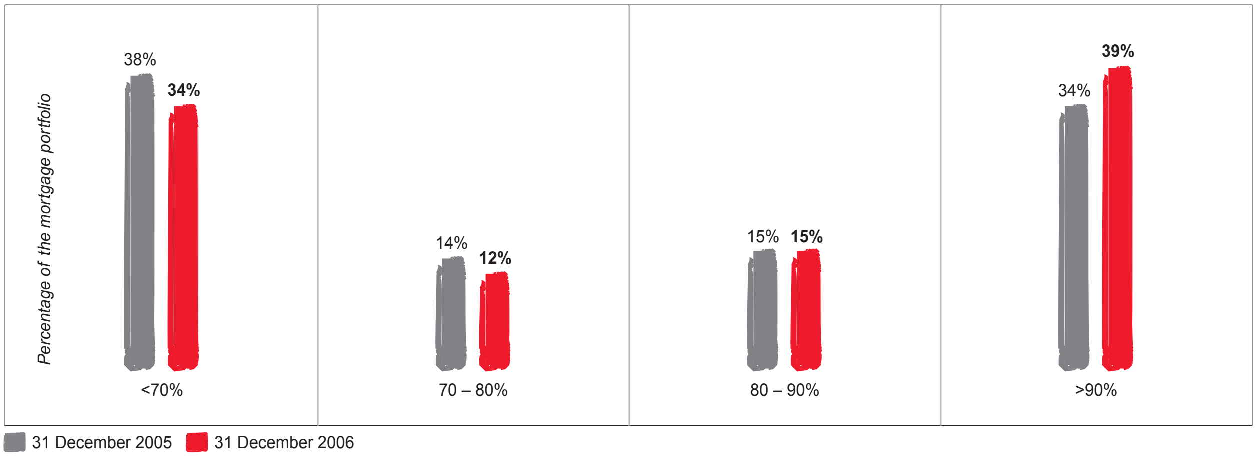


**Head office and other operations comprise joint ventures and alliances and securitisations.*

Credit risk mitigation

Absa employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The loan-to-value ratios (LTV) for mortgages in the home loans portfolio are indicated in the graph below. Other techniques include, where appropriate, the right to terminate transactions or to obtain collateral should unfavourable events occur, the right to call for collateral when certain exposure thresholds are exceeded and the purchase of credit default protection.

Analysis of loan-to-value ratios of mortgages on Absa Home Loans' portfolio
(At most recent credit decision, alternatively at origination)



The valuations in the graph are those which applied at the last credit decision on each loan (when the customer last requested an increase in the limit or, if there has been no increase, at inception of the loan) and shows that the business flows (new business versus loans redeemed) have not materially changed the risk profile of the portfolio.

Current loan to value (CLTV)

The impact of house price inflation, despite having slowed over recent months, will result in a reduction in aggregate LTV ratios within the mortgage book on a current valuation basis (CLTV). The CLTV ratio is a point-in-time analysis of the stock, with LTV updated to current house prices with reference to a property price index. It may, as a result, be influenced by external market conditions as well as changes in the stock of loans.

Absa manages the diversification of its portfolio to avoid unwanted credit risk concentrations. This takes on several dimensions. Maximum exposure guidelines relating to the exposures to any individual counterparty are in place. These permit higher exposures to highly-rated borrowers than to lower-rated borrowers. They also distinguish between types of counterparty, for example, between sovereign governments, banks and corporations. Excesses are considered individually at the time of credit sanctioning, are reviewed regularly and are reported to the Absa Group Credit Committee. Similarly, the country risk policy specifies risk appetite by country and avoids excessive concentrations of credit in individual countries.

Absa actively manages its credit exposures. When weaknesses in exposures are detected – either in individual exposures or in groups of exposures – action is taken to mitigate the risks. These include steps to reduce the amounts outstanding (in discussion with the customers, if appropriate), the use of credit derivatives and, sometimes, the sale of the loan assets.

Credit risk monitoring

Absa's policies and practices are designed to preserve the independence and integrity of decision-making and ensure credit risks are accurately assessed, properly approved, continually monitored and actively managed at both the transaction and portfolio levels.

Credit risk reporting

Aggregate credit exposure, credit metric forecasts, hold-limit exceptions and risk profile changes are regularly reported to senior credit risk management to monitor credit risk and to aid/enable decision-making. Detailed portfolio reporting of industry, customer and geographic concentrations occurs monthly, and the appropriateness of the allowance for credit losses is regularly reviewed by senior management. Through the risk governance structure, credit risk trends and limit exceptions are regularly provided to, and discussed with, the CRC, Group Executive Committee (Exco), the Board Lending Committee, the Credit Committee: Large Exposures and the GRC.

Current exposure

Current exposure of loans and advances is disclosed per geographic region, product, industry sector and maturity in the annual financial statements (refer to note 8).

