Absa Group Limited shareholder report 2006

Absa Group Limited
Shareholder report
For the twelve months ended 31 December 2006

Member of the BARCLAYS Group

ABSA

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Contents

As a result of the change of Absa Group Limited's (Absa or the Group) year-end from March to December, the previous audited financial results for the Group were for the nine months ended 31 December 2005. To facilitate evaluation and interpretation, this report (with the exclusion of the audited financial statements) makes reference to the pro forma unaudited figures for the twelve months ended 31 December 2005 for comparison purposes.

This shareholder report for the twelve months ended 31 December 2006 conforms to legal and regulatory requirements. Absa's detailed stakeholder report for the twelve months ended 31 December 2006 will be accessible on Absa's website www.absa.co.za in due course and can also be ordered, either as a hard copy or on a compact disk. Please write to Investor Relations, Absa Group Limited, PO Box 7735, Johannesburg 2000, or send an e-mail to ir@absa.co.za to order.

Living the Absa values

Our values are

Value our people and treat them with **fairness**.

Demonstrate **integrity** in all our actions.

Strive to **exceed** the needs of our customers.

Take responsibility for the **quality** of our work.

Display **leadership** in all we do.

Letter from the chairman and Group chief executive

D C Cronjé: Chairman
S F Booysen: Group chief executive

Dear Shareholder

In 2006, Absa made good progress with the execution of its strategy to become the pre-eminent bank in South Africa and the rest of Africa. The Group maintained its earnings momentum, as was evident from the 25,3% and 29,6% increases in headline and attributable earnings respectively.

All of the Group's banking businesses 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 as well as a good operational performance from the Group's bancassurance operations.

Key financial highlights

Absa delivered headline earnings of R7 872 million for the twelve months ended 31 December 2006, an increase of 25,3% over the pro forma figure of R6 282 million for the twelve months ended 31 December 2005. The inclusion of the profit from the sale of several of the Group's non-core investments boosted attributable earnings to 29,6%.

Headline earnings per share increased by 23,8% from 954,8 cents per share for the twelve months ended 31 December 2005 to 1 181,8 cents per share. Fully diluted headline earnings per share amounted to 1 121,3 cents per share. This is an increase of 21,8% compared with the previous year and represents a dilution of 5,1% or 60,5 cents per share. Net asset value per share increased by 22,1% to 4 717 cents per share and the Group delivered a return of 27,4% on average shareholder's equity (twelve months pro forma December 2005: 25,6%). A final dividend of 265 cents per share was declared, bringing the total dividend for the twelve months ended 31 December 2006 to 473 cents per share, representing a dividend cover of 2,5 times.

The main drivers of the Group's performance included strong loans and advances growth of 25,8%, robust interest rate margins, increased transaction volumes and the accelerated Absa-Barclays synergy realisation.

Please refer to the financial analysis on page 44 of this report for additional information pertaining to the Group's financial performance for the twelve months ended 31 December 2006.

Other developments for the twelve months under review

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 have 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.

Absa-Barclays synergies

The Group has made excellent progress with initiatives to improve earnings by implementing, where appropriate, the best practices applied by Barclays. It is the Group's stated objective to increase the sustainable profit before tax by delivering synergies amounting to R1,4 billion per annum within four years of the Barclays transaction taking place.

In the year under review, sustainable profit before tax benefits of R753 million were realised. This is well ahead of the 2006 target of R300 million. The one-off pre-tax cost of R640 million incurred to achieve this benefit was in line with expectations.

At the time that Barclays acquired its controlling stake in Absa in 2005, Absa and Barclays expressed their intention to combine the other sub-Saharan African Barclays operations with Absa with a view to creating the pre-eminent African banking group. As a first step, Absa acquired the South African operations of Barclays as at 1 January 2006, which contributed positively to earnings. The overall objective continues to be strategically attractive and remains the intention of both Barclays and Absa. However, concluding such a transaction will take some time owing to the complexities and the number of individual businesses involved.

Compliance, legislation and regulation

The Group 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. However, we have a great responsibility to ensure that the banking system, which is widely regarded as a national asset and a competitive advantage for South Africa, is nurtured and refined.

Letter from the chairman and Group chief executive

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. The Group will continue in its relentless pursuit of its strategic objectives, which are designed to take Absa to pre-eminence.

Annual general meeting

The Absa Group Limited annual general meeting for the twelve months ended 31 December 2006 will be held on Monday, 23 April 2007, at 11:00 in the P W Sceales Auditorium, Absa Towers, 160 Main Street, Johannesburg.

The Absa Group board of directors recognises the importance of its shareholders' presence at the annual general meeting. This is an opportunity for shareholders to participate in discussion relating to items included in the notice of meeting. In addition, the chairmen of board-appointed committees as well as senior members of management will be present to respond to questions from shareholders.

If you are unable to attend, please arrange to vote by proxy in accordance with the instructions on the proxy form, which can be found on page 235 of this report.

The notice of meeting, which is set out on pages 227 to 230 of the shareholder report, is accompanied by explanatory notes setting out the effects of all proposed resolutions included in the notice.

Danie Cronjé   Steve Booysen

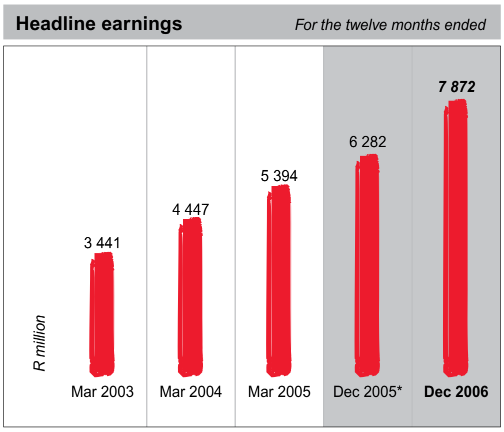
D C Cronjé • Chairman   **S F Booysen** • Group chief executive

20 February 2007

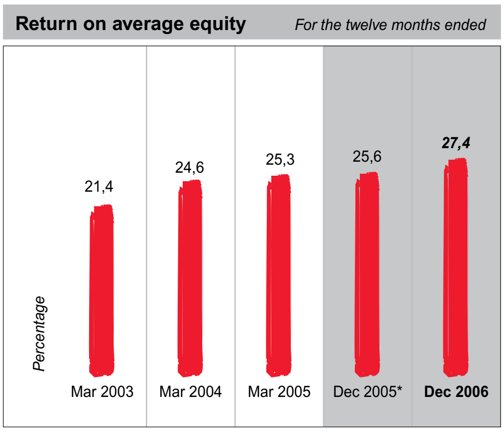
	Twelve months ended 31 December 2006 (Audited)	Twelve months ended 31 December 2005 (Unaudited) (Pro forma)	Change %	Nine months ended 31 December 2005* (Audited)
Income statement (Rm)				
Headline earnings**	**7 872**	6 282	25,3	4 902
Profit attributable to ordinary equity holders of the Group	**8 105**	6 252	29,6	4 776
Balance sheet (Rm)				
Total assets	**495 112**	404 561	22,4	404 561
Loans and advances to customers	**386 174**	306 856	25,8	306 856
Deposits due to customers	**368 449**	303 945	21,2	303 945
Financial performance (%)				
Return on average equity	**27,4**	25,6		26,5
Return on average assets	**1,74**	1,72		1,73
Loans-to-deposits ratio	**104,8**	101,0		101,0
Operating performance (%)				
Net interest margin on average assets	**3,30**	3,28		3,27
Net interest margin on average interest-bearing assets	**3,69**	3,65		3,65
Impairment losses on loans and advances as a percentage of average loans and advances to customers	**0,44**	0,31		0,26
Non-performing advances as a percentage of loans and advances to customers	**1,3**	1,8		1,8
Non-interest income as a percentage of total operating income	**50,9**	53,8		52,6
Cost-to-income ratio	**54,6**	57,0		58,0
Effective tax rate, excluding indirect taxation	**27,6**	31,2		31,1

*The comparatives for the nine months ended 31 December 2005 have been restated for the deconsolidation of certain cell captives, the reclassification of certain assets and liabilities as well as the reclassification of interest and dividends on fair value through profit and loss assets. Refer to Annexure I on pages 208 to 210 for the restatement of prior year figures.

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



*Twelve months pro forma figures



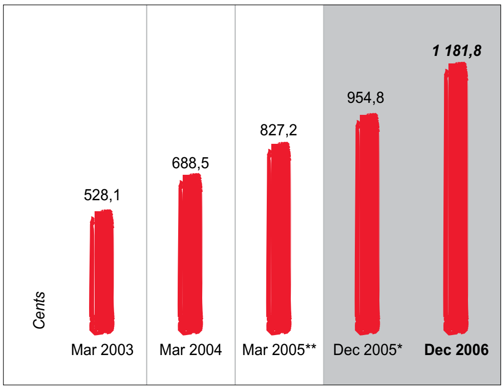
*Twelve months pro forma figures

Salient features

	Twelve months ended 31 December 2006 (Audited)	Twelve months ended 31 December 2005 (Unaudited) (Pro forma)	Change %	Nine months ended 31 December 2005* (Audited)
Share statistics (million)				
Number of shares in issue	**672,0**	666,9		666,9
Weighted average number of shares	**666,1**	658,0		662,1
Weighted average diluted number of shares	**703,2**	684,0		690,8
Share statistics (cents)				
Headline earnings per share	**1 181,8**	954,8	23,8	740,4
Diluted headline earnings per share	**1 121,3**	920,3	21,8	710,9
Earnings per share	**1 216,8**	950,3	28,1	721,4
Diluted earnings per share	**1 154,4**	915,9	26,0	692,7
Dividends per ordinary share relating to income for the year/period	**473,0**	n/a		295,0
Dividend cover (times)	**2,5**	n/a		2,5
Net asset value per share	**4 717**	3 862	22,1	3 890
Tangible net asset value per share	**4 682**	3 834	22,1	3 861
Capital adequacy (%)				
Absa Bank	**12,3**	10,7		10,7
Absa Group	**13,1**	11,3		11,3

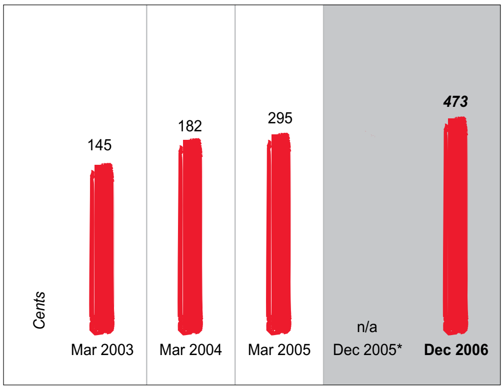
*The comparatives for the nine months ended 31 December 2005 have been restated for the deconsolidation of certain cell captives, the reclassification of certain assets and liabilities as well as the reclassification of interest and dividends on fair value through profit and loss assets. Refer to Annexure I on pages 208 to 210 for the restatement of prior year figures.

Headline earnings per share *For the twelve months ended*



*Twelve months pro forma figures

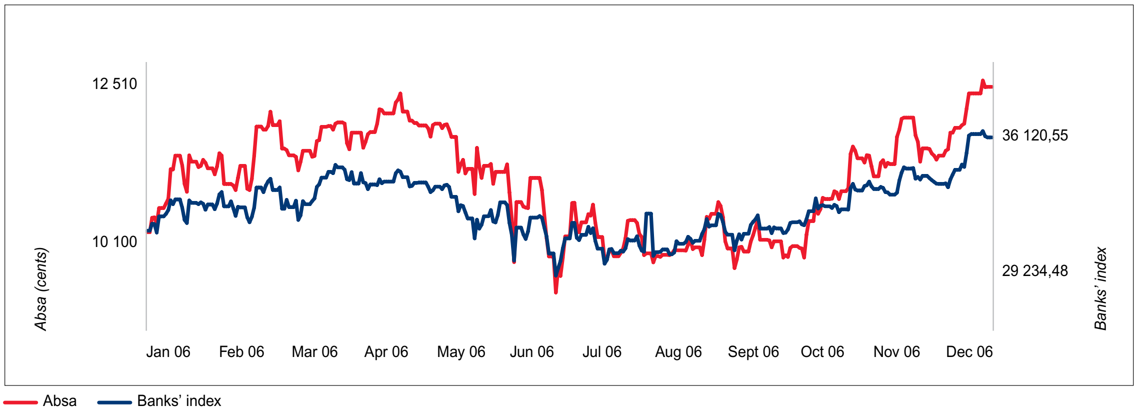
Dividends per share *For the twelve months ended*



*Twelve months pro forma figures

**The comparatives for March 2005 have been restated for International Financial Reporting Standards.

Share performance



Absa's annualised total return for the twelve months ended 31 December 2006 was 28,0%.

Absa's share price outperformed the Banks' index by 0,25% over the twelve-month period. Total return was used to calculate the relative performance (calculated using an annualised dividend yield).

Share performance on the JSE Limited

	Twelve months ended 31 December 2006	Twelve months ended 31 December 2005 (Pro forma)	Nine months ended 31 December 2005
Number of ordinary shares in issue*	**671 955 074**	666 855 074	666 855 074
Market price (cents per share)			
• closing	**12 510**	10 100	10 100
• high	**12 615**	10 320	10 320
• low	**9 650**	7 125	7 475
• weighted average	**10 944**	8 405	8 674
Closing price/net asset value per share (excluding preference shares)	**2,65**	2,62	2,60
Closing price/headline earnings per share	**10,6**	10,6	10,3
Volume of shares traded (millions)**	**332,3**	391,6	298,2
Value of shares traded (R millions)	**35 925,7**	33 492,4	26 443,4
Market capitalisation (R millions)	**84 061,6**	67 352,4	67 352,4

*Includes 2 654 828 treasury shares held by the Absa Group Limited Share Incentive Trust (December 2005: 3 074 268) and 178 370 treasury shares held by Absa Life Limited (December 2005: 388 200).

**Only one block trade, of 14,5 million shares, was traded through the JSE Limited during the Barclays acquisition in the period ended 31 December 2005. The remainder of the shares was tendered directly to Barclays by Absa shareholders.

Group structure

Absa Group Limited*

Barclays Bank PLC (56,5%)

Allan Gray Limited (6,7%)

Public Investment Corporation (4,8%)

Old Mutual Asset Managers (3,3%)

Investec Asset Management (3,1%)

Coronation Fund Managers (2,7%)

Sanlam Investment Management (2,3%)

Stanlib Asset Management (2,0%)

Capital Group Companies Inc. (1,9%)

AXA Financial SA (Bernstein and Alliance (1,8%)

Other (14,9%)

Batho Bonke Capital (Proprietary) Limited (73 million redeemable cumulative option-holding preference shares)

Absa Bank Limited (100%)

[Retail banking]

Absa Private Bank

Retail Banking Services**

Flexi Banking Services**

Small Business**

Absa Home Loans

Absa Card

Absa Vehicle and Asset Finance

Absa Financial Services Limited (100%)

[Insurance services]

Absa Life Limited

Absa Insurance Company Limited

Other subsidiaries

[Banking]

Banco Austral, Sarl (Mozambique) (80%)

National Bank of Commerce Limited (Tanzania) (55%)

Associated undertakings and other interests#

[Banking]

Meeg Bank Limited (49,8%)

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

Unitrans Finance (Proprietary) Limited (35%)

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

Banco Comercial Angolano (Angola) (50%)

*As at 31 December 2006.

**For financial reporting purposes these entities are housed under Retail Banking Services.

***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. Certain corporate customers were separated from Absa Capital and are now included as part of Absa Corporate and Business Bank.

****Absa entered into a joint venture with Virgin Money during the year under review.

#During the year under review, the Group sold its shares in Capricorn Investment Holdings Limited and announced its intention to sell its stake in CBZ Holdings Limited. Commercial property finance associated undertakings and joint venture companies are not disclosed. Refer to Annexure F for further information.

Commercial banking

Absa Corporate and Business Bank***

Investment banking

Absa Capital***

Fiduciary services

Absa Trust Limited

Absa Consultants and Actuaries (Proprietary) Limited

Absa Health Care Consultants (Proprietary) Limited

Investment services

Absa Investment Management Services (Proprietary) Limited

Absa Fund Managers Limited

Absa Mortgage Fund Managers (Proprietary) Limited

Other

Absa Brokers (Proprietary) Limited

Financial services

Absa Stockbrokers (Proprietary) Limited

Absa Portfolio Managers (Proprietary) Limited

Absa Manx Holdings Limited

- Absa Syndicate Investments Holdings Limited (United Kingdom)
- Absa Manx Insurance Company Limited

Other

Absa Development Company Holdings (Proprietary) Limited

AllPay Consolidated Investment Holdings (Proprietary) Limited

Absa Asset Management (Proprietary) Limited

Absa Trading and Investment Solutions Holdings Limited

Other

Property24 (Proprietary) Limited (50%)

Sanlam Home Loans (Proprietary) Limited (50%)

Virgin Money SA (50%)****

Maravedi Group Company (Proprietary) Limited (45%)

Introduction

Good corporate governance is an integral part of Absa's operations. Accordingly, Absa 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 Group chairperson to replace Dr Danie Cronjé, who will be retiring from the board in 2007.
- Further improvement in reporting processes to the main board, board committees and Group Exco.
- Implementation of a new employee share scheme and related share scheme matters. (Refer to the Group remuneration report for additional information.)
- Ongoing adoption of governance standards and practices applied by Barclays as well as other international best practices, where deemed appropriate, by the Absa board.
- In line with international best practice, the introduction of a requirement in terms of which all directors serving on the board for longer than nine years are subject to annual re-election by shareholders at the annual general meeting.
- The introduction of an annual director performance assessment for all directors (previously only applied in respect of those directors seeking re-election at the annual general meeting).
- 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.

Awards and recognition

For the past four years, Absa's annual report has been placed in the top three listed companies in the annual Ernst & Young Excellence in Corporate Reporting survey of the top 100 listed company annual reports.

Looking ahead

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

- Ongoing compliance with King II.
- Induction and assimilation of a new Group 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, especially in Absa's African subsidiaries and also for new directors.
- The enhancement of a governance framework for adoption by the Absa subsidiaries in Tanzania, Mozambique and Angola.
- Governance matters relating to the proposed acquisition by Absa of the nine African banks currently owned by Barclays.
- Ongoing adoption of governance standards and practices applied by Barclays as well as other international best practices, where deemed appropriate by the Absa board.
- An investigation into electronic proxy voting and electronic communication with shareholders in general.
- 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 Group 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 (such as banks, financial and insurance entities).

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

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

- a full and effective review by the Absa 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 the Group's governance systems as well as benchmarking the Group'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 Group and is an integral part of Absa's operations.

Absa's corporate governance standards, which support the Group's overall strategy, are captured and measured in terms of the Group'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 interests of Absa's minority shareholders, the legal implications resulting from the parent/subsidiary relationship between Barclays and Absa, taking cognisance of the fact that Barclays has made a financial strategic investment in Absa, 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 shareholders 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.

As regards Absa's black economic empowerment (BEE) transaction (in terms of which approximately 10% of Absa's total issued share capital is held by Batho Bonke Capital (Proprietary) Limited), governance oversight is provided via an ad hoc board committee, comprising independent directors: D C Cronjé (committee chairman), D C Brink, A S du Plessis and P du P Kruger. The main objective of the committee is to ensure that the BEE transaction is implemented in accordance with the transaction approved by Absa shareholders in June 2004. This committee met four times during 2006 and considered a wide range of matters relating to the overall governance arrangements of the BEE transaction. The committee chairman reported to the board following each committee meeting, and minutes of the committee were provided to the board. In considering share allocations to potential recipients, the committee applied specific principles and criteria.

Boards of directors and board committees

Board composition

Absa has unitary board structures in all South African companies in the Group.

The Absa 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 21 of this report. There are 21 directors, of whom four are executive, five are non-executive and 12 are considered to be independent directors.

In subsidiary companies in the Group, the roles of chairmen and managing directors do not vest in the same persons and the chairmen are non-executive directors of the entities of which they are chairmen.

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 at the annual general meeting, accompanied by appropriate biographical details set out in the report to shareholders. Non-executive directors are required to retire at the annual general meeting following their 70th birthday.

In line with international best practice, Absa has introduced a requirement in terms of which all directors on the board for longer than nine years are subject to annual re-election by shareholders at the annual general meeting.

The board as a whole, within its powers, selects and appoints directors, including the Group 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 Group'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 and are subject to confirmation by the shareholders at the annual general meeting. 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 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 board 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 Group chairman and deputy chairman. The Group chairman's performance is dealt with by the DAC, whereas that of the deputy chairman is dealt with by the Group chairman and one other member of the DAC.