In addition, Absa categorises its current exposures according to the Barclays 21-grade internal rating scale "default grades" (DG). These correspond to a statistical probability of customers in that rating class defaulting within a twelve-month period. An indicative mapping of the DG buckets to the equivalent international rating agency scales can be performed as illustrated in the table below:

DG mapping (to risk-rated or credit-scored models)				Rating agency mappings (international rating scales)		
DG	Min PD (>)	Max PD (≤)	PD (midpoint)	S&P	Moody's	Fitch
1	0,000%	0,019%	0,010%	AAA	Aaa	AAA
2	0,020%	0,029%	0,025%	AA	Aa	AA
3	0,030%	0,049%	0,040%	A+	A1	A+
4	0,050%	0,099%	0,075%	A/A-	A2/A3	A/A-
5	0,100%	0,149%	0,125%	BBB+	Baa1	BBB+
6	0,150%	0,199%	0,175%	BBB+/BBB	Baa1/Baa2	BBB+/BBB
7	0,200%	0,249%	0,225%	BBB	Baa2	BBB
8	0,250%	0,299%	0,275%	BBB/BBB-	Baa2/Baa3	BBB/BBB-
9	0,300%	0,399%	0,350%	BBB-	Baa3	BBB-
10	0,400%	0,499%	0,450%	BBB-/BB+	Baa3/Ba1	BBB-/BB+
11	0,500%	0,599%	0,550%	BB+	Ba1	BB+
12	0,600%	1,199%	0,900%	BB	Ba2	BB
13	1,200%	1,549%	1,375%	BB/BB-	Ba2/Ba3	BB/BB-
14	1,550%	2,149%	1,850%	BB/BB-	Ba2/Ba3	BB/BB-
15	2,150%	3,049%	2,600%	BB-	Ba3	BB-
16	3,050%	4,449%	3,750%	B+	B1	B+
17	4,450%	6,349%	5,400%	B+/B	B1/B2	B+/B
18	6,350%	8,649%	7,500%	B	B2	B
19	8,650%	11,349%	10,000%	B-	B3	B-
20	11,350%	18,649%	15,000%	CCC+	Caa1	CCC+
21	18,650%	100,00%	30,000%	CCC	Caa2	CCC

For portfolios that are risk-rated (such as wholesale obligors), expected and unexpected loss calculations are based on estimates of PD and LGD on a counterparty basis. Calculations and assumptions are based on management information systems and methodologies under continual review, whereas assigned risk ratings are reviewed on an ongoing basis and revised, if necessary, to reflect the borrower's current risk profile and the related collateral and structural position.

For credit-scored portfolios (retail assets), expected loss is based on a statistical analysis of inherent losses over discrete periods, estimated using sophisticated portfolio modelling, credit scoring and decision support tools to project credit risk losses. In addition, common attributes of credit quality within asset classes, which are derived from historical loss experience, are used to predict consumer losses.

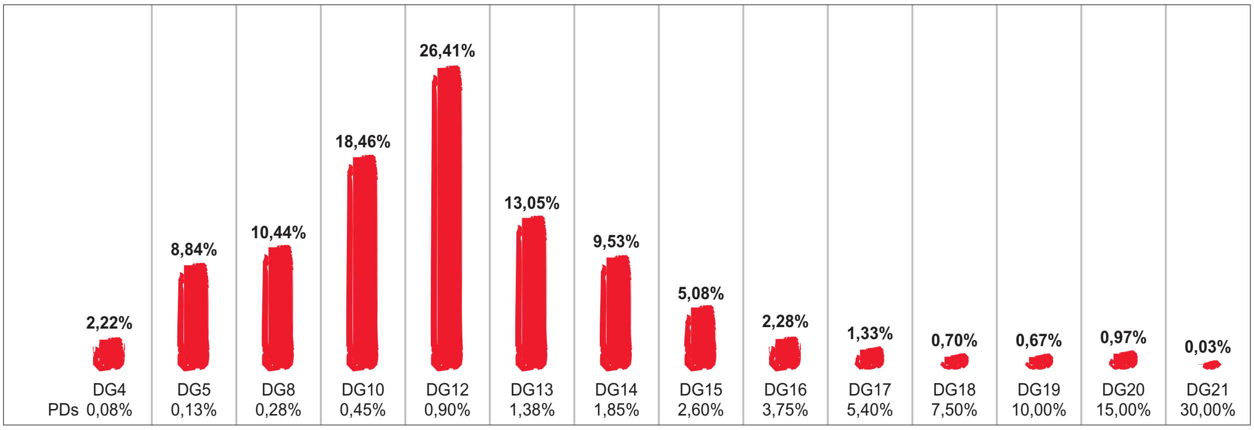
The DG distribution of current exposures across main asset classes and description of the distinct ratings processes is illustrated as follows:

Retail lending exposures

Description of rating processes

Product-level PDs are calculated per behaviour score category. Each individual exposure is then mapped to a PD category based on the customer behaviour score.

Exposure distribution across DG buckets
Retail portfolio (December 2006)



The average weighted PD for the overall retail portfolio was 1,22% at December 2006 (December 2005: 1,05%) and is equivalent to a DG13 internal rating, indicative of a BB/BB- rating based on international credit ratings scales before any risk mitigation, a main attribute of the retail portfolio, of which approximately 88% is secured lending.

The slight deterioration in the overall rating during 2006 is attributable to the normalisation of the credit markets, given recent interest rate increases and a reversion in the credit cycle from a prolonged period of improvement that has led to historically low loss rate levels. These increases are, in some cases, partly offset by improved valuations of underlying collateral held, specifically for the mortgage portfolio, that reflect higher marked-to-market values given the property price increases of recent periods. An overall rating based on expected loss (post risk mitigation) would translate into a higher equivalent rating.