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

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

Information on the director's standing for re-election at the annual general meeting is contained in the explanatory notes to resolutions for the annual general meeting (refer to page 232).

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 and share ownership

Details of Absa's remuneration policies and practices and the remuneration paid to Absa Group directors are set out in the remuneration report on pages 29 to 43. Shareholders are invited to consider and approve the proposed remuneration payable to directors at each annual general meeting (refer to page 227 for details in respect of the 2007 annual general meeting).

Non-executive directors have agreed to hold a minimum of 1 000 Absa ordinary shares throughout their tenure. Details of the shares held by directors are set out on pages 64 and 65.

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			✔	✔	✔	✔	✔	✔	✔	✔
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			✔	✔	✔	✔	✔	✔	✔	✔
G Griffin			✔	✔	✔	✔	✔	✔	✔	✔
M W Hlahla			✔	✔	✔	✔	✔	A	✔	✔
L N Jonker			✔	✔	✔	✔	✔	✔	✔	✔
N Kheraj			✔	✔	✔	✔	✔	✔	✔	✔
P du P Kruger			✔	✔	✔	✔	✔	✔	✔	✔
L W Maasdorp		30 Sept '06	✔	✔	✔	✔	✔			
D L Roberts		23 Oct '06	✔	✔	✔	✔	✔			
J H Schindehütte			✔	✔	✔	✔	✔	✔	✔	✔
F F Seegers	23 Oct '06							✔	✔	✔
T M G Sexwale			A	✔	✔	✔	✔	✔	✔	✔
F A Sonn			✔	✔	✔	✔	✔	✔	✔	✔
P E I Swartz			✔	✔	✔	✔	✔	✔	✔	A
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.

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 the Group'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 Group chief executive, the executive director responsible for human resources and the Group 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 Group retirement funds.

The committee considers executive directors' emoluments, share and option allocations and other benefits, taking account of responsibility, individual performance and Absa's 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 Group 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 annual general meeting held prior to its implementation and payment. Full details of remuneration matters (including a statement of the Group's remuneration philosophy) are contained in the remuneration report set out on pages 29 to 43 of this report.

The committee undertakes an annual performance assessment of the Group chief executive. The Group chairman's and Group 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 the Group 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 the Group'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 Group 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 the Group'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.

The Group'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 the Group'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 the Group 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 (Mr 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 Group'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 Group's various risk profiles and ensure they are understood and appropriately managed in the Group; 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 Group 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 the Group's governance systems as well as benchmarking the Group'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 Group 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 06
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 Group chief executive and Group finance director. Specific members of management such as the Group executive: Credit and the Group executive: 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	✔	✔	✔	✔

Legend

✔ 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 (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 and 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.

Detailed corporate governance statement

The governance statement set out in this section of the shareholder report is an abridged version of Absa's detailed governance statement. The detailed version is available to shareholders on request.

Introduction

The Absa board has an appropriate balance with a majority of independent directors. The chairman of the Absa board is an independent director. There are 21 directors, of whom four are executive, five are non-executive and 12 are considered to be independent directors.

Key developments

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

- 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; and
- The appointment of Ms Cuba on 6 December 2006.

Board membership

The Absa Group 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 (Group chief executive), D Bruynseels*, 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 the Group's 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

Biographical details and appointment dates of board members

The biographical details and appointment dates of the Group'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 chairman of 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 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 Group 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 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 senior lecturer in accounting at the University of South Africa (1983–1988). His first appointment with the Group was as senior manager: Finance at TrustBank (1988–1992). 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 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 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. 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. 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 and is 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 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.

Group board

D (Dominic) Bruynseels

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 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).

B P (Brian) Connellan

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 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.

Y Z (Yolanda) Cuba

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 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 and Mvelaphanda Holdings.

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 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.

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.

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.

M W (Monhla) Hlahla

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 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.

Group board

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 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 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 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 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 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

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 an executive director on the boards of 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.

F F (Frits) Seegers

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 (Proprietary) Limited. Chairman of Northam Platinum Limited, Trans Hex Group Limited, Mvelaphanda Resources Limited and a director of 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.

T M G (Tokyo) Sexwale

Group board

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 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 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 ten 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 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 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 Group board in September 2004.

Introduction

The Group remuneration report deals with the governance of remuneration matters in Absa, the Group's remuneration policy as well as executive and non-executive directors' emoluments and service contracts.

Key remuneration highlights and developments

- The Group's shareholders approved, at a special general meeting in May 2006, the adoption of four new incentive plans: the Absa Group Performance Share Plan (PSP), the Absa Group Phantom Performance Share Plan (Phantom PSP), the Absa Group Executive Share Award Scheme (ESAS) and the Absa Group Phantom Executive Share Award Scheme (Phantom ESAS). These plans were designed to align the interests of executive directors and senior executives with those of Absa's shareholders. The incentive plans implemented for 2006 were the Phantom PSP and the Phantom ESAS. The Phantom ESAS has been used to enable executive directors and senior executives to convert their existing banked bonuses into this phantom deferred share arrangement on a one-off basis. No additional benefits were provided under this scheme for 2006.
- Existing benefits were reviewed for all employees, and a new flat rate medical aid subsidy was introduced for all employees.
- Mr D L Roberts resigned from the Group Remuneration Committee on 23 October 2006.
- Mr F F Seegers was appointed to the Group Remuneration Committee on 23 October 2006.

Challenges

- The introduction of the Phantom PSP (following shareholders' approval of the new incentive plans) involved a number of challenges, including determining the most appropriate way to adapt the best practice used by Barclays to the Absa Group and its employees, the communication of the new scheme to employees, the required valuation calculations with reference to the IFRS 2 requirements, and the appropriate Group hedging strategy to ensure that future requirements in relation to this scheme are identified and provided for.

Looking ahead

- Continued use of the Phantom PSP in 2007 to ensure an alignment of interest between participants and shareholders with regard to the financial performance of the Group.
- Use of the Phantom ESAS in 2007 for all those employees, including Group executive directors, whose bonus awards exceed a predetermined threshold.
- Refining the bonus pool funding methodology.

Group remuneration report

Governance

Governance of Group directors' remuneration in Absa is performed by the Group Remuneration Committee, a committee of the Absa board of directors.

Its members (D C Brink (chairman), D E Baloyi, B P Connellan, D C Cronjé and F F Seegers) are all non-executive directors and the majority are independent directors.

The Group chief executive, the executive responsible for human resources and the Group finance director attend the meetings by invitation. Meetings are held five times a year. In addition, special meetings are called to deal with urgent matters. No executive director is present when his or her own remuneration or performance evaluation is discussed.

The Group Remuneration Committee's responsibilities include:

- approving the Group's remuneration philosophy, principles and policy;
- approving the remuneration of the Group chief executive and executive committee members. In addition, it provides oversight regarding the remuneration of the senior leadership group. Remuneration includes all elements of remuneration: guaranteed fixed remuneration, performance bonuses, incentive plans, and any other form of benefits or perquisites;
- reviewing all payments made in terms of the Group's various incentive schemes;
- reviewing management's recommendations of the fee structure for directors and the fees for members of board committees, for onward recommendation to shareholders;
- determining the Group chairman's remuneration for approval by shareholders, at a meeting from which he recuses himself;
- succession planning for executive directors and top management, including the Group chief executive, executive directors and other strategic positions/roles, together with the Group Directors' Affairs Committee (DAC); and
- evaluating the performance of the Group chief executive and reviewing the evaluation of the performance of executive directors.

The DAC assesses the contribution of all non-executive directors annually via an individual director evaluation process as well as the effectiveness of the board as a whole. The chairman and deputy chairman conduct this process. The DAC and thereafter the Absa board consider the outcomes of this process. The DAC appraises the chairman's performance at a meeting from which he recuses himself. The Group Remuneration Committee takes this evaluation into account in determining the remuneration of the chairman. The Group Remuneration Committee's effectiveness is evaluated annually by the Absa Group board.

Advisers

In determining the appropriate remuneration for Group executive directors, Absa makes use of the services of an independent remuneration consulting company, Global Remuneration Solutions (Proprietary) Limited. This company advises the Group Remuneration Committee on the remuneration of executive directors and top management, after using surveys of the banking industry as well as the broader industry to make remuneration comparisons. The Group bears all the expenses relating to the appointment of external consultants.

Furthermore, in setting the performance measures for the Phantom PSP, Absa makes use of independent advisers, Kepler & Associates, based in London. These advisers provide advice on appropriate financial performance targets and the probabilities of achieving these targets to ensure that there is sufficient "stretch" in the targets set. Kepler & Associates assists in setting the targets for the Phantom PSP annually.

Human Resources also provides advice to the Group Remuneration Committee. The Human Resources division is a Group specialist function and assists the committee by providing supporting information and documentation relating to matters that are presented to the Group Remuneration Committee. This includes comparative data and motivations for salaries, bonuses and incentive plans. In addition, the Group executive: Human Resources is responsible for providing professional support to line management relating to human resources policies and administration and for monitoring compliance with prescribed policies and programmes across the Group.

Remuneration philosophy and policy

Absa aims to employ individuals of the highest calibre, who embrace the Group's values. In addition to ensuring that all employees, including Group executive directors, create value for all Absa's stakeholders, the Group provides a positive, supportive, healthy and diversity-friendly working environment, thereby enabling employees to achieve their full potential with the assurance of being recognised and rewarded for excellent performance.

The purpose of remuneration is to attract, retain and motivate employees. Absa has an overarching remuneration philosophy to support this purpose, which, in turn, supports the Group's strategy.

Absa's senior managerial and professional employees, including Group executive directors, are rewarded as individuals for the value they add through the payment of fixed remuneration, performance bonuses, and performance share (or phantom performance share) allocations. The key principles of Absa's overall remuneration policy are as follows:

- Reward programmes are designed and administered to align the interests of senior managerial and professional employees, including executive directors, with those of the Group's stakeholders.
- Reward programmes are clear and transparent to reward the achievement of the Group's desired strategic positioning.
- Rewards are linked to the performance of the business and the individual business units. Reward levels are targeted to be commercially competitive. Reward levels are based on the scope of responsibility and individual contribution made.
- Appropriate industry and comparable organisations' remuneration practices are reviewed at least annually.

Absa's remuneration structure has three components:

- Fixed remuneration = annual salary and benefits.
- Variable remuneration = short- to medium-term performance related incentives.
- Incentive plans = long-term performance related incentive schemes.

Fixed remuneration is reviewed annually to ensure that those who contribute to the success of the Group and who have the potential to sustain performance are remunerated competitively. The Group uses variable remuneration schemes to focus behaviour on important business objectives and to sustain performance. To achieve this goal, the existing variable remuneration incentives are reviewed annually and adjustments are made to improve their efficiency. Incentive plans are used to retain and incentivise key and talented employees.

Remuneration of employees

Guaranteed fixed remuneration

The approach adopted for all employees, including Group executive directors, is a total cost-to-company approach. The sustainable contribution of each employee is used as the basis for remuneration reviews. Across the Group, remuneration reviews are undertaken at least annually. The cost-to-company approach also encapsulates benefits provided such as retirement schemes; death and disability cover; medical cover and other benefits, as dictated by competitive local market practices.

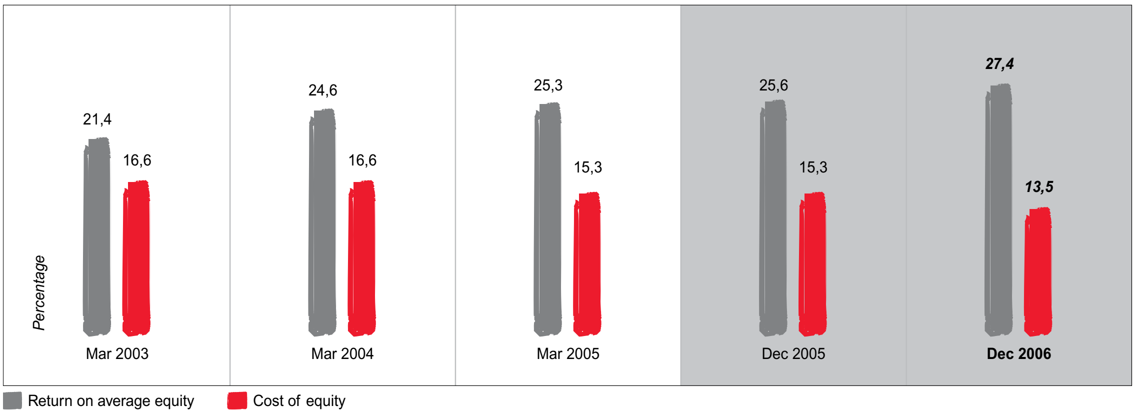
In addition to the above, employees, including Group executive directors, receive two payments at the time of the release of the Group's interim and annual results, based on the Group's financial performance. This is known as "conditional fixed remuneration". This element of pay was disclosed as part of the performance bonus in the past. This formed a relatively small component of each employee's total cost-to-company pay annually (approximately 5%). The Group has removed the conditional fixed remuneration element of pay (the final such payment was made in February 2007, relating to the Absa Group's annual results for 2006). Going forward, the conditional fixed remuneration will be included into the total cost-to-company remuneration for all employees (including Group executive directors). This change is effective 1 January 2007 and has resulted in a permanent uplift of total cost-to-company remuneration for all employees, including executive directors, on the basis that the bi-annual payments will cease. The net effect on the Group and employees, including Group executive directors, will largely be neutral, as the uplift in the total cost-to-company remuneration will compensate for the removal of the bi-annual conditional fixed remuneration awards.

Performance bonuses (variable remuneration)

Performance bonuses are linked to business performance in terms of targeted performance goals and are based on an economic value-added approach.

Over the past few years, significant value has been created for shareholders, with the Group's return on average equity (RoE) increasing from 21,4% in the 2003 financial year to 27,4% for the twelve months ended 31 December 2006.

Value creation for shareholders *For the twelve months ended**



*The statistics for 2003 and 2004 have not been restated for International Financial Reporting Standards (IFRS).

Methodology used to calculate performance bonuses

The Group Remuneration Committee approves a challenging performance target. This target is converted to a headline earnings target to facilitate communication and understanding.

For most areas of Absa**, performance bonuses are paid only when the Group's financial performance exceeds a hurdle, which is related to the cost of equity.

The headline earnings target, on which a bonus pool is made available, is set on a sliding scale and is dependent on the Group's performance in the period under review.

For most areas of Absa**, the final bonus pool is calculated by multiplying the bonus multiple (which is a function of the level of achievement of the headline earnings target), by the sum of annual total cost-to-company remuneration, appropriately differentiated for each job grade. Although, in prior years, the calculation was based on direct remuneration, in the year under review, the Group moved to a calculation based on cost-to-company remuneration. Furthermore, the bonus multiple pool for executive directors had been capped at a two multiple, with a possible individual award of a performance bonus up to 2,5 times his/her remuneration. For the year under review, the Group Remuneration Committee approved bonus awards utilising a pool of 2,3 times the cost-to-company remuneration of the participating Group executive directors (in excess of the two multiple) given the superior financial performance of the Group. The overall individual limit of 2,5 times cost-to-company remuneration was observed.

Performance bonuses are not guaranteed; they are discretionary and vary according to an individual's performance rating.

Although prior practice was that two-thirds of any performance bonus paid in excess of one bonus multiple was banked (retained) and was paid during the next two financial years, subject to sustained performance by the Group, this is no longer the practice, and it has been replaced by the Phantom ESAS described in the section titled long-term incentive plans.

**Other than in specialised areas such as Absa Capital.

Group executive directors' remuneration and performance bonus statistics

The following table indicates the total guaranteed fixed remuneration paid to Group executive directors as well as their performance bonuses. It must be noted that the results for the twelve months ended 31 December 2006 are not comparable with those of the previous period, which have nine months as a base, owing to the change in the Group's year-end. The remuneration tabled below relates only to the period an individual is/was a Group executive director.

Group executive directors' guaranteed fixed remuneration and performance bonuses

Group executive director	Note	Directors' fees: Absa Group R	Directors' fees: Absa Bank and other divisional boards R	Salaries* R	Travel allowances R	Retirement fund contributions R	Total guaranteed remuneration R	Conditional fixed remuneration** R	Performance bonuses*** R	Total R
Twelve months ended 31 December 2006										
S F Booysen	1	**119 467**	**—**	**4 608 081**	**25 233**	**368 519**	**5 121 300**	**378 911**	**12 000 000**	**17 500 211**
D Bruynseels	2 & 6	**119 467**	**129 838**	**—**	**—**	**—**	**249 305**	**—**	**—**	**249 305**
J H Schindehütte	3	**119 467**	**—**	**2 288 637**	**24 862**	**182 963**	**2 615 929**	**184 042**	**5 500 000**	**8 299 971**
L L von Zeuner	4	**119 467**	**—**	**2 885 628**	**66 906**	**230 722**	**3 302 723**	**249 625**	**7 900 000**	**11 452 348**
Total		**477 868**	**129 838**	**9 782 346**	**117 001**	**782 204**	**11 289 257**	**812 578**	**25 400 000**	**37 501 835**
Nine months ended 31 December 2005										
S F Booysen	1	80 000	—	3 184 195	24 641	251 501	3 540 337	231 683	7 486 000	11 258 020
D Bruynseels	2 & 6	45 333	4 834	—	—	—	50 167	—	—	50 167
F J du Toit	5	—	—	—	—	—	—	—	144 208	144 208
J H Schindehütte	3	80 000	—	1 671 472	53 375	132 222	1 937 069	129 897	2 975 000	5 041 966
L L von Zeuner	4	92 250	—	1 975 845	33 285	155 778	2 257 158	169 858	5 208 000	7 635 016
Total		297 583	4 834	6 831 512	111 301	539 501	7 784 731	531 438	15 813 208	24 129 377

Notes

(1) Appointed to the Absa Group board on 1 August 2004.

(2) Appointed to the Absa Group board on 27 July 2005.

(3) Appointed to the Absa Group board on 1 January 2005.

(4) Appointed to the Absa Group board on 1 September 2004.

(5) Retired from the Absa Group board on 1 January 2005.

(6) Currently remunerated by Barclays PLC, and any directors' fees earned are paid to Barclays PLC.

Additional note

Group executive directors' guaranteed remuneration, conditional fixed remuneration, and performance bonuses are paid by Absa Bank Limited, other than in the case of D Bruynseels.

*The Group has, in the year under review, introduced a medical insurance subsidy for all employees. This subsidy falls outside of total cost-to-company remuneration for reasons relating to the need to track the subsidy separately from other cost-to-company remuneration items. The subsidy is R400 per month across the board for all permanent employees, including executive directors, irrespective of grade or pay level.

**As mentioned previously in this report, the payment of conditional fixed remuneration took place in respect of 2006 for the last time, as the conditional fixed remuneration scheme has been discontinued with effect from 1 January 2007. The performance bonus for the nine months ended 31 December 2005 excluded conditional fixed remuneration. For 2006, the conditional fixed remuneration has been separated from the performance bonuses owing to the total cost-to-company remuneration adjustments (effective 1 April 2007) that will be effected to the revised cost-to-company remuneration figures (with regard to the inclusion of conditional fixed remuneration in total cost-to-company remuneration with effect from 1 April 2007).

***Performance bonuses for 2006.

Group executive director	Cash consideration R	Deferred as part of the ESAS R	Total R
S F Booysen	**9 000 000**	**3 000 000**	**12 000 000**
J H Schindehütte	**4 125 000**	**1 375 000**	**5 500 000**
L L von Zeuner	**5 925 000**	**1 975 000**	**7 900 000**
Total	**19 050 000**	**6 350 000**	**25 400 000**

The performance bonuses comprise a cash portion (as to 75% of the notional performance bonus), which will have accrued to the Group executive director concerned, and a non-cash portion (as to 25% of the notional performance bonus), which will be deferred into the mandatory ESAS.

Long-term incentive plans

The Group has, until May 2006, operated a share incentive scheme designed to link the interests of executive directors and eligible employees with those of shareholders and the long-term desired strategic positioning of the Group.

All full-time senior managerial and professional employees above an agreed job grade were eligible to participate in the share incentive scheme, principally based on the ability of the individual to influence the Group's performance and the retention of key talent. One-third of the options vested on the third anniversary of the date of grant, a further third vested on the fourth anniversary of the date of grant and the final third on the fifth anniversary of the date of grant. All options in terms of the scheme have a ten-year expiry period. There are specific provisions governing retirement, death, retrenchment, ill health and contractual termination.

In addition to the requirement that recipients be in the employ of the Group on vesting dates, there were earnings-based performance measures linked to the allocation of share options in 2005. Recipients are generally key employees whose current and potential contributions to achieving or implementing Absa's strategy were taken into account.

The share incentive scheme has been supplemented with revised incentive plans to bring the Absa incentive plans in line with best practice. The new incentive plans were approved by shareholders at a special general meeting held on 10 May 2006.

Although the Group may still use the incentive scheme referred to above, the Group has, in the year under review, introduced new incentive plans, namely the PSP, the Phantom PSP, the ESAS and the Phantom ESAS.

The PSP is aimed at rewarding future performance by incentivising senior Absa employees, including executive directors, to achieve performance targets. The Absa Group Remuneration Committee annually makes an award of PSP shares or Phantom PSP shares to senior managers, professionals and executives and sets performance conditions applicable for a three-year period. The Group Remuneration Committee ensures that the performance conditions are sufficiently demanding and support profitable growth, capital efficiency, risk management and the creation of shareholder value. The Group Remuneration Committee engages with external advisers (Kepler & Associates) to obtain advice on performance conditions. In addition, the vesting of awards is subject to:

- a basic financial hurdle, such that the cumulative profit after tax for the Group in the three-year performance period attached to each award must be greater than the Group's cumulative profit after tax of the previous three-year period; and
- a second, three-year performance condition, typically an internal, non-market-based and/or an external market-based performance condition that applies to 100% of the PSP shares or Phantom PSP shares under each award. It being recorded that the minimum threshold for any vesting of 2006 awards will be based on growth in the Group's earnings per share of CPIX plus 5%, measured at a cumulative compound annual growth rate.

At the end of the three-year period, the final award of shares may be between 0% and 300% of the award, depending on the extent to which the performance conditions have been met.

Rand value awards took place, effective 22 May 2006, in terms of the rules of the Phantom PSP. Subsequent to the awards taking place, the participants were informed of the actual number of phantom shares that they were awarded. The awards were calculated at the volume-weighted price over the 20 days immediately preceding the award date. The details of the awards for Group executive directors are listed on page 38 of this report. The use of a rand-value award mechanism enables easy communication of the underlying value of the award. It also enables the Group Remuneration Committee to obtain an overall view of an individual's total compensation (total cost-to-company remuneration, discretionary bonus and share or phantom share award).

The purpose of the ESAS is, inter alia, to increase employee and shareholder alignment through employee share ownership, as well as to retain key personnel. Employees, including executive directors, whose annual bonuses are in excess of a certain level, participate in the ESAS. In terms of the ESAS, 25% of an employee's annual performance bonus is mandatorily converted into a number of nil-cost* options, shares or phantom shares. A further 75% of a participating employee's bonus can be converted voluntarily by the employee. If the employee is still in the employ of the Group after a period of three years, he or she will receive certain bonus (matched) shares (or phantom shares) and certain dividend shares. A further portion of bonus (matched) shares and dividend shares will be awarded if the participant is still in the employ of the Group after a period of five years from the original date. The ESAS is therefore a deferred bonus plan that rewards participating employees with matched shares and encourages them to share in growth in Absa's share price. Generally, no performance conditions will apply to the ESAS.

The Group's senior executives, including Group executive directors, who elected to convert their banked bonuses during the period under review will participate in the Phantom ESAS in substitution for the Banked Bonus scheme.

The options granted in terms of the previous incentive scheme remain in place and may be exercised in terms of the rules under which the shares were granted.

Group executive directors' share options – composition of opening balances at 1 January 2006

			Share options granted		
Group executive director	Note	Date of grant	Expiry date of options	Number granted	Price R
S F Booysen	1	19 Jun '01	19 Jun '11	23 334	37,43
		7 Jun '02	7 Jun '12	80 000	33,67
		5 Jun '03	5 Jun '13	135 000	35,01
		7 Jun '04	7 Jun '14	300 000	48,73
		18 Aug '05	18 Aug '15	180 000	91,70
				718 334	
D Bruynseels	2	—	—	—	—
				—	
J H Schindehütte	3	19 Jun '01	19 Jun '11	23 334	37,43
		7 Jun '02	7 Jun '12	46 667	33,67
		5 Jun '03	5 Jun '13	30 000	35,01
		31 May '04	31 May '14	186 856	46,56
		18 Aug '05	18 Aug '15	30 000	91,70
				316 857	
L L von Zeuner	4	1 Apr '01	1 Apr '11	16 668	32,61
		19 Jun '01	19 Jun '11	21 668	37,43
		7 Jun '02	7 Jun '12	40 000	33,67
		5 Jun '03	5 Jun '13	95 000	35,01
		7 Jun '04	7 Jun '14	26 000	48,73
		19 Aug '04	19 Aug '14	102 000	51,61
		18 Aug '05	18 Aug '15	60 000	91,70
				361 336	

Notes

(1) Appointed to the Absa Group board on 1 August 2004.

(2) Appointed to the Absa Group board on 27 July 2005.

(3) Appointed to the Absa Group board on 1 January 2005.

(4) Appointed to the Absa Group board on 1 September 2004.

*An option that can be exercised at a zero strike price at any point between the end of the vesting period (after three years) and the end of the further vesting period (after five years).

Group executive directors' share option movements – Share incentive scheme

Group executive director	Note	Opening balance	Share options granted* Number	Date of grant	Price R	Expiry date	Share options exercised Number	Purchase date**/ exercise date	Option price R	Shares purchased/ Gains on share options exercised*** R	Balance of share options
Twelve months ended 31 December 2006											
S F Booysen	1	718 334	—	—	—	—	23 334	25 Aug '06		Shares purchased at share option price of R37,43	
							40 000	25 Aug '06		Shares purchased at share option price of R33,67	
							45 000	25 Aug '06		Shares purchased at share option price of R35,01	610 000
D Bruynseels	2	—	—	—	—	—	—	—		—	—
J H Schindehütte	3	316 857	—	—	—	—	23 334	24 Aug '06		Shares purchased at share option price of R37,43	
							23 333	24 Aug '06		Shares purchased at share option price of R33,67	
							10 000	24 Aug '06		Shares purchased at share option price of R35,01	260 190
L L von Zeuner	4	361 336	—	—	—	—	16 668	6 Apr '06		Shares purchased at share option price of R32,61	344 668

*The share incentive scheme has not been used for new allocations to Group executive directors in respect of the year under review, given the introduction of the PSP.

**Options are exercisable at any date from the vesting date. Where the activity reported upon is a purchase of shares, the purchase date has been reflected, in which event a preceding exercise of the options would already have taken place.

***Note that a "gain" arises where the options have been exercised at a price higher than the grant date price during the year under review. Where no cash gain has been realised, in circumstances where a purchase of the shares has taken place, then the details of this purchase have been disclosed instead.

			Share options granted*				Share options exercised				
Group executive director	Note	Opening balance	Number	Date of grant	Price R	Expiry date	Number	Purchase date**/ exercise date	Option price R	Shares purchased/ Gains on share options exercised*** R	Balance of share options
Nine months ended 31 December 2005											
S F Booysen	1	735 750	180 000	18 Aug '05	91,70	18 Aug '15	104 450	27 Jul '05	82,50	3 803 653	
							69 633	2 Aug '05	93,77	6 491 563	
							23 333	14 Dec '05		Shares purchased at share option price of R37,43	718 334
D Bruynseels	2	—	—	—	—	—	—	—	—	—	—
J H Schindehütte	3	471 856	30 000	18 Aug '05	91,70	18 Aug '15	97 000	27 Jul '05	82,50	3 877 928	
							40 000	27 Jul '05		Shares purchased at share option price of R23,73	
							6 000	27 Jul '05		Shares purchased at share option price of R26,53	
							9 333	27 Jul '05		Shares purchased at share option price of R37,43	
							9 333	27 Jul '05		Shares purchased at share option price of R33,67	
							23 333	13 Sep '05		Shares purchased at share option price of R37,43	316 857
L L von Zeuner	4	478 400	60 000	18 Aug '05	91,70	18 Aug '15	106 239	27 Jul '05	82,50	3 502 587	
							8 000	27 Jul '05		Shares purchased at share option price of R27,49	
							4 160	27 Jul '05		Shares purchased at share option price of R30,47	
							4 000	27 Jul '05		Shares purchased at share option price of R17,85	
							8 000	27 Jul '05		Shares purchased at share option price of R27,68	
							8 000	27 Jul '05		Shares purchased at share option price of R26,53	
							13 333	27 Jul '05		Shares purchased at share option price of R32,61	
							17 332	27 Jul '05		Shares purchased at share option price of R37,43	
							8 000	27 Jul '05		Shares purchased at share option price of R33,67	361 336

Notes

(1) Appointed to the Absa Group board on 1 August 2004.

(2) Appointed to the Absa Group board on 27 July 2005.

(3) Appointed to the Absa Group board on 1 January 2005.

(4) Appointed to the Absa Group board on 1 September 2004.

*The share incentive scheme has not been used for new allocations to Group executive directors in respect of the year under review, given the introduction of the PSP.

**Options are exercisable at any date from the vesting date. Where the activity reported upon is a purchase of shares, the purchase date has been reflected, in which event a preceding exercise of the options would already have taken place.

***Note that a “gain” arises where the options have been exercised at a price higher than the grant date price during the period under review. Where no cash gain has been realised, in circumstances where a purchase of the shares has taken place, then the details of this purchase have been disclosed instead.

Group executive directors' share award movements – Phantom PSP*

Group executive director	Note	Opening balance at 1 January 2006	Phantom PSP shares granted: Initial allocation granted during 2006**	Date of grant	Price*** R	Expiry date	Closing balance as at 31 December 2006
S F Booysen	1	—	51 194	22 May '06	117,20	22 May '09	51 194
D Bruynseels	2	—	—	—	—	—	—
J H Schindehütte	3	—	23 464	22 May '06	117,20	22 May '09	23 464
L L von Zeuner	4	—	33 617	22 May '06	117,20	22 May '09	33 617

Notes

(1) Appointed to the Absa Group board on 1 August 2004.
(2) Appointed to the Absa Group board on 27 July 2005.
(3) Appointed to the Absa Group board on 1 January 2005.
(4) Appointed to the Absa Group board on 1 September 2004.

*The first allocations of the Phantom PSP took place in 2006. Therefore there is no comparable data for the previous reporting period. One Phantom PSP share has a value equivalent to one Absa ordinary share.

**As mentioned on page 34 of this report, the scheme is subject to profit after tax and stretched earnings per share performance measures, which, if achieved, will have the effect of an increase on the initial allocation of Phantom PSP shares to a maximum of three times.

***The price is the volume-weighted average price for the 20 trading days immediately preceding the grant date (22 May 2006).

Conversion of banked bonuses to ESAS by executive directors

	Number of phantom shares under ESAS*	Date of grant	Price R**	Expiry date***	Closing balance – number of phantom shares under ESAS
S F Booysen	32 934	14 Jun '06	107,63	14 Jun '09	32 934
D Bruynseels	—	—	—	—	—
J H Schindehütte	15 665	14 Jun '06	107,63	14 Jun '09	15 665
L L von Zeuner	23 653	14 Jun '06	107,63	14 Jun '09	23 653

*The banked bonus is not a new award, as this has been disclosed as part of the performance bonus awards for 2004 and 2005.

**The price is the volume-weighted price over the 20 trading days up to and including 14 June 2006.

***Although the vesting date is the third anniversary of the award date, there is an opportunity for a participant to remain in the scheme for a further two-year period.

Additional note

Please note that the portion of the 2006 notional performance bonuses that will be deferred to ESAS (which takes place in 2007) are contained on page 33 of this report.

Absa executive compensation plans

Two new executive compensation plans were introduced during the previous reporting period. These plans are intended to:

- retain key members of the management team; and
- deliver, as a minimum, the Barclays business case*** for the acquisition of a controlling stake of the Absa Group.

The first plan – Barclays special incentive plan

The first plan, known as the Barclays special incentive plan, is delivered in Barclays PLC shares, but is dependent on Absa's performance relative to the achievement of the business case**** in terms of the acquisition of a controlling stake in the Absa Group. The plan is aimed at selected key individuals, namely S F Booysen, D Bruynseels, J H Schindehütte, L L von Zeuner, R R Emslie and N P Mageza. The costs associated with the plan are borne directly by Barclays and therefore do not affect Absa's financial performance. The Barclays and Absa remuneration committees approve any awards under this plan and scrutinise the performance outcomes.

****Delivery of the business case means realisation of the synergy benefits as well as the delivery of Absa's business-as-usual performance. Barclays Africa is excluded.

Group executive directors – Barclays PSP awards*

	Opening balance at 1 January 2006	Barclays PLC shares granted during 2006	Performance period	Vesting date	Closing balance as at 31 December 2006
S F Booysen	—	100 224	1 Apr ’05 – 30 Jun ’08	30 Sept ’08	100 224
D Bruynseels	—	27 839	1 Apr ’05 – 30 Jun ’08	30 Sept ’08	27 839
J H Schindehütte	—	29 209	1 Apr ’05 – 30 Jun ’08	30 Sept ’08	29 209
L L von Zeuner	—	49 090	1 Apr ’05 – 30 Jun ’08	30 Sept ’08	49 090

*This is an award of Barclays shares. Absa does not bear the cost of these awards. The specific performance conditions are linked to the underlying Absa Group performance from the period 1 April 2005 to 30 June 2008. There is a multiplier dependent on Absa’s performance, the range of the multiplier being from zero to six times the initial allocation, with the maximum award being made in the event of performance being equal to 130% of the predetermined business case**. These conditions have been approved by the Barclays Group Remuneration Committee. The attainment of these measures will be determined in respect of the published results for June 2008.

The second plan – Special discretionary bonus plan

The second plan consists of a special discretionary performance bonus for selected key roles (approximately 30 in number). Key criteria include the delivery of the business case** in terms of the acquisition of a controlling stake in Absa and an individual’s performance. The participants include a number of individuals assigned to Absa from Barclays. Participants in the Barclays special incentive plan detailed previously will not participate in this plan. The bonus, which may be up to 200% of guaranteed fixed remuneration, will be delivered in cash by Absa after two years, subject to individual performance assessments, taking into account delivery of the business case**, including growth in profit before tax, the realisation of synergies, the management of restructuring costs and personal contribution. The Group Remuneration Committee will approve any awards under this plan, and will scrutinise the performance outcomes.

Group executive directors’ service contracts

The service contracts of executive directors do not have a fixed term, but provide for a notice period of six months. Group executive directors retire from their positions and from the board (as executive directors) at the age of 60.

Severance arrangements

Absa’s policy when terminating the services of an individual for operational reasons is to make use of the following formula to calculate the severance package: a minimum of two months of the total annual fixed remuneration package is payable for up to two completed years of service, plus two weeks of the annual remuneration package for each additional completed year of service.

The maximum severance compensation payable is limited to an amount equal to six months of the annual remuneration package of the retrenchee. In cases where the benefits calculated under the rules of the Basic Conditions of Employment Act are more beneficial than the above formula, the provisions of the Act apply (one week’s pay for each completed year of service). An executive director would need to have been in Absa’s service for longer than 24 years for the rules of the Basic Conditions of Employment Act to be more beneficial.

Absa aims to apply the above policy to all employees, including Group executive directors. However, depending on circumstances, it is sometimes necessary to negotiate with the Group executive director, or employee, whose contract is being terminated.

Group non-executive directors’ remuneration

Non-executive directors are remunerated for their membership of the boards of Absa Group Limited and Absa Bank Limited and board-appointed committees. The remuneration rates reflect the size and complexity of the Group.

**Delivery of the business case means realisation of the synergy benefits as well as the delivery of Absa’s business-as-usual performance. Barclays Africa is excluded.

Group remuneration report

Market practices and external remuneration surveys are taken into account in determining non-executive directors' remuneration. The elements of non-executive directors' remuneration are:

- a base fee and a fee for special board meetings;
- a fee as a member of a board committee (including special board committees and special board committee meetings); and
- fees for ad hoc investigative and consultancy work.

Absa's fee structure, as approved by shareholders, is indicated in the table below.

Category	Note	Remuneration from 1 May 2006 to 30 April 2007 R	Remuneration from 1 October 2005 to 30 April 2006 R
Chairman	1 & 11	**3 154 200**	**2 500 000**
Board member	2, 3 & 11	**123 200**	**112 000**
Group Audit and Compliance Committee (GACC) member	4 & 11	**104 400**	**87 000**
Group Risk Committee (GRC) member	5 & 11	**68 000**	**63 000**
Group Remuneration Committee (Rem Com) member	6 & 11	**54 600**	**52 000**
Directors' Affairs Committee (DAC) member	7 & 11	**41 000**	**39 000**
Credit Committee: Large Exposures member	8 & 11	**41 000**	**39 000**
Implementation Committee member	9, 10 & 11	**41 000**	**39 000**
Group Credit Committee member	12	**Pool of R350 000 per annum payable to committee members pro rata to the number of facilities reviewed.**	**Pool of R300 000 per annum payable to committee members pro rata to the number of facilities reviewed.**
Special board meeting (per meeting)		**16 500**	**15 000**
Special board committee meeting		**10 600**	**9 700**
Ad hoc board fees:			
• per ad hoc board committee meeting attended		**10 600**	**9 700**
• consultancy work		**R2 750 per hour**	**R2 500 per hour**

Notes

(1) From 1 May 2006, the chairman's remuneration was changed to an all-in basis. Previously, he received fees as Absa Group Limited and Absa Bank Limited board chairman equal to twice the fee payable to a board member, over and above this annual remuneration as chairman.

(2) The deputy chairman receives fees equal to 1,5 times the fee payable to a board member.

(3) Executive directors of Absa Group Limited receive fees, as members of the Absa Group Limited board, equal to the fees payable to a board member.

(4) The GACC chairman receives fees equal to twice the fee payable to a GACC member.

(5) The GRC chairman receives fees equal to twice the fee payable to a GRC member.

(6) The Rem Com chairman receives fees equal to twice the fee payable to a Rem Com member.

(7) As the Group chairman is chairman of the DAC, this is covered by his Group chairman's fee.

(8) As the Group chairman is also the chairman of the Credit Committee: Large Exposures, this fee is covered by his Group chairman's fee.

(9) The Implementation Committee chairman receives fees equal to twice the fee payable to an Implementation Committee member.

(10) The Implementation Committee is a committee that was established in 2005 to provide governance oversight on various implementation issues arising from the Barclays transaction.

(11) The fees payable to non-executive directors of Absa Group Limited in respect of subsidiary companies are not included as these fees are approved by the shareholders of the respective subsidiaries.

(12) This fee has been revised in the period under review. Although the pool has remained the same, the basis of splitting the pool has changed to a fee per facility rather than a pro rata split of the pool.

The remuneration of Group non-executive directors is submitted to shareholders for sanction at the annual general meeting prior to implementation and payment.

The following table indicates Absa's non-executive directors' emoluments.

		Fees for the twelve months ended 31 December 2006*					Actual fees for the nine months ended 31 December 2005*
Name	Note	Absa Group Limited R	Absa Bank and its subsidiaries R	Ad hoc fees R	Committees R	Total R	Total R
D C Cronjé (chairman)	1	**74 667**	**3 029 533**	**10 600**	**—**	**3 114 800**	3 634 160
D C Brink (deputy chairman)		**179 200**	**144 000**	**96 350**	**485 167**	**904 717**	661 186
L N Angel	2	**119 467**	**96 000**	**15 750**	**39 504**	**270 721**	209 500
D C Arnold		**119 467**	**96 000**	**9 700**	**209 883**	**435 050**	269 700
D E Baloyi	3	**119 467**	**96 000**	**—**	**70 600**	**286 067**	144 000
L Boyd	4	**—**	**—**	**—**	**—**	**—**	237 938
B P Connellan		**119 467**	**96 000**	**35 750**	**336 163**	**587 380**	316 692
Y Z Cuba	6	**—**	**—**	**—**	**—**	**—**	—
A S du Plessis		**119 467**	**96 000**	**89 100**	**497 591**	**802 158**	511 767
G Griffin		**119 467**	**96 000**	**25 008**	**199 467**	**439 942**	263 235
M W Hlahla	7	**119 467**	**96 000**	**—**	**28 333**	**243 800**	—
L N Jonker		**119 467**	**96 000**	**15 750**	**72 033**	**303 250**	216 500
N Kheraj	5	**119 467**	**96 000**	**19 400**	**190 233**	**425 100**	161 033
P du P Kruger		**119 467**	**96 000**	**70 600**	**267 167**	**553 234**	414 150
L W Maasdorp	2 & 13	**88 667**	**71 250**	**25 450**	**165 183**	**350 550**	282 650
P T Motsepe	8	**—**	**—**	**—**	**—**	**—**	62 333
D L Roberts	5 & 12	**98 933**	**79 500**	**21 200**	**164 633**	**364 266**	140 366
F F Seegers	9	**20 533**	**16 500**	**—**	**38 367**	**75 400**	—
T M G Sexwale		**119 467**	**96 000**	**—**	**50 933**	**266 400**	171 750
F A Sonn		**119 467**	**96 000**	**25 750**	**58 183**	**299 400**	188 750
P E I Swartz		**119 467**	**96 000**	**35 750**	**76 833**	**328 050**	233 500
T van Wyk	10	**—**	**—**	**—**	**—**	**—**	162 000
J van Zyl	11	**—**	**—**	**—**	**—**	**—**	62 332
Total		**2 015 071**	**4 588 783**	**496 158**	**2 950 273**	**10 050 285**	8 343 542

Notes

(1) As a result of the additional time spent by the Group chairman, Dr D C Cronjé, on Absa matters during the period from August 2004 to May 2005, over and above his current contractual arrangement with Absa, shareholders ratified the payment of R1,5 million at the annual general meeting held on 19 August 2005. This fee is included in the total fees for the nine months ended 31 December 2005.