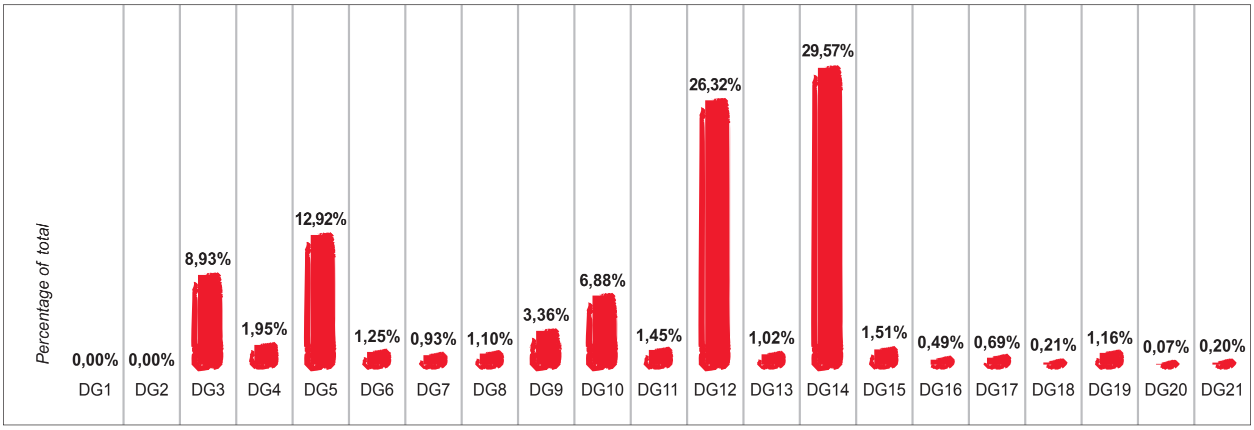
Wholesale exposures

In relation to corporate credit counterparties, Absa's sanctioning processes have traditionally been based on expert judgement based on detailed assessments of customers' financial and business risks, considering underlying creditworthiness, transaction characteristics and collateral. Rating models were used only to a limited extent and mainly in respect of listed entities, financial institutions and countries. Significant reliance was placed on internally developed credit policies and procedures to direct and inform qualitative decisions.

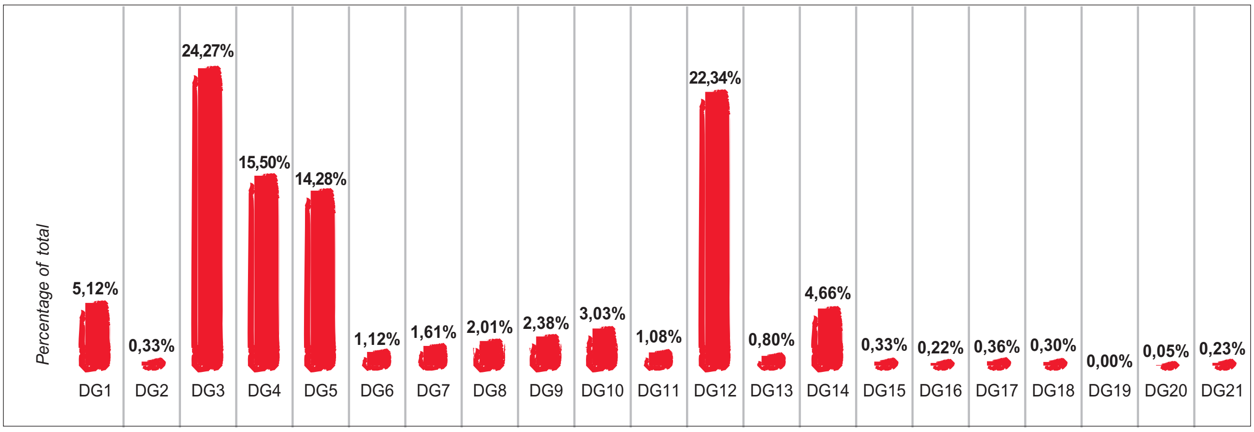
In 2006, the development and implementation of several statistical ratings models for use in the credit assessment, approval and review processes enabled a redesign of credit decisioning processes that entailed the alignment of mandates to internal grades (DG).

The chart below shows a distribution of Absa's corporate loans (including Absa Corporate and Business Bank and Absa Capital) by internal risk grade assigned to individual counterparties (excluding financial institutions and sovereign exposures).

Corporate (Absa Capital and Absa Corporate and Business Bank)
Loan balances by internal rating (December 2006)



Corporate (Absa Capital and Absa Corporate and Business Bank)
Loan limits by internal rating (December 2006)



Future exposure

The Bank has a well established financial planning process. Future credit risk exposure is reviewed as part of this process and is incorporated in the risk assessments of business plans.

Impaired advances

Absa reports impairment in accordance with IAS 39, which requires impairment provisions to be held against both identified and unidentified exposures. The impairment of an advance and the resulting charge to the income statement are recognised only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition (known as the loss event). Hence this is referred to as an incurred loss approach. Absa's list of potential loss events is contained in accounting policy 1.6.6.

For identified impairments as detailed in accounting policy 1.6.6, Absa's credit management data for LGD and EAD are used to quantify this impairment. Identified impairments are determined at counterparty level and focus on customers identified as being impaired. Impairment is calculated as the difference between the outstanding loan amount and the present value of expected future recoveries.

In the wholesale portfolio, the identified impairment is calculated on accounts identified as potential credit risk lendings that are reflected on management watch lists (pre-legal environment) and accounts currently going through the legal workout process.

In the retail portfolio, the identified impairment is calculated on both an individual and collective basis. For accounts currently residing in the legal environment, impairment is held against individual exposures. Where retail exposures are identified as delinquent (one or more payments down) but not currently in the legal process, they are impaired collectively, given the level of delinquency.

For unidentified impairment detailed in accounting policy 1.6.6, Absa's credit management data used to determine EL for both the wholesale and retail portfolios is modified by removing the expected and unexpected loss assumptions and replacing the data with an estimate of Absa's emergence period and the proportion of assets that are likely to display objective evidence over the emergence period.

Macroeconomic factor sensitivity of the credit portfolio

Various economic factors will impact on the actual future credit losses that will be realised. The non-retail segment of Absa's credit portfolio is influenced by several economic factors, but changes in interest rates are the main driver of credit quality for the retail segment. Sophisticated stress-testing models are used to measure the sensitivity of the Bank's credit portfolios to changes in economic variables, such as interest rates, energy prices, real estate prices, currency rates, and so on. Adequate controls are in place to ensure that stress impacts are within approved risk tolerances.

Market risk

Definition of market risk

Market risk is the risk that Absa's earnings or capital, or its 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 and commodity prices.

The main market risks in the Bank arise from its asset and liability management, investment and trading activities.

Categorisation of market risk

To facilitate the management, control, measurement and reporting of market risk, Absa Bank categorises its market risk into three broad categories:

- Trading market risk

  These risks arise in trading transactions where Absa takes principal positions based on expectations of customer demand or a change in market conditions.

- Asset and liability market risk

  These risks arise from banking activities, including those incurred on non-trading positions such as customer assets and liabilities, and capital balances.

- Other market risks

  Absa Bank also incurs market risks that do not fit into the above categories. The principal risk of this type is investment risk.

Market risk measurement

The principal measurement techniques used to measure and control market risk are listed below. Additional market risk category-specific measures are also employed.

- Daily value at risk (DVaR)

  DVaR is an estimate of the potential loss that might arise from unfavourable market movements, if the current positions were to be held unchanged for one business day, measured to a confidence level of 98%. Daily losses exceeding the DVaR figure are likely to occur, on average, twice in every 100 business days.

- Annual earnings at risk (AEaR)

  AEaR measures the sensitivity of annual earnings to shocks in market rates at the 99th percentile for change over a one-year period. AEaR is used to measure structural interest rate risk.

- Stress tests

  Stress tests provide an indication of the potential size of losses that could arise in extreme market conditions. Stress testing is tailored to the business and market risk category, and scenario analysis and historical stress movements are typically applied.

- Economic capital

  Economic capital methodologies are used to calculate risk sensitive capital allocations for activities and businesses incurring market risk.

The integrity of models used for measuring market risk is assured through a model risk control framework.

Market risk focus areas and changes during 2006

To achieve alignment with the Barclays market risk framework and Basel II requirements, the main changes and focus areas in 2006 were as follows:

- The trading market risk function now resides within Absa Capital, based on a structure also applied within Barclays Capital, to ensure proximity to trading activities and a specialised skills base, in accordance with Absa Bank market risk governance standards. Absa Capital moved to a full revaluation-based historical simulation DVaR calculation during 2006 to align with risk measurement methodology within Barclays Capital. Absa Capital further adopted one-day 98% VaR (DVaR) for daily reporting and monitoring to ensure consistency across the Barclays and Absa groups. Regulatory requirements for value at risk (VaR) reporting on a 10-day 99% basis for calculation of capital adequacy requirements, and analysis of one-day 99% VaR for backtesting purposes, are still maintained.

- During 2006, Absa started to align to the Barclays Group policy of concentrating the primary interest rate risk appetite of Absa Bank in the Absa Capital division, with neutral interest rate risk maintained in the banking book. The alignment to Barclays Group policy will be done over a period, with due cognisance of interest rates and market conditions. This will result in greater future interest rate margin stability. This policy incorporates the hedging of endowment capital and structural products. Additionally, DVaR was introduced as a measure for interest rate risk in the banking book.

Trading market risk

Definition of trading market risk and nature of trading activities

Market risk in the trading area is the potential loss in the trading portfolio as a result of changes in market conditions, including changes in market variables (for example, interest rates, foreign exchange rates, equity prices and commodity prices) and changes in market liquidity.

Trading activities in Absa Capital include transactions where Absa Capital acts as principal with customers or with the market. For maximum efficiency, customer and market activities are managed together.

In anticipation of future customer demand, Absa maintains access to market liquidity by quoting bid and offer prices with other market makers and carries an inventory of capital market and treasury instruments, including a broad range of cash, securities and derivatives. Trading positions and any offsetting hedges are established as appropriate to accommodate customer or Absa requirements. Derivatives entered into for trading purposes include foreign exchange instruments, swaps, forward rate agreements, futures, credit derivatives, options, equity derivatives and combinations of these instruments.