(2) Appointed to the Absa Group board on 16 August 2004.

(3) Appointed to the Absa Group board on 31 December 2004.

(4) Resigned from the Absa Group board on 30 December 2005.

(5) Appointed to the Absa Group board on 27 July 2005.

(6) Appointed to the Absa Group board on 6 December 2006.

(7) Appointed to the Absa Group board on 23 December 2005.

(8) Appointed on the Absa Group board on 9 July 2004. He subsequently resigned from the Absa Group board on 27 July 2005.

(9) Appointed to the Absa Group board on 23 October 2006.

(10) Resigned from the Absa Group board on 27 July 2005.

(11) Appointed to the Absa Group board on 19 April 2004. He subsequently resigned from the Absa Group board on 27 July 2005.

(12) Resigned from the Absa Group board on 23 October 2006.

(13) Resigned from the Absa Group board on 30 September 2006.

*All emoluments to Group non-executive directors are paid by Absa Bank Limited, as disclosed in note 48.5 to the financial statements.

Absa shares held by Absa Group directors

Ordinary shares

Certain executive and non-executive directors have an interest in the Group through beneficial and non-beneficial interests in Absa shares. This is disclosed in the directors' report on page 64 of this report.

Absa Bank preference shares

Certain executive and non-executive directors have an interest in the Group through Absa Bank Limited preference shares. This is disclosed in the directors' report on page 66 of this report.

Preference shareholding in Absa

Shareholders approved the allocation of cumulative redeemable option-holding preference shares (preference shares) to a number of previously disadvantaged individuals, qualifying employees, and black non-executive directors in terms of the Group's broad-based black economic empowerment transaction on 25 June 2004. These allocations were made to Batho Bonke Capital (Proprietary) Limited (73 152 300 shares) and the Absa Group Limited Employee Share Ownership Administrative (ESOP) Trust (6 085 200 shares).

Absa's broad-based black economic empowerment and employee transactions entailed an 11% interest in Absa being allocated in the form of redeemable cumulative option-holding preference shares. These redeemable preference shares have the same rights as ordinary shares, including voting rights, save for the rights relating to dividends, redemption, the options and liquidation. The option exercise period is from 2 July 2007 to 1 July 2009. A variable option strike price is a core element of the transaction and is as follows:

- If the Absa share price ≤ R70,00, the strike price is R48,00; or
- If the Absa share price > R70,00, but ≤ R100,00, the strike price is R48,00 + 70 cents for each completed R1,00 increment in the share price over R70,00; or
- If the Absa share price > R100,00, the strike price is R69,00.

The Group's broad-based black economic empowerment and employee transactions create value for all Absa stakeholders by providing a platform for meaningful wealth creation for as many previously disadvantaged individuals as possible, enhancing employee loyalty and commitment, expanding the Group's customer base and improving customer loyalty.

The following Absa non-executive directors hold preference shares in Absa indirectly through their direct and indirect holdings of ordinary shares in Batho Bonke:

	Absa preference shares	
Group non-executive director	**31 December 2006**	31 December 2005
L N Angel	**1 280 165**	1 280 165
D E Baloyi	**150 000**	100 000
Y Z Cuba	**91 600**	—
M W Hlahla	**50 000**	—
L W Maasdorp	**2 560 328***	2 560 328
T M G Sexwale	**4 183 090**	4 183 090
P E I Swartz	**500 000**	500 000
F A Sonn	**500 000**	500 000
Total	**9 315 183**	9 123 583

Non-executive directors' terms of employment

Non-executive directors do not have service contracts. Letters of appointment confirm the terms and conditions of their service.

*Resigned from the Absa Group board on 30 September 2006.

Introduction

This analysis deals with the consolidated annual financial results of the Absa Group, its wholly owned subsidiaries, Absa Bank Limited (Absa Bank or the Bank), Absa Financial Services Limited (Absa Financial Services) and its holdings in other subsidiary and associated companies for the twelve months ended 31 December 2006.

As a result of the change in the Group's year-end from March to December, the previous audited financial results for the Group were for the nine months ended 31 December 2005. To facilitate evaluation and interpretation, the financial results for the period under review have been compared with the unaudited pro forma financial results for the twelve months ended 31 December 2005.

Key highlights of the Group's financial performance

- **25,3%** growth in headline earnings to R7 872 million.
- **23,8%** increase in headline earnings per share to 1 181,8 cents per share.
- **27,4%** return on shareholders' equity.
- **473 cents** dividend per share was declared.

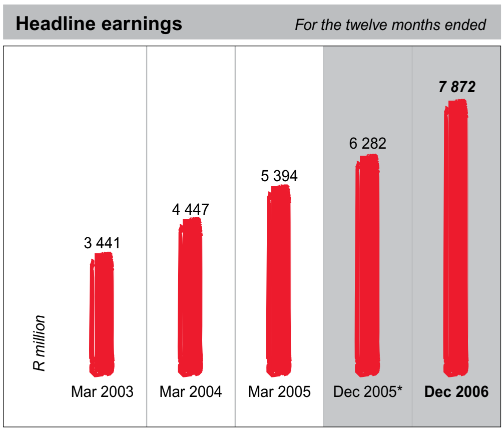
Group performance

Headline earnings

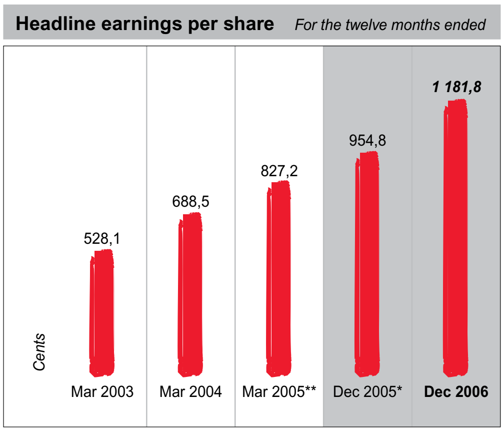
Objective: The Group aims to achieve real headline earnings growth of 10%.

Performance: The Group increased headline earnings by 25,3%, compared with December 2005 (pro forma), to R7 872 million. This growth outperforms the Group's objective of delivering real earnings growth of 10%.

All banking business segments delivered a strong performance, compared with December 2005 (pro forma). Retail banking grew headline earnings by 31,8% and Absa Corporate and Business Bank, Absa Capital and the African operations reflected growth of 36,7%, 45,9% and 24,5% respectively. The bancassurance businesses delivered sound operating performances. Following a year of buoyant equity markets, investment income again outperformed expectations, but not to the extent achieved in 2005. This, together with the higher claims experience in the short-term insurance operations, resulted in the modest attributable earnings growth of 7,4%.



*Twelve months pro forma figures.



*Twelve months pro forma figures.
**The comparatives for March 2005 have been restated for International Financial Reporting Standards.

Diluted headline earnings per share

Fully diluted headline earnings per share amounted to 1 121,3 cents. This is an increase of 21,8% compared with the same period of the previous year and includes a dilution of 5,1% or 60,5 cents per share. This dilution flows from the increase in the value of the options issued to Batho Bonke Capital (Proprietary) Limited (Absa's black economic empowerment partner), the Absa Group Limited Share Incentive Trust and the Absa Group Limited Employee Share Ownership Administrative (ESOP) Trust (the trust established to facilitate Absa's employee share ownership programme).

Return on average equity (RoE)

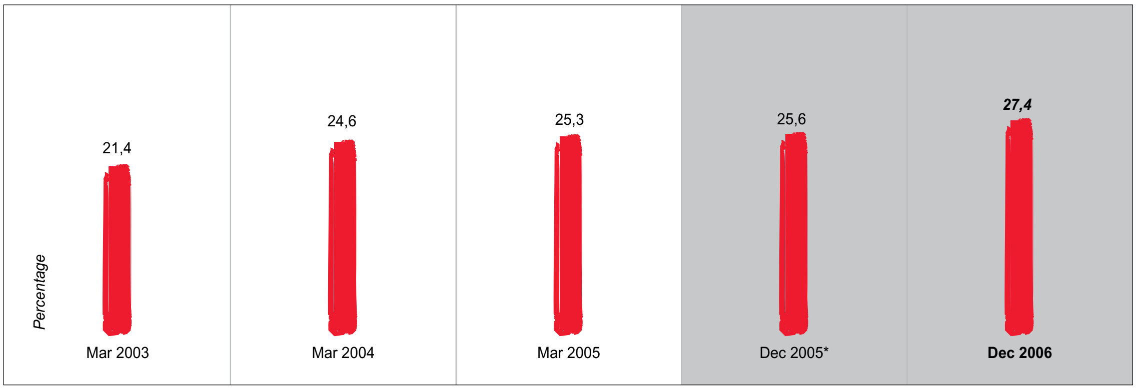
Objective: The Group aims to maintain an RoE of at least 5% above the cost of equity (CoE).

Performance: The Group achieved an RoE of 27,4% for the twelve months under review. This pleasing result has enabled a sustained outperformance of 13,9% on the Group's objective of achieving an RoE of at least 5% above the Group's cost of equity of 13,5%.

To promote a thorough understanding of factors contributing to the Group's performance, an RoE decomposition has been provided.

	Note		**31 December 2006 %**		31 December 2005 %
Net interest/interest-bearing assets			**3,69**		3,65
		multiply		multiply	
Interest-bearing assets/total assets			**0,89**		0,90
		equals		equals	
Net interest yield	1		**3,30**		3,28
		plus		plus	
Non-interest yield	2		**3,42**		3,82
		equals		equals	
Gross yield			**6,72**		7,10
		less		less	
Credit impairment	3		**0,35**		0,25
		equals		equals	
Risk-adjusted yield			**6,37**		6,85
		less		less	
Expenses	4		**3,68**		4,08
		less		less	
Taxes			**0,89**		1,07
		plus		plus	
Associated undertakings and joint ventures			**0,03**		0,03
		less		less	
Minorities			**0,04**		0,02
		less		plus	
Headline earnings adjustments			**0,05**		0,01
		equals		equals	
RoA	5		**1,74**		1,72
		multiply		multiply	
Gearing (average total assets/average equity)			**15,78**		14,90
		equals		equals	
RoE			**27,4**		25,6

Return on average equity *For the twelve months ended*



**Twelve months pro forma figures.*

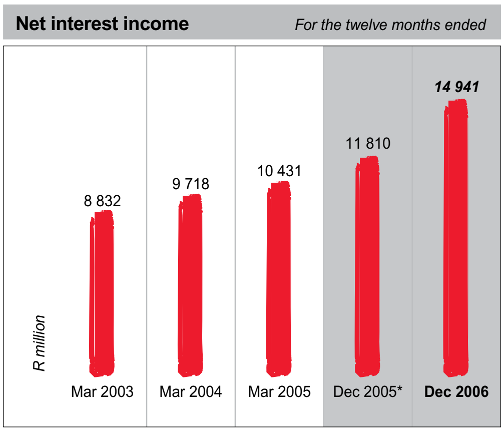
Note 1 – Net interest yield

Interest income

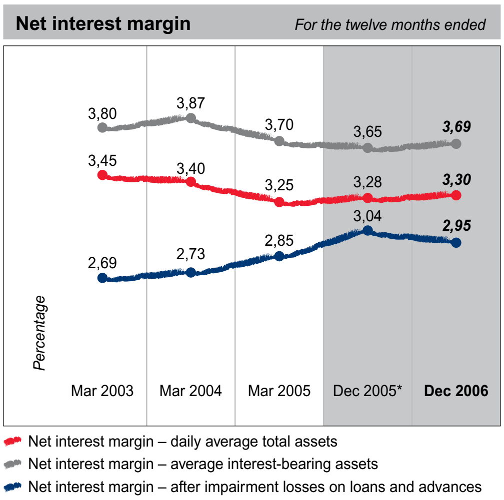
Performance: The Group's net interest income grew strongly from R11 810 million for the pro forma twelve months ended 31 December 2005 to R14 941 million for the twelve months ended 31 December 2006.

Loans and advances to customers increased by 25,8% from 31 December 2005. The growth in advances was largely supported by high growth in mortgages, credit cards and commercial property finance.

The Group recorded a net interest margin in respect of average assets of 3,30% for the period under review (twelve months to 31 December 2005: 3,28%). The interest margin has remained relatively stable as a result of the benefit of prime rate increases and preference shares issued by Absa Bank, which was offset by a greater reliance on wholesale funding and competitive pressure on lending rates.



*Twelve months pro forma figures.



*Twelve months pro forma figures.

Gross loans and advances to customers

Performance: Gross advances increased by 25,0% to R390 926 million, compared with 31 December 2005. Personal, commercial and wholesale advances showed growth of 31,0%, 24,9% and 9,0% respectively.

The growth in personal advances continues to be driven by increased household credit extension. Sound advances growth continues to be experienced in the affluent and high net worth market, with Absa Private Bank increasing its advances base by 23,2%.

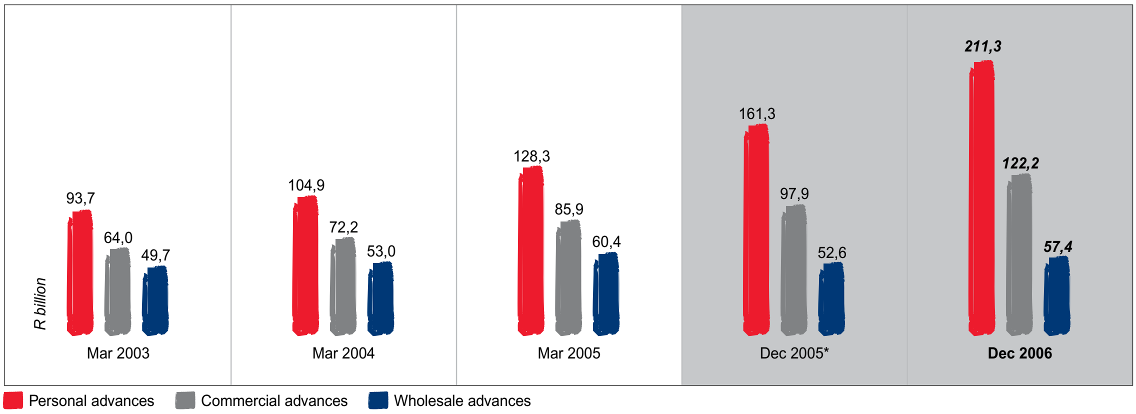
Absa's repossessed properties portfolio continues to decline, with the total number of properties in possession declining by 54,8% from December 2005. The remaining properties in this portfolio (2 390 properties) have been adequately provided for. The solid growth in commercial advances was partly owing to high new business volumes.

The growth in the Group's instalment finance operations was assisted by the low vehicle price inflation. Strategic alliances with key suppliers and manufacturers continue to contribute to asset growth.

Both the large and medium business segments in Absa Corporate and Business Bank drove commercial advances growth. The strong property market remained a solid contributor to the 24,9% growth in commercial lending, reflecting growth of 33,9%.

The Group's wholesale advances experienced 9,0% growth. However, the demand for traditional interest-bearing products remained under pressure. Investments undertaken by Absa's securitisation vehicle (Abacas) and the appetite for specialised and project finance contributed significantly to the growth. These assets attract fees and offer narrower margins than traditional lending products.

Gross loans and advances to customers



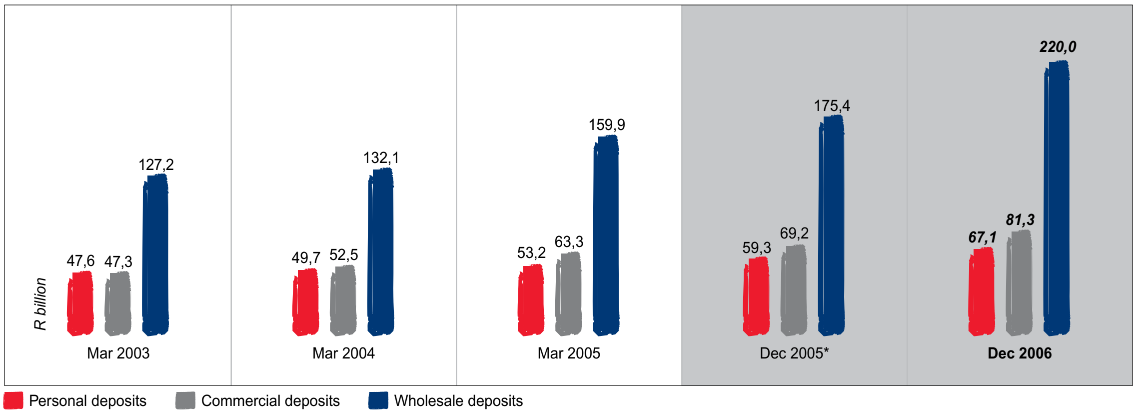
*Reclassification of wholesale funding with banks to loans and advances to banks.

Deposits due to customers

Performance: Personal and commercial deposits comprise 40,3% of the Group's funding base, which is lower than the 42,3% recorded at 31 December 2005. This can be attributed to a change in the funding mix towards wholesale advances.

It remains difficult to attract retail deposits at a time when interest rates are relatively low, as investors look to higher-yielding asset classes. Despite this, personal and commercial deposits have grown 13,2% and 17,5% respectively, compared with 31 December 2005.

Deposits due to customers

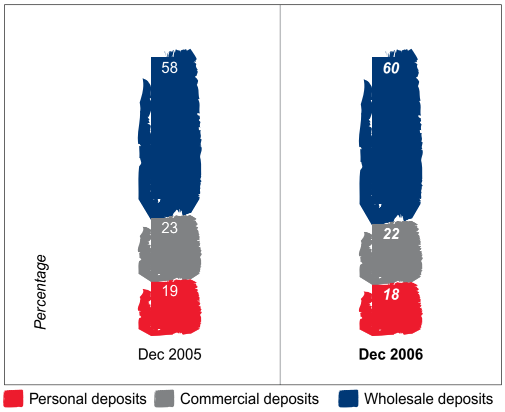


*Reclassification of wholesale funding with banks to deposits from banks.

Composition of deposits

	31 December 2006 Rbn	2005 Rbn	Change %
Cheque deposits	**50**	41	23,3
Saving and transmission deposits	**26**	23	18,2
Fixed and notice deposits	**50**	45	10,2
Other deposits	**22**	20	8,4
Total personal and commercial deposits	**148**	129	15,5
Wholesale deposits	**220**	175	25,4
Total deposits	**368**	304	22,7

Deposit mix



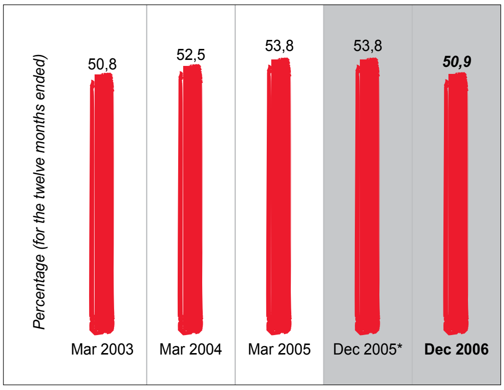
Note 2 – Non-interest income

Objective: The Group aims to maintain non-interest income at approximately 50% of top-line income.

Performance: Non-interest income constituted approximately 50% of total operating income. The solid growth was achieved on the back of increased transaction volumes, strong growth in insurance related earnings and gains from the sale of a number of strategic investments. The reported growth of total fees and commission income was a modest 8,9%, largely as a result of the loss of fees from the international operations that were sold or closed. Credit card transaction fees increased by 23,6% and fees for both cheque accounts and electronic banking were up 13,1%.

Insurance related income benefited from a 22,9% rise in net insurance premiums received and the sale of strategic investments assisted in lifting gains from investments by 21,0%.

Non-interest income as % of operating income**



*Twelve months pro forma figures.
**Excluding impairment losses.