Trading market risk measurement and management

Absa's trading risk management approach is based on an internal model for market risk in the trading book as specified in the Basel Capital Accord of 1996 and approved annually for use in Absa by the South African Reserve Bank. Absa complies with the capital adequacy requirements in respect of the use of internal models.

Absa's trading risk management approach is based on the principle that trading risks must be properly identified, measured and reported to facilitate effective risk-based decision-making in terms of the Bank's governance structures. To this end, a set of comprehensive and complementary measures encompassing DVaR, stress testing and sensitivity measures are used.

In Absa Capital, DVaR is an important market risk measurement tool. DVaR is calculated using the historical simulation method with a historical sample of two years. Absa's DVaR approach recognises diversification across instruments, portfolios and risk factors.

Backtesting

Absa recognises the importance of assessing the effectiveness of its DVaR model. The main approach employed is the technique known as backtesting, which counts the number of days when trading losses are bigger than the estimated DVaR figure. The regulatory standard for backtesting is to measure DVaR assuming a one-day holding period with a 99% level of confidence. For Absa Capital's regulatory trading book, acceptable hypothetical and actual backtesting results have been maintained for the financial year.

Risk limits

Risk limits are set to govern the trading activities within the risk appetite of the Bank. Criteria for setting risk limits include, among others, relevant market analysis, market liquidity and business strategy. Trading risk limits are set at an aggregate and a portfolio level and are expressed in terms of DVaR and exposure limits. Appropriate performance triggers are also used as part of the risk management process.

Analysis of trading market risk exposures

Absa Capital

DVaR statistics for the Absa Capital trading book are indicated as follows:

Absa Capital trading book DVaR

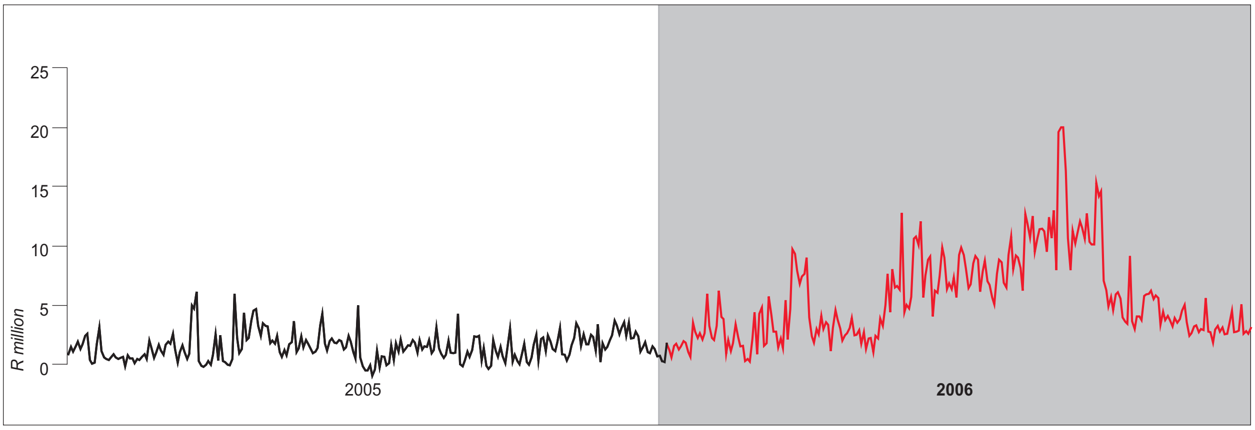
	Twelve months ended 31 December 2006			Twelve months ended 31 December 2005		
	Average Rm	**High* Rm**	**Low* Rm**	Average Rm	High* Rm	Low* Rm
Interest rate risk	**3,344**	**8,824**	**0,682**	1,559	6,395	0,317
Foreign exchange risk	**2,347**	**10,282**	**0,370**	0,862	4,947	0,032
Equity risk	**5,162**	**18,181**	**0,040**	1,649	7,598	0,002
Commodity risk	**0,298**	**2,294**	**0,001**	0,149	0,762	0,002
Diversification effect	**(3,964)**			(0,922)		
Total DVaR**	**7,187**	**20,829**	**2,112**	3,297	7,703	1,005

**The high (and low) DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) total DVaR. Consequently, a diversification effect number for the high (and low) DVaR figures would not be meaningful and is therefore omitted from the above table.*

***The year-end total DVaR for 2006 was R4,8 million (December 2005: R2,2 million).*

The graph below shows the history of Absa Capital's total trading book DVaR on a daily basis for 2005 and 2006.

Total Absa Capital DVaR (daily values)

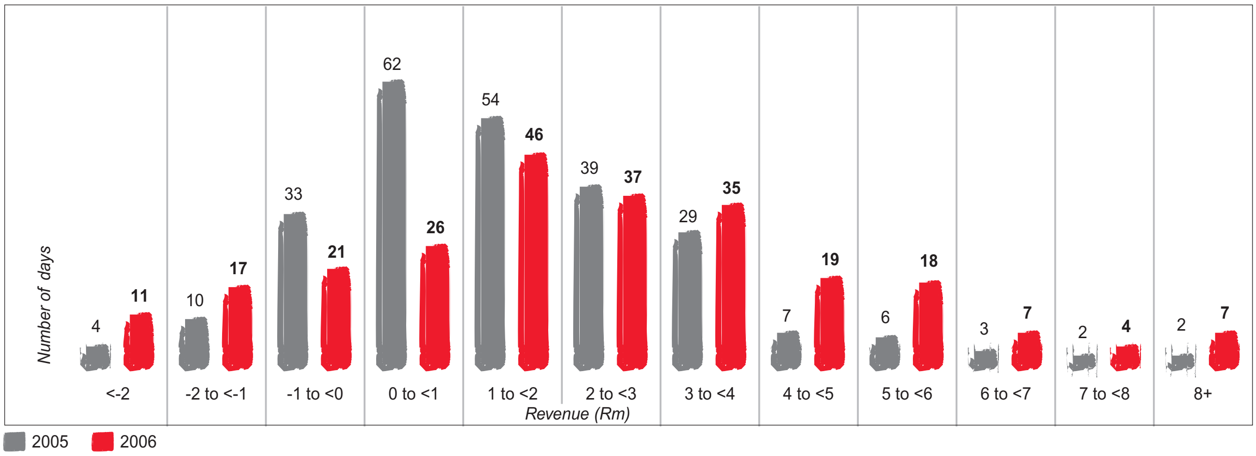


Increased market volatility and calculated risk taking, as indicated in the graph and table above, translated into enhanced trading revenue for the 2006 year compared with 2005.

Analysis of daily trading revenues

The histogram below shows the frequency distribution of daily trading revenue for Absa Capital during 2005 and 2006 and indicates to what degree the realised profit and loss distribution deviates from a normal (symmetrical) distribution. The distributions are skewed to the profit side, with revenue in 2006 up from 2005.

Absa Capital daily trading revenue



Offshore operations

	Offshore operations DVaR					
	Twelve months ended 31 December 2006			Twelve months ended 31 December 2005		
	Average Rm	**High Rm**	**Low Rm**	Average Rm	High Rm	Low Rm
Offshore operations	**0,054**	**0,331**	**0,003**	0,922	3,538	0,039

During 2006, Absa Bank closed its operations in Asia and Singapore and sold its interest in Bankhaus Wölbern & Co. The activities of the Absa London branch were scaled down and no further trading activities are conducted by the branch.

Asset and liability market risks

Absa banking book interest rate risk

Banking book interest rate risk refers to the potential variability in Absa's financial position owing to changes in interest rate levels, yield curves and spreads. From an earnings perspective, changes in interest rates affect Absa's net interest income and the level of other interest-sensitive income and operating expenditure, whereas from an economic value perspective, changes in interest rates affect the underlying value of assets, liabilities and off-balance-sheet instruments.

Interest rate exposures arising from the repricing mismatches of assets and liabilities in Absa's banking operations are passed from the businesses to Absa Group Treasury through matched funds transfer pricing for centralised management. Similarly, market risk can arise from the impact of interest rates on customer behaviour. The risk is measured and managed by Absa Group Treasury using behavioural models. Structural interest rate risk arises from the variability of income from non-interest-bearing products, managed variable rate products and the Bank's equity. This risk is also managed by Absa Group Treasury.

Interest rate exposures, structural interest rate risk and other market risks may be managed through the use of derivatives. Where this is the case, hedge accounting is applied where possible so that the benefits of risk management are reflected in the financial statements. Hedge accounting techniques used include cash flow hedge accounting and fair value hedge accounting and may involve applying hedge accounting with respect to future anticipated transactions.

The applicable accounting rules as stipulated in the Bank's accounting policies are followed.

Interest rate risk management strategies considered by the Market Risk Committee include the following:

- Strategies regarding changes in the volume, composition, pricing and interest rate risk characteristics of assets and liabilities; and
- The execution of applicable derivative contracts to maintain the Bank's interest rate risk exposure within limits.

Standard measures of interest rate risk include the repricing gap and the income impact of standardised interest rate shocks and other interest rate projections and simulations, including meaningful stress scenarios. In addition, Absa now also applies DVaR analysis to measure banking book interest rate risk.

Absa's repricing profile is depicted below. Items are allocated to time periods with reference to the earlier of the next contractual interest rate repricing date and the maturity date. Expected repricing and maturity dates may differ from the contract dates, for example, retail deposits that are repayable on demand or at short notice form a stable base for the Bank's operations and liquidity needs because of the broad base of customers – numerically and by depositor type.