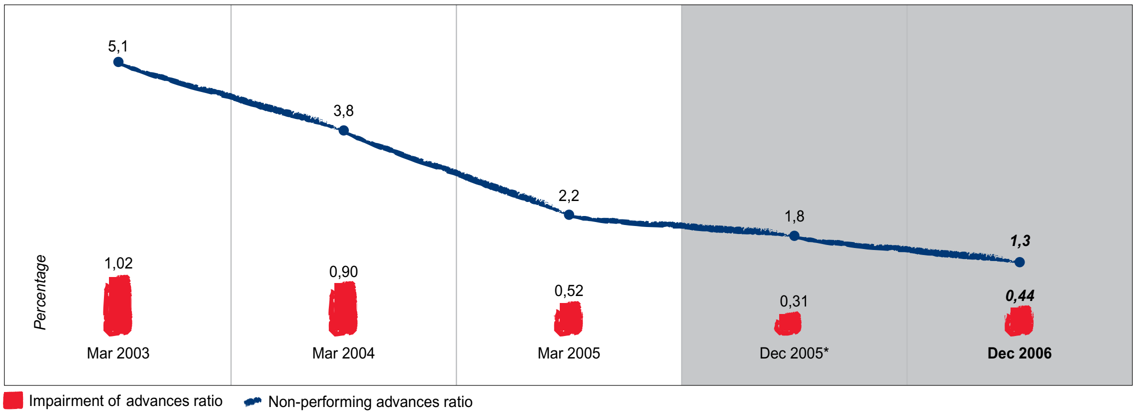
Non-interest income composition

	Twelve months ended 31 December 2006 Rm	2005 Rm	Change %
Net fee and commission income	**10 374**	9 612	7,9
Investment income	**1 916**	1 584	21,0
Trading and banking income	**1 347**	1 136	18,6
Net insurance premium income	**2 994**	2 437	22,9
Net insurance claims and benefits paid	**(1 319)**	(1 053)	(25,3)
Changes in insurance and investment liabilities	**(748)**	(532)	(40,6)
Property related and sundry income	**938**	596	57,4
Total non-interest income	**15 502**	13 780	12,5

Note 3 – Impairment losses on loans and advances

Performance: As expected, the impairment charge (R1 573 million) continued its move to more normalised levels and was substantially higher than the R875 million recorded for the corresponding period in 2005. The Group's impairment ratio (income statement charge as a percentage of average advances) for the current period was 0,44% compared with the 0,31% achieved for the twelve months ended 31 December 2005. The higher interest rates and an increase in delinquencies in the main consumer debt products impacted on the loss ratio. Furthermore, an increase in provisions to cater for the expected lower recoveries embedded in the Group's advances book as a result of the National Credit Act (NCA) also contributed to the higher loss ratio.

Impairment losses on loans and advances *For the twelve months ended*



**Twelve months pro forma figures.*

Note 4 – Operating expenditure

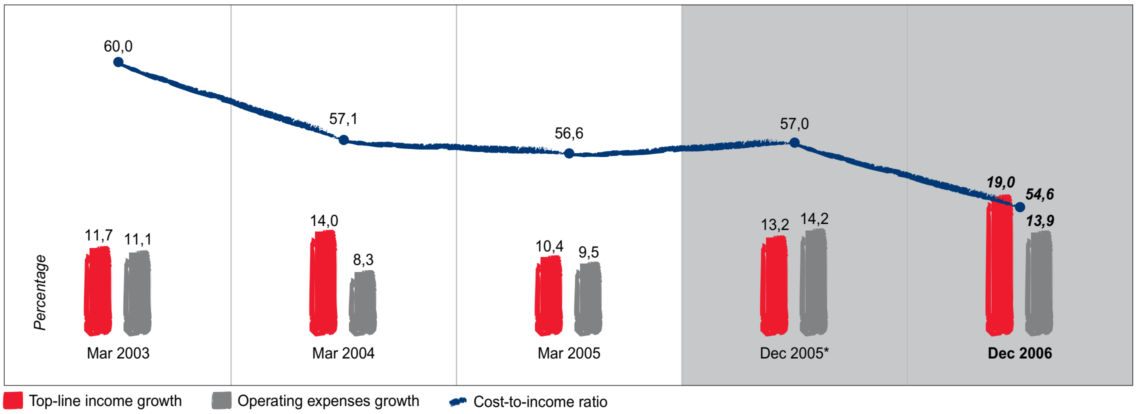
Objective: The Group aims to drive down the cost-to-income ratio towards the mid-fifties.

Performance: The favourable income growth of 19,0% outpaced operating expenditure growth by 5,1 percentage points. This led to a reduced cost-to-income ratio of 54,6%, which compares favourably with the previous year's ratio of 57,0%.

The growth in operating expenditure resulted from increased investment in the business in order to facilitate the continued growth in volumes and customers. The growth in operating expenditure is also attributable to an increase in the Group's employee complement, which increased by 1 611 to 35 154, above-inflation salary increases and higher incentive payments following the excellent performance of the Group. The investment in new delivery channels and new business initiatives, including the launch of Virgin Money and Barclays integration activities, also drove up costs.

Financial analysis

Cost-to-income ratio *For the twelve months ended*



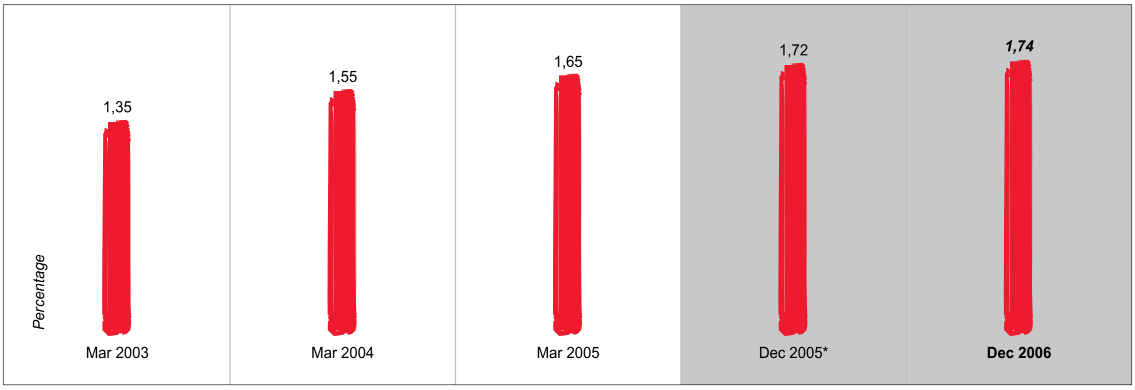
**Twelve months pro forma figures.*

Note 5 – Return on average assets (RoA)

Objective: The Group's objective is to maintain an RoA of greater than 1,5%.

Performance: The Group's RoA improved from 1,72% to 1,74% compared with the twelve months ended 31 December 2005. This increase can largely be attributed to a lower expense ratio than was achieved for the twelve months ended 31 December 2005.

Return on average assets *For the twelve months ended*

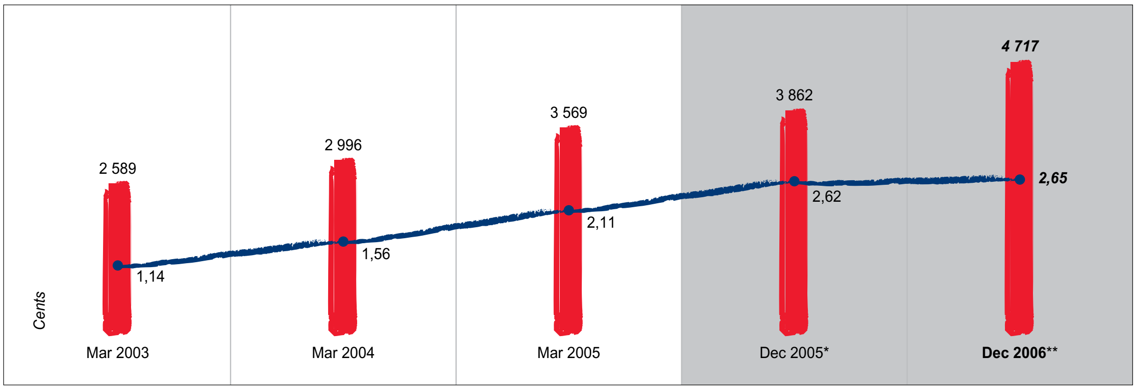


**Twelve months pro forma figures.*

Note 6 – Net asset value

Performance: As a result of the Group's strong operational performance, the net asset value of the Absa Group (excluding the Absa Bank non-cumulative, non-redeemable preference shares) increased by 22,1% from 3 862 cents per share at 31 December 2005 to 4 717 cents per share at 31 December 2006.

Net asset value



**Twelve months pro forma figures.*

***The net asset value per share figure excludes the non-cumulative, non-redeemable preference shares issued during the year.*

Management of capital: The Group's capital management activities maximise shareholders' value by optimising the level and mix of its capital resources. The ratios, composition and cost of capital of the Group are managed to ensure that entities are adequately capitalised, dividend payout ratios are appropriate to sustain the required levels of risk-weighted asset growth, in terms of the Group's strategy and that the Group's capital structure is optimal in light of approved target capital ratios.

The management of the capital base includes the management of the following components of capital across the Group:

- Ordinary shareholders' equity;
- Preference shares;
- Accounting reserves impacting capital;
- Subordinated debt instruments; and
- Development of hybrids (Basel II).

The operations of Absa Group and its subsidiaries are well capitalised and capital adequacy levels are being managed to ensure that the capital structure is optimised.

Absa's capital adequacy: On the basis of the prescribed consolidated regulatory capital requirements, the Group's capital stood at 13,1% of risk-weighted assets at 31 December 2006 (31 December 2005: 11,3%). The Group's primary capital ratio was 10,1% (31 December 2005: 8,6%) and its secondary capital ratio was 3,0% as at 31 December 2006 (31 December 2005: 2,7%).

During the period under review, Absa Bank issued a tier II bond (AB06). The principal amount of the bond was R2 billion, with a final legal maturity date of 27 March 2020 and an optional call on 27 March 2015. The issue spread for the bond was 68,5 basis points above the R157 government bond. Absa Bank also issued R3 billion in non-cumulative, non-redeemable preference shares during the period under review. These preference shares were issued with a coupon rate of 63% of the prime overdraft lending rate and were listed on the JSE Limited on 25 April 2006.

In February 2006, the Absa Group board authorised a R20 billion securitisation programme for Absa Bank. In September 2006, Absa Bank entered the first series of the programme by securitising R2 billion of its vehicle finance receivables portfolio.

Capital adequacy of Absa Bank Limited

	31 December 2006 Assets Rm	31 December 2006 Risk-weighted assets Rm	31 December 2005 Risk-weighted assets Rm
Risk-weighted assets			
Assets – banking activities			
On-balance sheet	**413 985**	**278 231**	220 920
Off-balance sheet	**728 697**	**8 498**	11 119
Total	**1 142 682**	**286 729**	232 039
Notional assets – trading activities	**—**	**10 439**	14 096
	1 142 682*	**297 168**	246 135
Qualifying capital	**Rm**	**%****	%**
Primary capital			
Ordinary share capital	**303**	**0,1**	0,1
Ordinary share premium	**5 415**	**1,8**	1,9
Preference shares	**2 992**	**1,0**	—
Reserves	**18 415**	**6,2**	6,0
Impairments	**(127)**	**—**	(0,3)
	26 998	**9,1**	7,7
Secondary capital			
Subordinated redeemable debt	**8 600**	**2,9**	2,7
Regulatory credit provision/reserve	**827**	**0,3**	0,3
Revaluation reserve	**33**	**—**	—
Impairments	**(52)**	**—**	—
	9 408	**3,2**	3,0
Total qualifying capital	**36 406**	**12,3**	10,7

*Includes central securities depository participation (CSDP) of R688 099 million risk-weighted at 0%.

**Percentage of capital to risk-weighted assets.

Capital adequacy of Absa Group Limited and its banking subsidiaries

	31 December 2006 Risk-weighted assets Rm	31 December 2006 Capital adequacy ratio %	31 December 2005 Capital adequacy ratio %
South African operations			
Absa Bank	**297 168**	**12,3**	10,7
Non-South African operations			
Absa Asia (Hong Kong)*	**—**	**—**	150,2
Absa Bank London (a branch of Absa Bank)	**2 306**	**44,9**	16,7
Absa Bank Singapore (a branch of Absa Bank)*	**—**	**—**	10,0
Banco Austral, Sarl (Mozambique)	**462**	**26,2**	27,4
Bankhaus Wölbern & Co. (Germany)**	**—**	**—**	10,1
Hesse Newman & Co. (Germany)**	**—**	**—**	21,2
National Bank of Commerce (Tanzania)	**2 522**	**12,8**	16,1
Total banking operations	**302 458**	**12,5**	11,0
Risk-weighted assets (Rm)		**302 458**	258 259
Tier I capital (Rm)		**28 316**	20 861
Tier I ratio (%)		**9,4**	8,1
Absa Group Limited		**13,1**	11,3
Risk-weighted assets (Rm)		**314 479**	279 935
Tier I capital (Rm)		**31 661**	23 956
Tier I ratio (%)		**10,1**	8,6
Risk-weighted assets/total assets		**63,5**	69,2

*Ceased operations from 1 January 2006.
**Sold during the year under review.

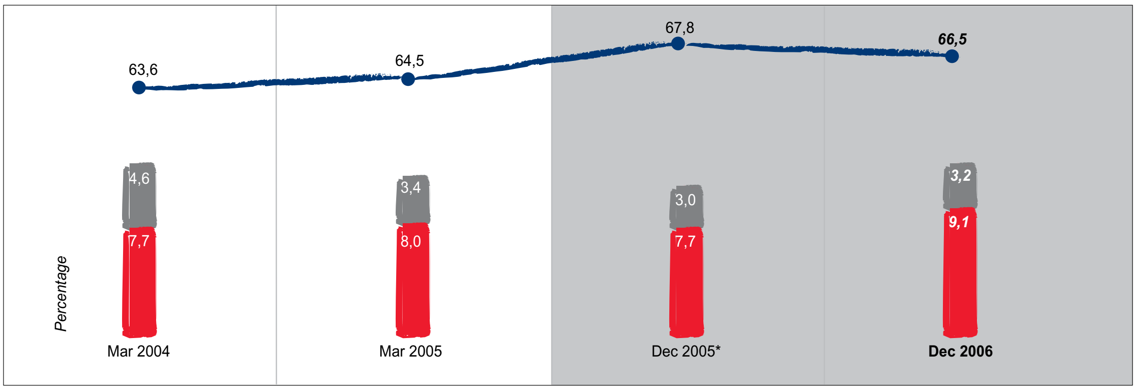
Improvements in capital adequacy levels

	Regulator	31 December 2006 Risk-weighted assets Rm	31 December 2006 Capital ratio %	31 December 2005 Risk-weighted assets Rm	31 December 2005 Capital ratio %
Absa Bank Limited	SARB*	**297 168**	**12,3**	246 135	10,7
Absa Life Limited	FSB**	**n/a**	**5,54 x CAR*** **	n/a	4,60 x CAR***
Absa Insurance Company Limited	FSB**	**n/a**	**110,0 solvency**	n/a	150,0 solvency
Absa Group	SARB*	**314 479**	**13,1**	279 935	11,3

Notes:
*South African Reserve Bank.
**Financial Services Board.
***Capital adequacy ratio.

Risk-weighted asset growth: During the twelve months ended 31 December 2006, Absa Bank's risk-weighted assets grew by less than total assets at 23,6% growth compared with 24,5% growth in total assets. This trend is expected to continue as the bank continues to focus on balance sheet optimisation and capital efficiency on the balance sheet.

Absa Bank's capital position



Tier 1 Tier II Risk-weighted assets as a percentage of assets

**Twelve months pro forma figures.*

Basel II: Absa has aligned its Basel II implementation with the Barclays Group programme. Absa's Basel II development is nearing completion and preparations are under way for the 2007 parallel run. Based on the local Basel II rules, which have not been finalised, Absa remains confident that the anticipated lower capital requirements from credit risk will be sufficient to offset any additional capital required from areas such as operational risk.

Segmental reporting

All of the Group's banking 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 Barclays-Absa integration benefits. The bancassurance segment achieved good operational results, but attributable earnings growth was modest.

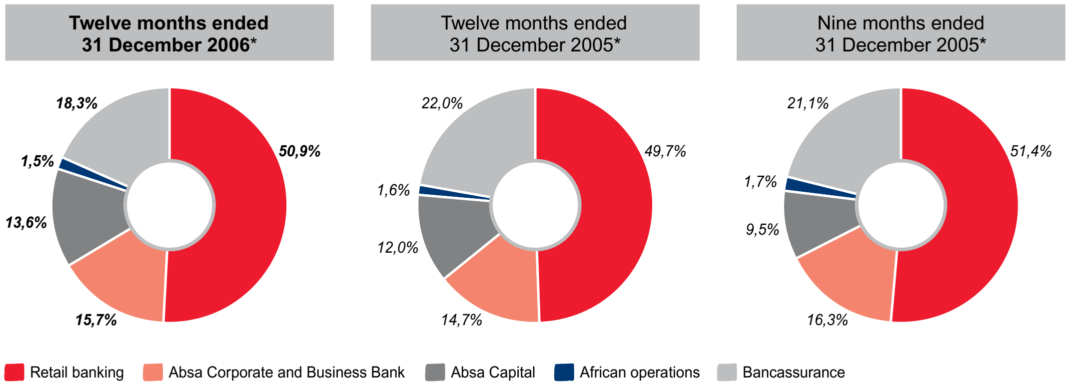
Segmental performance

Segmental attributable earnings and RoE

	Twelve months ended 31 December 2006		
	Attributable earnings Rm	Attributable earnings growth* %	RoE %
• Retail banking	4 166	31,8	29,0
• Absa Corporate and Business Bank	1 282	36,7	27,2
• Absa Capital	1 115	45,9	27,1
• African operations	127	24,5	23,3
• Bancassurance	1 500	7,4	38,9
• Other	442	>100,0	—
Absa Group core earnings	8 632	34,8	
Integration costs	(454)	>(100,0)	
Preference share dividends	(73)	—	
Absa Group	8 105	29,6	27,4

*Base: Pro forma twelve months ended 31 December 2005.

Profit contribution by segment



**Calculated after the allocation of capital, funding and corporate centre and the Barclays transaction costs.*

Retail banking

The attributable earnings of R4 166 million were achieved as a result of good performances from Absa Private Bank, Retail Banking Services and Absa Card, which reported earnings growth of 36,1%, 36,3% and 45,8% respectively. The Group's retail banking operations recorded strong advances growth of 27,9% 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.

Mortgage advances, where the Group has retained a leadership position, increased by 29,8% and credit card advances grew by 61,3%. Although strong growth was recorded in unsecured lending products, secured lending represented 86,9% of total retail advances.

Solid retail deposit growth of 15,0% was recorded on the back of growth in savings, transmission and current accounts. Interest margins declined somewhat, mainly owing to a slight change in the advances composition, competitive pressures and a continued shift in the funding mix.

Strong growth in transaction volumes, which emanated from the increased activities of existing and new customers, resulted in non-interest income growth of 22,0%. 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 cellphone banking transactions.

The retail impairment ratio for the period was 0,48% compared with the 0,28% of the previous twelve-month period. The higher impairment charge follows the increases in the prime interest rate and additional provisions that were raised in preparation for the impact of a more complex collections process under the NCA. The good progress that was made with the collection of the UniFer Holdings Limited (UniFer) book resulted in a provision release of R120 million.

Operating expenditure increased by 16,1%, mainly as a result of the expansion of the delivery footprint and increased business volumes. During the period under review, 31 staffed outlets were opened, predominantly in previously disadvantaged areas, and 1 218 ATMs were added. A further 37 outlets were upgraded and 208 internet kiosks and 114 self-service kiosks were put in service.

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

	Twelve months ended 31 December			Nine months ended 31 December
	2006	2005 (Pro forma)	Change	2005
	Rm	Rm	%	Rm
Segment-focused business units				
• **Affluent market** ➜ Absa Private Bank	**260**	191	36,1	153
• **Middle, mass and small business** ➜ Retail Banking Services*	**1 341**	984	36,3	805
Product-focused business units				
• **Credit cards** ➜ Absa Card	**700**	480	45,8	385
• **Home loans** ➜ Absa Home Loans**	**1 086**	849	27,9	793
• **Instalment finance** ➜ Absa Vehicle and Asset Finance***	**779**	657	18,6	530
Retail banking	**4 166**	3 161	31,8	2 666

*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 increased its attributable earnings to R1 282 million from the R938 million of the previous year. 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 impairment loss ratio of 0,67% compared with the 0,90% of the previous year.