Repricing analysis for Absa Bank

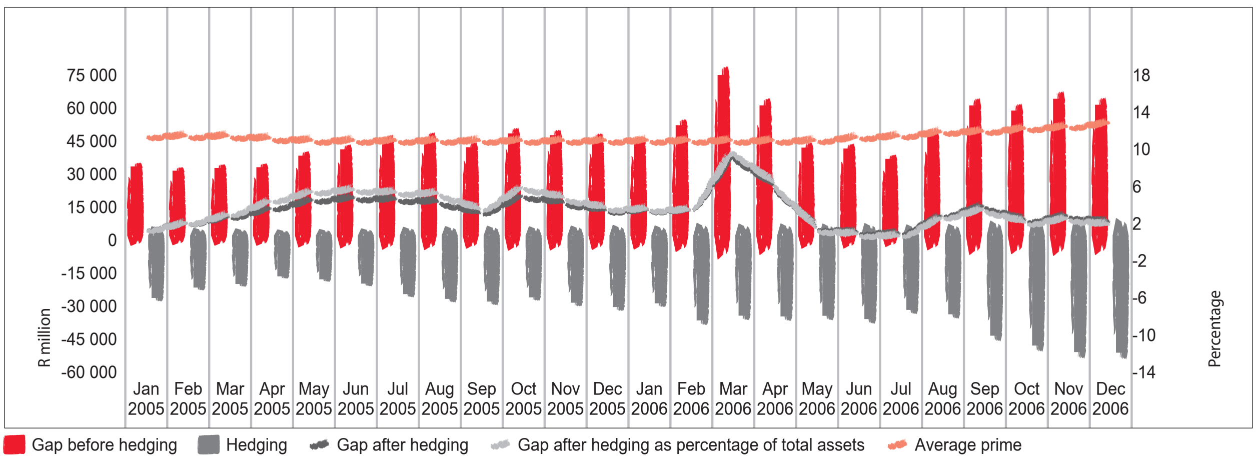
	31 December 2006				
Repricing maturity period	**Call – 3 months Rm**	**4 – 6 months Rm**	**7 – 12 months Rm**	**Over 12 months Rm**	**Not rate sensitive Rm**
Interest rate sensitivity gap	**59 414**	**(18 651)**	**(30 603)**	**8 990**	**(19 149)**
Derivatives*	**(53 236)**	**8 925**	**25 855**	**18 457**	
Cumulative interest rate gap	**6 178**	**(3 548)**	**(8 296)**	**19 150**	

	31 December 2005				
Repricing maturity period	Call – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm	Not rate sensitive Rm
Interest rate sensitivity gap	44 042	(17 633)	(22 207)	9 189	(13 390)
Derivatives*	(32 507)	2 914	15 612	13 980	
Cumulative interest rate gap	11 536	(3 183)	(9 778)	13 391	

**Derivatives for interest rate risk management purposes (net nominal value).*

Absa Bank's monthly three-month cumulative repricing gap is depicted in the graph below.

Absa Bank's three-month cumulative repricing gap for 2005 and 2006



Assuming no management action in response to interest rate movements, Absa's repricing sensitivity to a hypothetical immediate and sustained parallel fall of 100 basis points in all interest rates for a twelve-month forward period remained stable, as indicated below:

Absa Bank's repricing sensitivity as a percentage of net interest income

31 December 2006	31 December 2005
1,63	2,11

Investment risk

Investment risk refers to the risk of changes in the value of investments owing to price risk. These investments are longer-term investments made for strategic or operational reasons. The investment risk management approach for Absa Capital and Absa Corporate and Business Bank's investment portfolios is based on the VaR methodology. The holding period is set at three months, and the confidence level at 99,95%.

Liquidity risk

Definition of liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, the consequence of which may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The risk that the Bank will be unable to do so is inherent in all banking operations and can be impacted by a range of institution-specific and market-wide events, including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

Liquidity risk management

Absa Group Treasury's Liquidity and Funding Management function is responsible for the management of liquidity risk on behalf of Absa Bank. Prudent management of liquidity contributes positively to earnings, with sound liquidity risk management being pivotal to the viability of the Bank and the maintenance of overall banking stability. Absa believes that the management of liquidity should encompass an overall balance sheet approach, which consolidates all sources and uses of liquidity, while aiming to maintain a balance between liquidity, profitability and interest rate risk considerations.

Liquidity management in the Bank focuses on a number of key areas including:

- continuously managing net anticipated cash outflows, between assets and liabilities, within approved cash outflow limits set for periods of one day, one week and one month;
- active participation in local money and capital markets required to support the day-to-day funding required to refinance maturities and meet customer withdrawals and growth in advances;
- maintaining a portfolio of highly liquid assets that can be easily liquidated in response to any unforeseen interruption to cash flow;
- monitoring and managing liquidity costs; and
- ongoing assessment and evaluation of various funding sources designed to grow and diversify the Bank's funding base to achieve an optimal funding profile and sound liquidity risk management.

Liquidity risk measurement

Monitoring and reporting take the form of cash flow measurement and projections for the next day, next week and next month, as these are key periods for liquidity management.

In addition to cash flow management, Absa Group Treasury monitors Absa's money market shortage participation, short- and long-term funding ratios, short-term maturity mismatch, as well as its off-balance-sheet liquidity risk. Sources of liquidity are regularly reviewed to maintain a wide diversification by provider, product and term.

On the basis of stress testing and scenario analysis, sources of funding along a continuum of risk scenarios are applied in the process of formulating and evaluating liquidity contingency plans. Business resumption plans encompass decision-making authorities, internal and external communication and, in the event of a systems failure, the restoration of liquidity management and payment systems.

A summary of Absa's contractual liquidity profile is reflected in the table that follows. Additional information is provided in Annexure A to the financial statements.