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.

The attributable earnings for Absa Corporate and Business Bank was as follows:

	Twelve months ended 31 December			Nine months ended 31 December
	2006	2005 (Pro forma)	Change	2005
	Rm	Rm	%	Rm
Absa Corporate and Business Bank******	**1 282**	938	36,7	845

****Includes the transfer of corporate banking business from Absa Capital to Absa Corporate and Business Bank. Comparatives have been restated accordingly.

Investment banking – Absa Capital

Absa Capital increased attributable earnings to R1 115 million to elevate its contribution to the Group's earnings to 13,8%. 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.

Primary Markets contributed 53% of Absa Capital's revenue for the period under review. Growth in this business 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, which accounted for 17% of total revenue, achieved strong growth by actively managing the investment portfolio and positioning the portfolio for future expansion.

Secondary Markets, which increased revenues throughout the period under review, accounted for 30% of total revenue. Better risk management, additions to product depth and breadth and increased customer flows supported this growth.

The attributable earnings for Absa Capital was as follows:

	Twelve months ended 31 December			Nine months ended 31 December
	2006	2005 (Pro forma)	Change	2005
	Rm	Rm	%	Rm
Absa Capital*	**1 115**	764	45,9	491

*Includes the transfer of corporate banking business from Absa Capital to Absa Corporate and Business Bank. Comparatives have been restated accordingly.

African operations

The increase to R127 million in the earnings from investments in banks in other African states was largely driven by a good operational performance from the National Bank of Commerce (Tanzania), which recorded sound advances, deposit and transaction growth over the past year.

Banco Austral, Sarl (Mozambique) increased its asset yields and experienced higher transaction volumes, but had higher-than-normal credit losses in commodity finance and posted a decline in earnings as a result.

The attributable earnings for African operations was as follows:

	Twelve months ended 31 December			Nine months ended 31 December
	2006	2005 (Pro forma)	Change	2005
	Rm	Rm	%	Rm
African operations**	**127**	102	24,5	90

- **Tanzania** ➜ National Bank of Commerce Limited (NBC) (55,0% holding).
- **Mozambique** ➜ Banco Austral, Sarl (80,0% holding).
- **Angola** ➜ Banco Commercial Angolano (50,0% holding)

**During the year under review, the Group sold its shares in Capricorn Investment Holdings Limited and announced its intention to sell its stake in CBZ Holdings Limited.

Bancassurance

Absa's bancassurance operations posted attributable earnings of R1 500 million for the year under review. The life assurance operations contributed 39,4% of this following a particularly strong operational performance in 2006. A revision of future claims assumptions following, inter alia, the application of new Aids mortality statistics, boosted earnings for the year. The embedded value of new business, particularly in respect of the credit life business across all banking products, was up 68,6% to R263 million for the year under review. The embedded value of the life business increased by 21,5% to R2 486 million for the twelve months ended 31 December 2006, (twelve months ended 31 December 2005: R2 046 million), yielding a return on embedded value of 37,2%.

The domestic short-term insurance operations increased premiums by 21%, but the claims experience for the motor and personal lines business deteriorated in line with that of the industry.

Following a year of buoyant equity markets, investment income again outperformed expectations, but not to the extent achieved in 2005, owing to hedges put in place to protect the Group's earnings against volatility in equity markets. This, together with the higher claims experience in the short-term insurance operations, resulted in the modest attributable earnings growth of 7,4%.

Investment management operations reported strong growth in assets under management and administration. These grew by R18,1 billion to R99,1 billion for the twelve months under review. The Group is progressing well with its strategy of becoming a more significant participant in this market.

The attributable earnings for bancassurance are as follows:

	Twelve months ended 31 December			Nine months ended 31 December
	2006	2005 (Pro forma)	Change	2005
	Rm	Rm	%	Rm
Bancassurance*	**1 500**	1 397	7,4	1 092

- **Insurance ➜** Absa Life Limited, Absa Insurance Company Limited, Absa Syndicate Investments Holdings Limited, Absa Manx Insurance Company Limited.
- **Investments ➜** Absa Fund Managers Limited, Absa Mortgage Fund Managers (Proprietary) Limited, Absa Stockbrokers (Proprietary) Limited, Absa Portfolio Managers (Proprietary) Limited; Absa Investment Management Services (Proprietary) Limited; Absa Asset Management (Proprietary) Limited.
- **Fiduciary ➜** Absa Trust Limited, Absa Consultants and Actuaries (Proprietary) Limited, Absa Health Care Consultants (Proprietary) Limited.
- **Other ➜** Absa Brokers (Proprietary) Limited.

*Bancassurance now includes the results of Absa Asset Management (Proprietary) Limited, previously reported in the corporate centre. Comparatives have been restated accordingly.

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 the Company and of the Group 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;
- the Group'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 Group 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 Company and the Group 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 Company and the Group 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 Company and Group is set out on page 61 of this report.

Approval of financial statements

The directors' report and the financial statements of the Company and the Group, which appear on pages 62 to 223, 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 • Group chief executive

Johannesburg
20 February 2007

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

Report on the financial statements

We have audited the annual financial statements and Group annual financial statements of Absa Group 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 62 to 210 and pages 212 to 223.

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 Company and of the Group 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

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

Johannesburg
20 February 2007

General

Absa Group Limited and its subsidiaries (the Group), which has a primary listing on the JSE Limited, is incorporated and domiciled in South Africa and provides retail, corporate and investment banking services. Absa Group Limited operates primarily in South Africa and employs over 35 000 people. The address of the Group's registered office is 170 Main Street, Johannesburg, 2001.

The Group's 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 (the Bank), is a wholly owned subsidiary of Absa Group Limited.

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

The Group also provides products and services to selected markets in the United Kingdom, and in Angola, Mozambique, Tanzania and Zimbabwe* in Africa. The Group also provided services in Germany and Asia in previous periods.

The Group 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), bancassurance and wealth management products and services.

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

Nature of activities

Absa Group Limited (the Company) is the registered controlling company of a number of banks, insurance, fiduciary and investment companies, and is an investment holding company.

The Group provides an extensive range of banking and financial services.

Barclays PLC acquired a controlling stake in Absa with effect from 27 July 2005. A resolution passed on 19 August 2005 changed the Group'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.

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

Group results

Main business and operations

Headline earnings for the twelve months to 31 December 2006 amounted to R7 872 million (nine months to 31 December 2005: R4 902 million) and headline earnings per share of 1 181,8 cents (nine months to 31 December 2005: 740,4 cents). Earnings (net income attributable to ordinary shareholders) for the twelve months to 31 December 2006 amounted to

*The Group has announced its intention to sell its stake in Zimbabwean-based CBZ Holdings Limited.

R8 105 million (nine months to 31 December 2005: R4 776 million) and earnings per share of 1 216,8 cents (nine months to 31 December 2005: 721,4 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	**4 166**	**48,3**	2 666	54,1
• Absa Private Bank	**260**	**3,0**	153	3,1
• Retail Banking Services	**1 341**	**15,6**	805	16,4
• Absa Home Loans and Repossessed Properties	**1 086**	**12,6**	793	16,0
• Absa Card	**700**	**8,0**	385	7,8
• Absa Vehicle and Asset Finance (AVAF)	**779**	**9,1**	530	10,8
Absa Corporate and Business Bank	**1 282**	**14,8**	845	17,2
Absa Capital	**1 115**	**13,0**	491	10,0
African operations	**127**	**1,5**	90	1,9
Corporate centre	**311**	**3,5**	(109)	(2,3)
Capital and funding centre	**131**	**1,5**	(29)	(0,6)
Total banking	**7 132**	**82,6**	3 954	80,3
Bancassurance	**1 500**	**17,4**	1 092	22,2
Costs relating to the Barclays transaction	**—**	**—**	(120)	(2,5)
Total earnings from business areas	**8 632**	**100,0**	4 926	100,0
Synergy costs (after tax)	**(454)**	**—**	(150)	—
Profit attributable to preference equity holders	**(73)**	**—**	—	—
Profit attributable to ordinary equity holders	**8 105**	**—**	4 776	—
Headline earnings adjustment	**(233)**	**—**	126	—
Total headline earnings	**7 872**	**100,0**	4 902	100,0

A general review of the business and operations of major subsidiaries is given in the financial analysis on pages 44 to 58 of this report. It must be noted that a number of sections in the introductory section of this report refer to the unaudited pro forma figures for the twelve months ended 31 December 2005 for commentary and analysis purposes.

The Group 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 (AVAF);
- Absa Corporate and Business Bank comprises corporates, medium and large businesses, agriculture, public sector and commercial property finance;
- Absa Capital comprises the Group'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 (ACMB);
- African operations comprises the Group's Africa Desk, Banco Austral, National Bank of Commerce Limited and Banco Commercial Angolano;
- Corporate centre comprises AllPay Consolidated Investment Holdings (Proprietary) Limited, Absa Development Company Holdings (Proprietary) Limited, 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 Group and comparative information has been restated to reflect the above.

Subsidiary and associated undertakings

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

Directors' interest

As at 31 December 2006, the directors' interests in the issued shares of the Company were as follows:

	Direct			
	Beneficial		Non-beneficial	
	31 December 2006	31 December 2005	**31 December 2006**	31 December 2005
Present directors				
D C Cronjé (chairman)	**101 577**	101 577	**—**	—
D C Brink (deputy chairman)	**—**	—	**—**	12 360
S F Booysen* (Group chief executive)	**131 667**	23 333	**—**	—
L N Angel	**1 000**	—	**—**	—
D C Arnold	**1 400**	400	**—**	—
B P Connellan	**—**	1 000	**—**	—
G Griffin	**2 000**	2 000	**—**	—
M W Hlahla	**1 000**	—	**—**	—
L N Jonker	**—**	1 000	**—**	—
N Kheraj†	**1 200**	1 200	**—**	—
J H Schindehütte*	**144 666**	87 999	**—**	—
F F Seegers**	**1 000**	—	**—**	—
F A Sonn	**—**	1 200	**—**	—
L L von Zeuner*	**87 493**	70 825	**—**	—
Past directors				
D L Roberts†	**n/a**	1 200	**—**	—
	473 003	291 734	**—**	12 360

	Indirect			
	Beneficial		Non-beneficial	
	31 December 2006	31 December 2005	**31 December 2006**	31 December 2005
Present directors				
D C Brink (deputy chairman)	**17 257**	—	**—**	—
S F Booysen* (Group chief executive)	**610 000**	718 334	**—**	—
B P Connellan	**1 000**	—	**—**	—
A S du Plessis	**—**	—	**5 000**	5 000
L N Jonker	**—**	—	**3 500**	3 500
P du P Kruger	**1 000**	—	**—**	—
J H Schindehütte*	**260 190**	316 857	**13 400**	13 600
F A Sonn	**1 200**	—	**—**	—
P E I Swartz	**—**	—	**2 520**	2 520
L L von Zeuner*	**344 668**	361 336	**—**	—
	1 235 315	1 396 527	**24 420**	24 620

*Executive director
†British
**Dutch

	Total direct and indirect			
	Beneficial		Non-beneficial	
	31 December 2006	31 December 2005	**31 December 2006**	31 December 2005
Present directors				
D C Cronjé (chairman)	**101 577**	101 577	**—**	—
D C Brink (deputy chairman)	**17 257**	—	**—**	12 360
S F Booysen* (Group chief executive)	**741 667**	741 667	**—**	—
L N Angel	**1 000**	—	**—**	—
D C Arnold	**1 400**	400	**—**	—
B P Connellan	**1 000**	1 000	**—**	—
A S du Plessis	**—**	—	**5 000**	5 000
G Griffin	**2 000**	2 000	**—**	—
M W Hlahla	**1 000**	—	**—**	—
L N Jonker	**—**	1 000	**3 500**	3 500
N Kheraj†	**1 200**	1 200	**—**	—
P du P Kruger	**1 000**	—	**—**	—
J H Schindehütte*	**404 856**	404 856	**13 400**	13 600
F F Seegers**	**1 000**	—	**—**	—
F A Sonn	**1 200**	1 200	**—**	—
P E I Swartz	**—**	—	**2 520**	2 520
L L von Zeuner*	**432 161**	432 161	**—**	—
Past directors				
D L Roberts†	**n/a**	1 200	**—**	—
	1 708 318	1 688 261	**24 420**	36 980

There has been no change in the interests of directors between 31 December 2006 and 20 February 2007.

*Executive director
†British
**Dutch

Preference shareholding in Batho Bonke Capital (Proprietary) Limited

The following Absa directors hold Absa redeemable cumulative option-holding preference shares indirectly through their direct or indirect holdings of ordinary shares in Batho Bonke Capital (Proprietary) Limited:

	Number of shares 31 December 2006	Number of shares 31 December 2005
Present directors		
L N Angel	**1 280 165**	1 280 165
D E Baloyi	**150 000**	100 000
Y Z Cuba	**91 600**	—
M W Hlahla	**50 000**	—
T M G Sexwale	**4 183 090**	4 183 090
F A Sonn	**500 000**	500 000
P E I Swartz	**500 000**	500 000
Past directors		
L W Maasdorp	**n/a**	2 560 328
	6 754 855	9 123 583

Preference shareholding in Absa Bank Limited

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

	Number of shares 31 December 2006	Number of shares 31 December 2005
Present directors		
D C Cronjé (chairman)	**7 500**	—
S F Booysen* (Group chief executive)	**11 000**	—
D C Arnold	**400**	—
D E Baloyi	**1 000**	—
B P Connellan	**600**	—
A S du Plessis	**300**	—
L N Jonker	**400**	—
P E I Swartz	**400**	—
	21 600	—

*Executive director

Acquisitions

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

- Abvest Holdings (Proprietary) Limited, a subsidiary of Absa Group Limited, acquired a further 30% shareholding interest in Abvest Asset Management (Proprietary) Limited (previously Abvest Associates (Proprietary) Limited) increasing its shareholding to 100%, at a cost of R36 million. Absa Group Limited also acquired an additional 10% interest in Abvest Holdings (Proprietary) Limited increasing its shareholding to 100%, at a cost of R8 million.
- 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 Group Limited (Absa Trust Limited) acquired a 100% shareholding in 26 Fenton Road Shareblock (Proprietary) Limited.
- 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:

- The Group sold its shares in Paramount Property Fund Limited to a third party.
- Bankhaus Wölbern & Co. was sold to a third party.
- Specialised Investment Services (Proprietary) Limited was sold to a third party.
- The Group sold its shares in Capricorn Investment Holdings Limited to a third party.

Special resolutions

The following special resolution was passed by Absa Group Limited:

- Authority for a share buy-back.

The following special resolutions were passed by subsidiaries of the Group:

Abvest Associates (Proprietary) Limited

- Changed its name to Absa Asset Management (Proprietary) Limited.

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* (Group 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#
G Griffin
M W Hlahla
L N Jonker#
N Kheraj†
P du P Kruger#
L W Maasdorp (resigned 30 September 2006)
D L Roberts† (resigned 23 October 2006)
J H Schindehütte*
F F Seegers** (appointed 23 October 2006)
T M G Sexwale
F A Sonn
P E I Swartz#
L L von Zeuner*

In terms of the Company's articles of association, one-third of the directors are required to retire at each annual general meeting and may offer themselves for re-election. In line with international best practice, Absa has introduced a requirement in terms of which all directors on the board for longer than nine years are subject to annual re-election by shareholders at the annual general meeting. The directors who retire in terms of the above arrangements at the 2007 annual general meeting are: Dr S F Booysen, Mr D C Brink, Mr B P Connellan, Dr D C Cronjé, Mr A S du Plessis, Mr L N Jonker, Mr P du P Kruger and Mr P E I Swartz.

The Absa Group board recommends to shareholders the re-election of the following directors: Dr S F Booysen, Mr D C Brink, Mr B P Connellan, Dr D C Cronjé, Mr A S du Plessis, Mr L N Jonker and Mr P E I Swartz. Biographical details of these directors are set out on pages 21 and 28 of this report.

Mr P du P Kruger has not sought re-election as he will be reaching retirement age during 2007 and will accordingly retire from the board at the conclusion of the 2007 annual general meeting.

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 48 of the consolidated financial statements, in which directors and officers of the Company had an interest and which significantly affected the business of the Group. The directors had no interest in any third party or company responsible for managing any of the business activities of the Group. 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 R1 760 935 000 is divided into:

- 800 000 000 ordinary par value shares of R2,00 each.
- 80 467 500 redeemable cumulative option-holding par value preference shares of R2,00 each.

Issued

On 5 June 2006 and 1 December 2006 respectively, 3 300 000 and 1 800 000 ordinary shares were issued to the Absa Group Limited Share Incentive Trust to provide sufficient stock for vested options. Following the above share issues, the total issued share capital at 31 December 2006 was R1 502 385 148, made up as follows:

- 671 955 074 ordinary shares of R2,00 each
- 79 237 500 redeemable cumulative option-holding preference shares of R2,00 each.

Directors' emoluments

Directors' emoluments in respect of the Company's executive directors are disclosed in the directors' remuneration report and note 48 of the consolidated financial statements.

Dividends

- On 21 February 2006, a dividend of 135,0 cents per ordinary share was declared to ordinary shareholders registered on 17 March 2006.
- On 3 August 2006, a dividend of 208,0 cents per ordinary share was declared to ordinary shareholders registered on 1 September 2006.
- On 20 February 2007, a dividend of 265,0 cents per ordinary share was declared to ordinary shareholders registered on 16 March 2007.

Post-balance sheet events

On 19 December 2006, the Group announced that CBZ Holdings Limited will be sold subject to approval from the relevant authorities in Zimbabwe and South Africa.

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	Group 31 December 2006 Rm	31 December 2005 (Restated) Rm
Assets			
Cash, cash balances and balances with central banks	2	**16 461**	15 036
Statutory liquid asset portfolio	3	**20 829**	16 289
Loans and advances to banks	4	**21 800**	20 805
Trading assets	5	**17 983**	23 450
Hedging assets	5	**676**	396
Loans and advances to customers	6	**386 174**	306 856
Reinsurance assets	9	**390**	423
Other assets	10	**12 175**	6 762
Investments	11	**13 798**	9 904
Investments in associated undertakings and joint ventures	12	**693**	895
Intangible assets	13	**230**	191
Property and equipment	14	**3 750**	3 451
Current tax assets	15	**24**	17
Deferred tax assets	16	**129**	86
Total assets		**495 112**	404 561
Liabilities			
Deposits from banks	17	**35 156**	25 745
Trading liabilities	18	**23 484**	20 915
Hedging liabilities	18	**1 902**	486
Deposits due to customers	19	**368 449**	303 945
Current tax liabilities	20	**1 181**	417
Liabilities under investment contracts	21	**5 129**	3 459
Policyholder liabilities under insurance contracts	22	**3 187**	2 736
Borrowed funds	23	**8 420**	6 483
Other liabilities and sundry provisions	24	**10 746**	11 812
Deferred tax liabilities	16	**2 537**	2 562
Total liabilities		**460 191**	378 560
Equity			
Capital and reserves			
Attributable to ordinary equity holders:			
Share capital	26	**1 338**	1 327
Share premium	26	**2 067**	1 875
Other reserves	28	**412**	622
Retained earnings		**27 876**	21 931
		31 693	25 755
Minority interest – ordinary shares		**236**	246
Minority interest – preference shares	27	**2 992**	—
Total equity		**34 921**	26 001
Total equity and liabilities		**495 112**	404 561

	Note	Group **Twelve months ended 31 December 2006** **Rm**	Nine months ended 31 December 2005 (Restated) Rm
Net interest income		**14 941**	9 341
Interest and similar income	29	**38 368**	23 037
Interest expense and similar charges	30	**(23 427)**	(13 696)
Impairment losses on loans and advances	7	**(1 573)**	(569)
Net interest income after impairment losses on loans and advances		**13 368**	8 772
Net fee and commission income		**10 374**	7 086
Fee and commission income	31	**10 951**	7 441
Fee and commission expense	31	**(577)**	(355)
Net insurance premium income	32	**2 994**	1 948
Net insurance claims and benefits paid	33	**(1 319)**	(797)
Changes in insurance and investment liabilities	34	**(748)**	(526)
Gains and losses from banking and trading activities	35	**1 347**	855
Gains and losses from investment activities	36	**1 916**	1 259
Other operating income	37	**938**	548
Operating income before expenses		**28 870**	19 145
Operating expenditure		**(17 566)**	(12 211)
Operating expenses	38	**(16 620)**	(11 433)
Impairments	40	**(75)**	(54)
Indirect taxation	41	**(871)**	(724)
Share of retained earnings from associated undertakings and joint venture companies	12	**113**	101
Operating profit before income tax		**11 417**	7 035
Taxation expense	42	**(3 151)**	(2 191)
Profit for the year/period		**8 266**	4 844
Attributable to:			
Ordinary equity holders of the Group		**8 105**	4 776
Minority interest – ordinary shares		**88**	68
Minority interest – preference shares		**73**	—
		8 266	4 844
• Basic earnings per share (cents)	43	**1 216,8**	721,4
• Diluted earnings per share (cents)	43	**1 154,4**	692,7
Headline earnings	44	**7 872**	4 902
• Headline earnings per share (cents)	44	**1 181,8**	740,4
• Diluted headline earnings per share (cents)	44	**1 121,3**	710,9

Consolidated statement of changes in equity

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Regulatory general credit risk reserve Rm
Balance at 1 April 2005	654 609	1 310	1 611	—
IFRS adjustments applied prospectively	(799)	(2)	(40)	—
Shares issued	11 800	24	383	—
Less: costs incurred	—	—	(1)	—
Elimination of shares held by share trust	(2 628)	(6)	(91)	—
Shares issued to the trust	—	(24)	(383)	—
Options exercised by employees	—	18	292	—
Elimination of treasury shares	411	1	13	—
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 payment reserve	—	—	—	—
Net disposals	—	—	—	—
Share of net income attributable to minorities	—	—	—	—
Dividends declared	—	—	—	—
Foreign currency translation effects	—	—	—	—
Transfer to insurance contingency reserve	—	—	—	—
Share of associated undertakings' and joint ventures' retained earnings	—	—	—	—
Profit attributable to ordinary equity holders	—	—	—	—
Balance at 31 December 2005	663 393	1 327	1 875	—

Available-for-sale reserve Rm	Cash flow hedges reserve Rm	Translation reserve Rm	Insurance contingency reserve Rm	Share-based payment reserve Rm	Associated companies and joint ventures Rm	Retained earnings Rm	Minority interest – ordinary shares Rm	Minority interest – preference shares Rm	Total Rm
(155)	39	(48)	134	50	363	19 969	232	—	23 505
—	—	—	—	—	—	(301)	—	—	(343)
—	—	—	—	—	—	—	—	—	407
—	—	—	—	—	—	—	—	—	(1)
—	—	—	—	—	—	—	—	—	(97)
—	—	—	—	—	—	—	—	—	(407)
—	—	—	—	—	—	—	—	—	310
—	—	—	—	—	—	—	—	—	14
90	97	—	—	—	—	—	—	—	187
69	240	—	—	—	—	—	—	—	309
21	(143)	—	—	—	—	—	—	—	(122)
—	—	—	—	70	—	—	—	—	70
—	—	—	—	—	—	—	(24)	—	(24)
—	—	—	—	—	—	—	68	—	68
—	—	—	—	—	—	(2 401)	(25)	—	(2 426)
—	—	(130)	—	—	—	—	(5)	—	(135)
—	—	—	11	—	—	(11)	—	—	—
—	—	—	—	—	101	(101)	—	—	—
—	—	—	—	—	—	4 776	—	—	4 776
(65)	136	(178)	145	120	464	21 931	246	—	26 001

Consolidated statement of changes in equity

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Regulatory general credit risk reserve Rm
Balance at 1 January 2006	**663 393**	**1 327**	**1 875**	**—**
Shares issued	**5 100**	**10**	**170**	**—**
Less: costs incurred	**—**	**—**	**—**	**—**
Share buy-back in respect of share trust	**—**	**(0)**	**(17)**	**—**
Elimination of shares held by share trust	**419**	**1**	**4**	**—**
Shares issued to the trust	**—**	**(10)**	**(170)**	**—**
Options exercised by employees	**—**	**11**	**174**	**—**
Elimination of treasury shares	**210**	**0**	**12**	**—**
Movement in regulatory general credit risk reserve	**—**	**—**	**—**	**46**
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 payment reserve	**—**	**0**	**23**	**—**
Value of employee services	**—**	**—**	**—**	**—**
Transfer from share-based payment reserve	**—**	**0**	**23**	**—**
Net (disposals)/acquisitions	**—**	**—**	**—**	**—**
Share of net income attributable to minorities	**—**	**—**	**—**	**—**
Dividends declared – ordinary shares	**—**	**—**	**—**	**—**
Dividends declared – minorities	**—**	**—**	**—**	**—**
Foreign currency translation effects	**—**	**—**	**—**	**—**
Movements in insurance contingency reserve	**—**	**—**	**—**	**—**
Subsidiary step-up acquisitions	**—**	**—**	**—**	**—**
Share of associated undertakings' and joint ventures' retained earnings	**—**	**—**	**—**	**—**
Profit attributable to ordinary equity holders	**—**	**—**	**—**	**—**
Profit attributable to preference share minorities	**—**	**—**	**—**	**—**
Balance at 31 December 2006	**669 122**	**1 338**	**2 067**	**46**
Note(s)	**26**	**26**	**26**	**28**

Note: All movements are reflected net of taxation.

Available-for-sale reserve Rm	Cash flow hedges reserve Rm	Translation reserve Rm	Insurance contingency reserve Rm	Share-based payment reserve Rm	Associated companies and joint ventures Rm	Retained earnings Rm	Minority interest – ordinary shares Rm	Minority interest – preference shares Rm	Total Rm
(65)	136	(178)	145	120	464	21 931	246	—	26 001
—	—	—	—	—	—	—	—	3 000	3 180
—	—	—	—	—	—	—	—	(8)	(8)
—	—	—	—	—	—	—	—	—	(17)
—	—	—	—	—	—	—	—	—	5
—	—	—	—	—	—	—	—	—	(180)
—	—	—	—	—	—	—	—	—	185
—	—	—	—	—	—	—	—	—	12
—	—	—	—	—	—	(46)	—	—	—
58	(485)	—	—	—	—	—	—	—	(427)
34	(539)	—	—	—	—	—	—	—	(505)
24	54	—	—	—	—	—	—	—	78
—	—	—	—	62	—	—	—	—	85
—	—	—	—	85	—	—	—	—	85
—	—	—	—	(23)	—	—	—	—	—
—	—	—	—	—	(374)	374	(40)	—	(40)
—	—	—	—	—	—	—	88	—	88
—	—	—	—	—	—	(2 294)	—	—	(2 294)
—	—	—	—	—	—	—	(29)	(73)	(102)
—	—	332	—	—	—	—	(29)	—	303
—	—	—	38	—	—	(38)	—	—	—
—	—	—	—	—	—	(43)	—	—	(43)
—	—	—	—	—	113	(113)	—	—	—
—	—	—	—	—	—	8 105	—	—	8 105
—	—	—	—	—	—	—	—	73	73
(7)	(349)	154	183	182	203	27 876	236	2 992	34 921
28	28	28	28	28	28 & 12			27	

Consolidated cash flow statement

	Note	Group Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
Cash flows from operating activities			
Interest and commissions received		**25 156**	15 962
Insurance premiums and claims		**1 675**	1 070
Net trading and other income		**1 827**	1 239
Cash payments to employees and suppliers		**(15 581)**	(10 698)
Income taxes paid	45	**(3 333)**	(2 199)
Cash flows from operating profit before changes in operating assets and liabilities		**9 744**	5 374
Net (decrease)/increase in trading securities		**5 187**	(1 895)
Net increase in loans and advances to customers		**(80 891)**	(54 425)
Net increase in other assets		**(16 464)**	(3 895)
Net increase in insurance and investment funds		**1 373**	1 520
Net (decrease)/increase in trading liabilities		**3 985**	(237)
Net increase in amounts due to customers and banks		**73 915**	52 374
Net (decrease)/increase in other liabilities		**(865)**	2 124
Net cash (utilised)/generated from operating activities		**(4 016)**	940
Cash flows from investing activities			
Purchase of property and equipment	14	**(1 150)**	(972)
Proceeds from sale of property and equipment		**120**	192
Purchase of intangible assets	13	**(149)**	(47)
Proceeds from disposal of intangible assets		**7**	—
Acquisition of subsidiaries, net of cash	54	**(44)**	—
Disposal of subsidiaries, net of cash	54	**(133)**	—
Disposal of associates, net of cash		**745**	54
Acquisition of associates, net of cash		**(174)**	—
Net (increase)/decrease in securities		**(1 564)**	2 749
Net cash (utilised)/generated from investing activities		**(2 342)**	1 976
Cash flows from financing activities			
Issue of ordinary shares		**197**	281
Issue of preference shares		**2 992**	—
Share buy-back		**(17)**	—
Proceeds from borrowed funds and debt securities		**2 000**	1 500
Repayment of borrowed funds and debt securities		**(6)**	(750)
Dividends paid		**(2 367)**	(2 401)
Net cash generated/(utilised) from financing activities		**2 799**	(1 370)
Net (decrease)/increase in cash and cash equivalents		**(3 559)**	1 546
Cash and cash equivalents at the beginning of the year/period		**8 343**	6 796
Effect of exchange rate movement on cash equivalents		**3**	1
Total cash and cash equivalents at the end of the year/period	52	**4 787**	8 343

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 Group 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 the Group 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 Group. In accordance with the transitional requirements of the amendments, the Group 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 Group. The impact of this amendment to IAS 21 on the Group 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 Group, 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 Group in designating any financial asset or financial liability at fair value through profit and loss. The internal criteria applied within the Group for applying the fair value option under IAS 39 is restrictive enough and the amendment did not reduce the Group's usage of the option.

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

IFRS 4 – Insurance contracts

The Group has started accounting for its financial guarantee contracts in the manner prescribed in the amendment to IFRS 4, in the previous period.

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 Group 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 Group'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 Group'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 1.23 – Changes in accounting policies.

1.2 Consolidation

The consolidated financial statements include those of Absa Group 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 Group 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 Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. 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 Group. 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 Group'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 Group.

1.2.2 Investments in associated undertakings and joint ventures

Associated undertakings are those companies which are not subsidiaries and in which the Group 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 Group 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 Group. 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 Group's venture capital activities are initially carried at cost in the entity. The Group'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 Group's year-end, these are adjusted in respect of material adjustments between their reporting date and the Absa reporting date. The Group's share of its post-acquisition profits or losses is recognised in the income statement and the Group's interest in the post-acquisition reserves of associated undertaking companies and joint ventures is treated as non-distributable in the Group's financial statements. When the Group'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 Group 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 Group and its associates and joint ventures are eliminated to the extent of the Group'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 Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. 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 Group 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 Group and the SPE's risk and rewards, the Group concludes that it controls the SPE. SPEs controlled by the Group were established under terms that:

- impose strict limitations on the decision-making powers of the SPE's management;
- result in the Group receiving the majority of the benefits related to the SPE's operations and net assets;
- enable the Group 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 Group with products or services that are subject to risks and rewards that are different to those of other business segments.

The Group is organised into the following business units:

- Retail banking: Offers a comprehensive range of banking products and services to individuals and small business customers;
- Corporate and business banking: 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: Provides retail and limited corporate services from a national network of branches, agencies and ATMs;
- Bancassurance: Comprises various insurance products, financial advisory services, drafting and safe custody of wills, comprehensive administration, actuarial and consulting services and a variety of investment products; and
- 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 Group's presentation currency.

Items included in the financial statements of each of the Group'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 Group 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 Group 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 Group 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 Group 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 Group 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 Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity, other than for specific circumstances defined by the Group, 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 Group 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 Group are:
  - 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 Group 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;
- 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 Group’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 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 Group 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 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 Group 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 Group 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 Group, including:
  – adverse changes in the payment status of borrowers in the Group; or
  – national or local economic conditions that correlate with defaults on the assets in the Group.

The Group 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 Group 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 Group 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 Group'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 Group. 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 Group 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 Group 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 Group'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 Group 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) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group 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 Group 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 Group 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 Group'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 Group 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 Group's continuing involvement is the amount of the transferred asset that the Group 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 Group'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 Group 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 Group 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 Group 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 Group 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 Group.

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 Group 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 Group 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 Group 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 Group 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. The Group does not separately measure embedded derivatives contained in insurance contracts that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and interest rate).

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 Group sells financial instruments and agrees to repurchase these at future dates, the risks and rewards of ownership remain with the Group and the considerations received are included under deposits and current accounts. The investments are shown on the balance sheet and valued according to the Group'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 Group, the considerations paid are included under advances and not under investments.

1.6.14 Compound financial instruments

Compound financial instruments issued by the Group 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 Group 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 Group 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 Group 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 Group.

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”.

1.8.7 Insurance premium revenue

The Group reflects gross premium income relating to insurance contracts in the income statement as insurance premium revenue. Deposits on investment contracts are excluded from the income statement. Individual life, life annuities and single premiums are accounted for when the collection of the premiums in terms of the policy contract is due and payable.

1.8.8 Service fees from investment contracts

Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the Group actively manages the consideration received from its customers.

Certain upfront payments received for asset management services (front-end fees) are deferred as a liability and recognised over the life of the contract.

The Company charges its customers for asset management and other related services using the following different approaches:

- Front-end fees are charged to the client on inception. This approach is used particularly for single premium contracts. The consideration received is deferred as a liability and recognised over the life of the contract on a straight-line basis.

- Regular fees are charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds. Regular charges billed in advance are recognised on a straight-line basis over the billing period. Fees charged at the end of the period are accrued as a receivable that is offset against the financial liability when charged to the customer.

1.9 Deferred revenue liability

A deferred revenue liability (DRL) is recognised in respect of fees paid at the inception of the contract by the policyholder, which are directly attributable to a contract. The DRL is then released to revenue as the investment management services are provided over the expected duration of the contract, as a constant percentage of expected gross margins (including investment income) arising from the contract. The pattern of expected future profit margins is based on historical and expected future experience and is updated at the end of each accounting period. The resulting change to the carrying value of the DRL is recognised in revenue.

1.10 Classification of insurance and investment contracts

The Group issues contracts that transfer insurance risk or financial risk. Insurance contracts are those contracts that transfer significant insurance risk. The Group defines significant insurance risk as the possibility of having to pay significant additional benefits on the occurrence of an insured event compared with those benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

1.10.1 Insurance contracts

Short-term insurance contracts

These contracts are property and engineering, motor and personal lines, guarantees and miscellaneous insurance contracts.

Property and engineering insurance contracts mainly compensate the Group's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Motor and personal lines insurance contracts compensate for damage, loss, breakdowns and credit risk on outstanding balances suffered in relation to the vehicles and personal belongings of customers.

Guarantee insurance contracts protect the Group's customers against breakdowns on vehicles. Miscellaneous insurance contracts mainly protect the Group's customers against the risk of legal action and accidental death and medical costs.

For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premiums received on in-force contracts that relate to unexpired risks at the balance sheet date are reported as the unearned premium liability. The unearned premium liability for the majority of the business is calculated using the 365ths method. This method is appropriate when the risk is spread evenly over the period of insurance. Under this method the unearned premium liability is calculated by multiplying the total premiums received by the ratio of the number of days for which the contract will still be active after the reporting date to the total number of days for which the contract was initially written. Premiums are shown before the deduction of commission.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties affected by the contract holders. They include direct claims settlement costs and arise from events that have occurred up to the balance sheet date, even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses for the claims incurred but not reported and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Life insurance contracts

These contracts insure events associated with human life (for example death or survival) over a long duration. Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before the deduction of commission. Individual life policies, life annuities and single premiums are accounted for in terms of the policy contract. Benefits are recorded as an expense when they are incurred.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liabilities are valued at each balance sheet date using the financial soundness valuation (FSV) basis described in PGN 104 issued by the Actuarial Society of South Africa (ASSA) and the liability is reflected as policyholder liabilities under insurance contracts. This is a permissible valuation methodology under IFRS 4 – Insurance contracts.

Under the FSV, a liability is determined as the sum of the current estimate of the expected discounted value of all the benefit payments and the future administration expenses that are directly related to the contract, less the current estimate of the expected discounted value of the contractual premiums. The liability is set to zero when the expected discounted value of the benefit payments and the future administration expenses is lower than the expected discounted value of the contractual premiums. The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time of valuing the contract at each balance sheet date. Margins for adverse deviations are included in the assumptions.

In respect of outstanding claims, provision is made for the costs of intimated and unintimated claims. Claims on investment contracts are excluded from the income statement. Intimated claims represent claims where the incident giving rise to a claim has occurred and reported to the insurer for settlement but has not yet been finalised and paid by the insurer. The reserve is measured at the value assessed for the claim. Unintimated claims represent claims incurred but not yet reported or paid. The reserve is estimated by assuming that future trends in reporting of claims will be similar to the past. The profile of claims run-off (over time) is modelled by using historic data of the Group and chain ladder techniques. The profile is then applied to actual claims data of recent periods for which the run-off is believed not to be complete.

Valuation methodology

Liabilities are valued on a basis consistent with the asset values, using the FSV method in accordance with the requirements of the Long-term Insurance Act of 1998 and applicable guidance notes issued by the ASSA. The liabilities represent the present value of expected future benefit payments and expenses less the present value of expected future premium receipts.

Assumptions used for valuing policy liabilities are based on best estimates of future experience, guided by recent past experience and increased by margins prescribed by the ASSA for prudence and further discretionary margins to ensure that profits are released appropriately over the term of each policy.

Policyholders' reasonable expectations are allowed for by valuing all guaranteed benefits. Maturity guarantee reserves have been included in accordance with the requirements of PGN 110 issued by the ASSA. An internationally recognised real-world stochastic model is used to do a range of asset projections from which the reserve is derived. In terms of PGN 110 the projections allow for at least a certain minimum level of market volatility. The reserve is equal to the discounted shortfall (of simulated maturity values against minimum guaranteed values) across all projections for the policies concerned.

Source of operational earnings

Operational earnings predominantly stem from unwinding of margins (compulsory and discretionary) in the valuation basis, differences between actual and expected experience over the period and from new business. Experience profits have predominantly stemmed from mortality experience and investment returns that were better than expected.

Philosophy on release of profits in the valuation basis

The valuation assumptions include certain margins over and above compulsory (first tier) margins as required by the Long-term Insurance Act of 1998. The Act allows such additional (second tier) margins if the statutory actuary believes that the compulsory margins are insufficient for prudent reserving and/or to defer the release of profits in line with policy design and company practice.

It is the Group's policy that profit margins contained in the premium basis, which is expected to be released in future as the business runs off, should not be capitalised and recognised prematurely. Such margins should only be released and added to profits once premiums have been received and the risk cover has been provided.

Deferred policy acquisition costs

Commissions and other directly attributable acquisition costs that vary with and are related to renewing existing short-term insurance contracts are capitalised under other assets. All other costs are recognised as expenses when incurred. The deferred policy acquisition cost is subsequently amortised, on an individual basis, over the expected life of the contracts.

Liability adequacy test

Liabilities are calculated in terms of the FSV basis as described in PGN 104. Since the FSV basis meets the minimum requirement of the liability adequacy test, it is not necessary to perform additional adequacy tests on the liability component. For the liability relating to potential future claims which have already been incurred in the balance sheet date, but of which the Group has not yet been informed (IBNR), tests are performed to ensure that the liability is sufficient to cover historical run-off profiles and the growth in the volume of business.

Reinsurance contracts held

Reinsurance contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

For contracts which do not meet the requirements to be classified as reinsurance contracts, the total asset is recognised under financial assets.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The Group's reinsurance assets are assessed for impairment. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. For historic amounts, the impairment is calculated as the total amount due from reinsurers for which there is a significant probability that the amounts due would not be recoverable, less any offsetting amount owed to reinsurers. For possible future amounts, liabilities are revalued assuming that no reinsurance is ceded.

Receivables and payables related to insurance and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from intermediaries and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement.

Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (ie salvage). The Group may also have the right to pursue third parties for payment of some or all costs (ie subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

1.10.2 Investment contracts

Policyholder contracts that do not transfer significant insurance risk are classified as investment contracts and are valued at fair value. Acquisition costs directly attributable to investment management contracts are capitalised to a deferred acquisition cost asset and amortised to the income statement over the term of the contract. Only costs that are incremental and directly attributable to securing or renewing the contract are considered in the recognition of deferred acquisition costs. All other costs are recognised as expenses when incurred.

The Group issues unit-linked and fixed-interest rate investment contracts. These contracts are financial liabilities, which are carried at fair value through profit and loss and their fair value is dependent on the fair value of underlying financial assets and are designated at inception as at fair value through profit and loss.

Valuation techniques are used to establish the fair value at inception at each reporting date. The Group's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit-linked investment contract is determined using the current unit values that reflect the fair values of the financial assets contained within the Group's unitised investment funds linked to the financial liability, multiplied by the number of units attributed to the contract holder at the balance sheet date. The fair value of fixed interest rate products is determined by discounting the maturity value at market rates of interest.