Absa Bank's liquidity profile

	31 December 2006				
	On demand Rm	**Within 1 year Rm**	**From 1 year to 5 years Rm**	**More than 5 years Rm**	**Total Rm**
Total assets	**81 107**	**76 427**	**96 659**	**199 533**	**453 726**
Total liabilities	**173 160**	**216 672**	**22 450**	**12 718**	**425 000**
Total equity and liabilities	**173 763**	**218 362**	**22 931**	**38 670**	**453 726**

	31 December 2005				
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Total assets	67 505	67 978	80 117	161 087	376 687
Total liabilities	150 855	176 212	14 386	14 185	355 638
Total equity and liabilities	151 326	177 530	14 781	33 050	376 687

Absa's cumulative mismatch as a percentage of total funding improved from 2005 to 2006.

Liquidity risk focus areas and changes during 2006

During 2006, Absa focused on growing and further diversifying its funding base to meet growth in assets and achieve greater asset-liability matching and an optimal liquidity profile. This has resulted in a lengthening of Absa's funding profile and an improvement in Absa's key liquidity ratios.

Consolidated balance sheet

		Bank		
		31 December 2005		
	Commentary	As previously reported Rm	Reclassi-fications Rm	Reclassified Rm
Assets				
Cash, cash balances and balances with central banks		11 334	—	11 334
Statutory liquid asset portfolio		16 219	—	16 219
Loans and advances to banks	1	3 710	16 202	19 912
Trading assets	2	22 864	620	23 484
Hedging assets	2	999	(620)	379
Loans and advances to customers	1 & 3	308 196	(15 241)	292 955
Loans to Absa Group companies		3 460	—	3 460
Other assets		3 441	—	3 441
Investments		1 548	—	1 548
Investments in associated undertakings and joint ventures		533	—	533
Intangible assets		120	—	120
Property and equipment		3 247	—	3 247
Deferred tax assets		55	—	55
Client liabilities under acceptances	3	961	(961)	—
Total assets		376 687	—	376 687
Liabilities				
Deposits from banks	1	28 432	(32)	28 400
Trading liabilities	2	19 397	1 518	20 915
Hedging liabilities	2	1 979	(1 518)	461
Deposits due to customers	1 & 3	288 120	993	289 113
Current tax liabilities		235	—	235
Policyholder liabilities under insurance contracts		82	—	82
Borrowed funds		6 326	—	6 326
Other liabilities and sundry provisions		7 822	—	7 822
Deferred tax liabilities		2 284	—	2 284
Liabilities to clients under acceptances	3	961	(961)	—
Total liabilities		355 638	—	355 638
Equity				
Capital and reserves				
Attributable to ordinary equity holders:				
Share capital		303	—	303
Share premium		4 665	—	4 665
Other reserves		1 817	—	1 817
Retained earnings		14 224	—	14 224
		21 009	—	21 009
Minority interest		40	—	40
Total equity		21 049	—	21 049
Total equity and liabilities		376 687	—	376 687

Consolidated income statement

	Commentary	Bank		
		Nine months ended 31 December 2005		
		As previously reported Rm	Reclassifications Rm	Reclassified Rm
Net interest income		8 820	(55)	8 765
Interest and similar income	4	21 892	108	22 000
Interest expense and similar charges		(13 072)	(163)	(13 235)
Impairment losses on loans and advances		(561)	—	(561)
Net interest income after impairment losses on loans and advances		8 259	(55)	8 204
Net fee and commission income		6 348	—	6 348
Fee and commission income		6 364	—	6 364
Fee and commission expense		(16)	—	(16)
Gains and losses from banking and trading activities	4 & 5	688	71	759
Gains and losses from investment activities	5	—	44	44
Other operating income	5	466	(60)	406
Operating income before expenses		15 761	—	15 761
Operating expenditure		(10 919)	—	(10 919)
Operating expenses		(10 196)	—	(10 196)
Impairments		(54)	—	(54)
Indirect taxation		(669)	—	(669)
Share of retained earnings from associated undertakings and joint venture companies		69	—	69
Operating profit before income tax		4 911	—	4 911
Taxation expense		(1 480)	—	(1 480)
Profit for the period		3 431	—	3 431
Attributable to:				
Ordinary equity holder of the Bank		3 431	—	3 431
Headline earnings		3 443	—	3 443

Commentary

1. Change in banks/non-banks advances and deposits split

The financial statements for the period ended 31 December 2005 classified wholesale funding with banks as part of balances with customers. The Bank has reclassified this funding as part of balances with banks.

2. Reclassification of non-qualifying hedges

The financial statements for the period ended 31 December 2005 classified non-qualifying assets and liability hedges as hedging assets or liabilities. The Bank has reclassified these as trading assets.

3. Client liabilities under acceptances

The financial statements for the period ended 31 December 2005 disclosed client liabilities under acceptances separately on the face of the balance sheet. The Bank has now included them as part of loans and advances to/deposits from customers as they are of a similar nature.

4. Reclassification of interest

The financial statements for the period ended 31 December 2005 classified interest on investments held at fair value through profit and loss in interest and similar income. The Bank has reclassified this interest as part of the fair value movement on those investments and now discloses it under gains and losses from banking and trading/investment activities.

5. Reclassification of dividend income

The financial statements for the period ended 31 December 2005 classified dividends on non-trading activities as part of other income. The Bank has reclassified these to gains and losses from banking and trading/investment activities.