If the investment contract is subject to a put or surrender option, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable.

1.11 Cell arrangements

In respect of third party cells, where insurance contracts are issued to the insured, directly in the name of Absa Life, the cell captive SPE is considered to be the reinsurer, where there is risk transfer. The policyholder liabilities to the extent of the insurance contracts issued and a reinsurance asset in terms of a reinsurance arrangement with the cell (ie the SPE) are recognised. The policyholder liabilities are first valued and a reinsurance asset equal to the amount of the policyholder liabilities recognised. Any excess assets in the SPE belong to the cell owner and are not recognised.

1.12 Intangible assets

1.12.1 Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or associated company at the acquisition date. Negative goodwill is any excess of the fair value of the Group'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 Group 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 Group'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 ventures 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.

1.12.2 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 Group 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.

1.13 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 Group 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 Group 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.

1.13.1 Property subject to lease agreements

Finance leases

Leases, where the Group 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 Group'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.

1.14 Non-current assets held for sale

Non-current assets (or disposal groups 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 group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group 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 Group'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.

1.15 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 grouped at the lowest levels for which there are separately identifiable cash flows.

1.16 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.

1.17 Provisions

Provisions are recognised when the Group 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 Group'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 Group 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 Group 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 Group recognises any impairment loss on the assets associated with that contract.

1.18 Employee benefits

1.18.1 Post-retirement benefits

The Group 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 Group'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 Group, 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 Group 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 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 Group and members are accumulated to provide retirement benefits. The Group 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 Group 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.

1.18.2 Share-based compensation

The Group 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.

1.19 Taxation

1.19.1 Current 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.

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 Group 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.

1.19.2 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 Group 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.

1.19.3 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 Group 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.

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

1.21 Managed funds and trust activities

Where Group 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 Group.

1.22 Comparatives

Barclays PLC acquired a controlling stake in Absa with effect from 27 July 2005. At the Absa annual general meeting, held on 19 August 2005, the 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.

1.23 Changes in accounting policies

During 2006 the Group changed the following accounting policies:

1.23.1 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 Group, 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 Group's reported income statement providing more reliable and relevant information in relation to its underlying operations. The impact on the Group as a result of this change is immaterial and therefore, for the Group accounts, it has no impact on the reported earnings of the prior period or the opening retained earnings of the prior period.

1.23.2 Cell captives

The financial statements for the period ended 31 December 2005 included all the assets of the cells recognised as financial assets and a liability equal to the amount of the assets was recognised in favour of the cell owner.

Where the cell is created for a linked investment product, the inclusion of assets and liabilities is no longer considered to be appropriate. This results in a reduction in both the assets and liabilities at 31 December 2006. The prior period's numbers have also been restated. From an income statement perspective only the fee received by the Group is now reflected.

Where the cell captive has been established for third party insurance purposes, the policy is issued by the Group. The policyholder therefore has a claim against the Group who will in turn recover amounts from the cell established and hence, consolidation remains appropriate.

The effect of the change for each financial statement line item affected has been reported in note 21 and Annexure I to the financial statements.

1.23.3 Transactions with minority interests

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

1.23.4 Reclassification of business segments in segment report

The Group 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 (AVAF);
- Corporate and Business Bank comprises corporates, medium and large businesses, agriculture, public sector and commercial property finance;
- Absa Capital comprises the Group's investment banking division;
- African operations comprises the Group's African desk, Banco Austral, Sarl and National Bank of Commerce Limited;
- Bancassurance comprises Absa Financial Services Limited, its major subsidiaries and Abvest Holdings (Proprietary) Limited; and
- "Other" comprises AllPay Consolidated Investment Holdings (Proprietary) Limited, Absa Bank Singapore, Bankhaus Wölbern and Co. (prior period), Absa Bank (Asia) Limited, Absa Development Company Holdings (Proprietary) Limited and other head office and non-banking activities.

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

1.24 Reclassifications

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

1.25 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 Group, but will result in potentially more disclosure than what is currently provided in the Group's financial statements. The Group 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 Group'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 Group's 2007 financial statements, with retrospective application required, is not expected to have any impact on the consolidated financial statements as the Group 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 Group'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 Group will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Group's accounts.

IFRIC 11 – Group 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 Group 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 Group'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 Group.

	Group 31 December 2006 Rm	Group 31 December 2005 Rm
1. Accounting policies		
Refer to pages 77 to 104 of this report.		
2. Cash, cash balances and balances with central banks		
Coins and bank notes	**3 936**	3 432
Money on call	**—**	575
Balances with the South African Reserve Bank (SARB)	**8 402**	6 758
Balances with other central banks	**650**	542
Money market assets	**3 473**	3 729
Included in cash and cash equivalents calculation (refer to note 52)	**16 461**	15 036
Portfolio analysis of money market assets		
Held-to-maturity	**633**	668
Available-for-sale	**463**	626
At amortised cost	**467**	628
Fair value adjustment	**(4)**	(2)
Fair value through profit and loss	**2 377**	2 435
At amortised cost	**2 318**	2 428
Fair value adjustment	**59**	7
	3 473	3 729

The carrying value of the held-to-maturity assets approximates their fair value.

Included in the above are money market assets, which are linked to investment contracts (refer to note 21).

Comparatives have been restated in terms of Annexure I.

	Group 31 December 2006 Rm	Group 31 December 2005 Rm
3. Statutory liquid asset portfolio		
RSA – government bonds	**13 166**	9 335
Treasury bills	**7 171**	6 293
Land Bank bills	**492**	661
Included in cash and cash equivalents calculation (refer to note 52)	**20 829**	16 289
Portfolio analysis		
Held-to-maturity	**—**	1 332
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	16 289
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.

	Group	
	31 December 2006 Rm	31 December 2005 Rm
4. Loans and advances to banks		
Remittances in transit	**805**	265
Loans and advances to banks	**20 995**	20 540
Included in cash and cash equivalents calculation (refer to note 52)	**21 800**	20 805
Portfolio analysis		
Loans and receivables	**21 800**	20 805

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

Loans with variable rates are R20 581 million (December 2005: R16 341 million) and fixed rates are R414 million (December 2005: R4 199 million).

Included above are loans and advances with the Group's parent company of R3 353 million (December 2005: R4 011 million), refer to note 48 for the full disclosure of related party transactions.

The comparatives have been restated in terms of Annexure I.

	Group	
	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	**16 856**	18 507
Money market assets	**705**	1 606
Total trading assets	**17 983**	23 450
Hedging assets	**676**	396
	18 659	23 846
Portfolio analysis		
Held for trading	**17 836**	22 830
Fair value through profit and loss	**147**	620
Hedging instruments	**676**	396
	18 659	23 846

All trading and hedging derivative assets are carried at fair value.

Included above are derivative assets with the Group's parent company of R187 million (December 2005: Rnil), refer to note 48 for full disclosure of related party transactions.

For further details on derivatives refer to Annexure G.

Comparatives have been reclassified in terms of Annexure I.

	Group 31 December 2006 Rm	Group 31 December 2005 Rm
6. Loans and advances to customers		
Cheque accounts	**15 742**	14 102
Client liabilities under acceptances	**20**	961
Corporate overdrafts	**4 466**	2 576
Credit cards	**11 714**	6 989
Foreign currency loans	**5 336**	11 350
Instalment credit agreements (refer to note 6.1)	**56 936**	47 526
Gross advances	**71 040**	57 445
Unearned finance charges	**(14 104)**	(9 919)
Loans granted under resale agreements (Carries)	**8 561**	5 298
Loans to associated companies (refer to note 12)	**7 645**	5 423
Microloans	**1 444**	1 416
Mortgages	**215 173**	165 077
Other advances*	**5 197**	3 731
Overnight finance	**7 370**	3 888
Personal loans	**16 354**	12 703
Preference shares	**9 301**	10 514
Repossessed properties	**142**	249
Term loans	**982**	667
Securitised corporate loans (Abacas)	**11 131**	8 146
Specialised and project finance	**12 938**	11 024
Fair value adjustments	**474**	1 139
Mortgages	**258**	337
Specialised and project finance	**170**	830
Other advances	**46**	(28)
	390 926	312 779
Impairment losses on loans and advances (refer to note 7)	**(4 752)**	(5 923)
	386 174	306 856
Portfolio analysis		
Loans and receivables	**366 615**	280 049
Fair value through profit and loss	**24 311**	32 730
At amortised cost	**23 837**	31 591
Fair value adjustment	**474**	1 139
	390 926	312 779

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

Refer to “Interest and similar income” (note 29) 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’ books and structured swaps.

	Group 31 December 2006 Rm	31 December 2005 Rm
6. Loans and advances to customers (continued)		
Sectoral analysis		
Agricultural	**10 359**	10 167
Construction and property	**32 993**	19 863
Consumer	**220 216**	194 174
Electricity	**1 134**	1 353
Finance	**49 937**	38 745
Government	**2 843**	4 949
Manufacturing	**11 218**	10 282
Mining	**5 340**	4 203
Services	**29 565**	8 465
Transport	**4 245**	2 577
Wholesale	**10 930**	9 119
Other*	**12 146**	8 882
	390 926	312 779
6.1. Instalment credit agreements		
Maturity analysis		
Gross advances in finance leases		
Less than one year	**21 436**	14 713
Between one and five years	**49 603**	42 657
More than five years	**1**	75
	71 040	57 445
Unearned finance charges		
Less than one year	**(3 947)**	(2 648)
Between one and five years	**(10 157)**	(7 271)
	(14 104)	(9 919)
Net investment in finance lease		
Less than one year	**17 489**	12 065
Between one and five years	**39 446**	35 386
More than five years	**1**	75
	56 936	47 526

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

The Group 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 826 million (December 2005: R4 052 million).

The accumulated allowance for uncollectible 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.

	Group 31 December 2006 Rm	Group 31 December 2005 Rm
7. Impairment losses on loans and advances		
Balance at the beginning of the year/period	**5 923**	6 399
Impact of IFRS adjustment applied prospectively	**—**	(132)
Exchange differences	**(2)**	(9)
Net present value unwinding on non-performing book (refer to note 29)	**(119)**	(98)
Disposal of subsidiary	**(92)**	(15)
Identified impairments	**(85)**	(12)
Unidentified impairments	**(7)**	(3)
Amounts written off during the year/period	**(2 910)**	(1 037)
	2 800	5 108
Impairments raised during the year/period (refer to note 7.1)	**1 952**	815
Balance at the end of the year/period (refer to note 6)	**4 752**	5 923
Comprising		
Identified impairments	**3 048**	4 904
Non-performing advances (refer to note 8)	**2 088**	3 572
Other impaired loans	**615**	1 100
Net present value adjustment	**345**	232
Unidentified impairments	**1 704**	1 019
	4 752	5 923

	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
7.1 Income statement charge for impairment losses on loans and advances		
Net impairments raised during the year/period	**1 952**	815
Identified impairments	**1 028**	867
Identified impairments – net present value adjustment	**232**	(174)
Unidentified impairments	**692**	122
Recoveries of advances previously written off	**(379)**	(246)
Charge to the income statement	**1 573**	569

	31 December 2006				
	As a % of advances	**Out-standing balance**	**Security and recoveries**	**Net exposure***	**Impair-ments raised****
8. Non-performing advances					
Personal loans	**0,1**	**264**	**210**	**54**	**54**
Retail overdrafts and credit cards	**0,2**	**632**	**51**	**581**	**581**
Foreign currency loans	**—**	**101**	**—**	**101**	**101**
Instalment credit agreements	**0,1**	**520**	**224**	**296**	**296**
Mortgages	**0,6**	**2 346**	**2 075**	**271**	**271**
Microloans	**0,1**	**382**	**145**	**237**	**237**
Other	**0,2**	**683**	**135**	**548**	**548**
	1,3	**4 928**	**2 840**	**2 088**	**2 088**
Sectoral analysis					
Agriculture	**0,1**	**245**	**70**	**175**	**175**
Construction and property	**0,1**	**306**	**21**	**285**	**285**
Consumer	**0,7**	**2 950**	**2 403**	**547**	**547**
Electricity	**—**	**3**	**2**	**1**	**1**
Finance	**0,1**	**279**	**162**	**117**	**117**
Manufacturing	**0,1**	**517**	**23**	**494**	**494**
Mining	**—**	**28**	**5**	**23**	**23**
Services	**0,1**	**217**	**84**	**133**	**133**
Transport	**—**	**43**	**20**	**23**	**23**
Wholesale	**0,1**	**218**	**15**	**203**	**203**
Other	**—**	**122**	**35**	**87**	**87**
	1,3	**4 928**	**2 840**	**2 088**	**2 088**

	31 December 2005				
	As a % of advances	Out-standing balance	Security and recoveries	Net exposure*	Impair-ments raised**
Personal loans	0,1	200	124	76	76
Retail overdrafts and credit cards	0,2	665	104	561	561
Foreign currency loans	0,1	462	—	462	462
Instalment credit agreements	0,1	363	94	269	269
Mortgages	0,6	1 795	1 398	397	397
Microloans	0,4	1 416	220	1 196	1 196
Other	0,2	675	64	611	611
	1,7	5 576	2 004	3 572	3 572
Sectoral analysis					
Agriculture	0,1	249	116	133	133
Construction and property	0,1	415	107	308	308
Consumer	0,9	3 215	1 489	1 726	1 726
Electricity	—	2	1	1	1
Finance	0,1	204	97	107	107
Manufacturing	0,2	590	6	584	584
Mining	—	34	0	34	34
Services	0,1	231	112	119	119
Transport	—	18	1	17	17
Wholesale	0,1	391	36	355	355
Other	0,1	227	39	188	188
	1,7	5 576	2 004	3 572	3 572

*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.

	Group 31 December 2006 Rm	31 December 2005 Rm
9. Reinsurance assets		
Insurance contracts (refer to note 22.1)	**159**	241
Short-term reinsurance contracts	**79**	161
Life reinsurance contracts	**80**	80
Investment contracts (refer to note 21)	**231**	182
	390	423
Maturity analysis		
Current	**39**	34
Non-current	**351**	389
	390	423

Reinsurance contracts linked to investment contracts are held at fair value through profit and loss.

Included in other assets is R48 million (December 2005: R65 million) relating to amounts receivable from reinsurers for claims made against them.

The Group uses reinsurance to manage risk and to utilise the experience of reinsurance partners where it is deemed necessary. Exposure is managed by having a treaty in place whereby risk up to a retention limit is retained and the excess is reinsured. The Group uses various reinsurers with strong credit ratings and therefore concentration of risk at one reinsurer (and subsequent failure of that reinsurer) is not a significant risk to the Group.

	Group 31 December 2006 Rm	31 December 2005 Rm
10. Other assets		
Accounts receivable and prepayments	**4 045**	4 021
Settlement accounts	**7 689**	2 430
Deferred costs	**143**	114
Deferred acquisition costs (refer to note 10.1)	**123**	100
Other deferred costs	**20**	14
Constructed assets held for resale	**298**	197
	12 175	6 762
10.1 Deferred acquisition costs		
Cost	**434**	223
Accumulated amortisation	**(311)**	(123)
	123	100
Balance at the beginning of the year/period	**100**	79
Additions	**220**	138
Amortisation charge	**(197)**	(117)
Balance at the end of the year/period	**123**	100
Comprising		
Short-term insurance contracts	**88**	74
Investment management contracts	**35**	26
	123	100

	Group 31 December 2006 Rm	Group 31 December 2005 Rm
11. Investments		
Debt securities	**3 833**	2 318
Listed equity securities	**5 103**	3 996
Unlisted equity securities	**1 276**	1 258
Investments linked to investment contracts (refer to note 21)	**3 586**	2 332
Listed equity securities	**288**	167
Unlisted equity securities	**3 298**	2 165
	13 798	9 904
Directors' valuation and market value		
Market value of debt securities	**3 833**	2 318
Market value of listed equity securities	**5 391**	4 163
Directors' valuation of unlisted equity securities	**4 574**	3 423
	13 798	9 904
Portfolio analysis		
Held to maturity	**489**	458
Available-for-sale	**123**	85
At amortised cost	**96**	72
Fair value adjustment	**27**	13
Fair value through profit and loss	**13 186**	9 361
At amortisation cost	**10 225**	8 047
Fair value adjustment	**2 961**	1 314
	13 798	9 904

The comparatives have been restated in terms of Annexure I.

	Group 31 December 2006 Rm	Group 31 December 2005 Rm
12. Investments in associated undertakings and joint ventures		
Shares at book value	**474**	415
Balance at the beginning of the year/period	**415**	244
Acquisitions (refer to note 12.1)	**402**	296
Disposals (refer to note 12.1)	**(333)**	(125)
Impairment charge (refer to note 40)	**(10)**	—
Loans to associated undertakings and joint ventures	**10**	10
Total loan exposure	**7 655**	5 405
Included in other liabilities	**—**	28
Less: amounts included in advances (refer to note 6)	**(7 645)**	(5 423)
Share of post-acquisition reserves	**209**	470
Share of current year/period income before taxation	**160**	172
Less: dividends received	**(8)**	(14)
Less: taxation on current year/period income	**(39)**	(39)
Impairment charge	**—**	(18)
Share of current year/period retained income	**113**	101
Realisation on disposal of an associated undertaking or joint venture company (refer to note 12.1)	**(374)**	—
Amount transferred (from)/to non-distributable reserve	**(261)**	101
Acquisitions (refer to note 12.1)	**—**	6
Balance at the beginning of the year/period	**470**	363
Carrying value	**693**	895
Directors' valuation and market value		
Market value of listed associates	**156**	344
Directors' valuation of unlisted shares	**551**	650
	707	994

	Group	
	31 December 2006 Rm	31 December 2005 Rm
12. Investments in associated undertakings and joint ventures (continued)		
12.1 Acquisitions and disposals		
The following acquisitions were concluded during the current year, at cost:		
Paramount Property Fund Limited	**57**	—
On 1 April 2006 the Group acquired a further interest in Paramount Property Fund Limited.		
Ballito Junction Development	**35**	—
The investment in Ballito Junction Development was recognised as an associate from 1 January 2006.		
Ambit Properties Limited	**146**	—
On 1 April 2006 the Group acquired an additional 3,64% interest in Ambit Properties Limited. The Group's shareholding is now 21,29%.		
Campus on Rigel	**0**	—
On 21 April 2006 the Group acquired a 33,33% interest in Campus on Rigel.		
Abseq Properties (Proprietary) Limited	**133**	—
On 1 April 2006 the Group acquired a 50% interest in Abseq Properties (Proprietary) Limited.		
African Trading Spirit (Proprietary) Limited	**20**	—
On 1 November 2006 the Group acquired a 50% interest in African Trading Spirit (Proprietary) Limited.		
Palm Hills Investments (Proprietary) Limited	**11**	—
On 1 November 2006 the Group 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 Group 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 Group's venture capital fund investments met the definition of an associate. Previously these investments were held at fair value through profit and loss.		
Banco Comercial Angolano	—	45
On 1 April 2005 the Group acquired a 50% stake in Banco Comercial Angolano. The Group is considered to exercise significant influence, therefore this entity has been equity accounted.		
Meeg Bank Limited	—	17
Cost	—	11
Accumulated earnings	—	6
Meeg Bank Limited was previously shown as a subsidiary. During the period, owing to changing circumstances, the Group concluded that it no longer had control of the entity.		
Total acquisitions	**402**	302

	Group	
	31 December 2006 Rm	31 December 2005 Rm
12. Investments in associated undertakings and joint ventures (continued)		
The following disposals were concluded during the current year:		
Paramount Property Fund Limited	**(335)**	—
On 17 October 2006 the Group sold its share in Paramount Property Fund Limited to a third party.		
Conbros Limited	**(37)**	—
Conbros Limited is now recognised as a subsidiary.		
Capricorn Investments Holding Limited	**(335)**	—
On 9 November 2006 the Group sold its share in Capricorn Investments Holdings Limited to a third party.		
The following disposals were concluded during the previous period:		
Sage Group Limited	**—**	(125)
On 19 August 2005 the Group sold its share in Sage Group Limited to a third party.		
Total disposals	**(707)**	(125)

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

13. Intangible assets

	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	**303**	**(212)**	**91**	161	(109)	52
Goodwill	**224**	**(85)**	**139**	246	(107)	139
	527	**(297)**	**230**	407	(216)	191

Reconciliation of intangible assets – 2006

	Opening balance Rm	**Additions Rm**	**Disposals Rm**	**Amortisation Rm**	**Impairment loss Rm**	**Closing balance Rm**
Computer software development costs	**52**	**149**	**(7)**	**(37)**	**(66)**	**91**
Goodwill	**139**	**—**	**—**	**—**	**—**	**139**
	191	**149**	**(7)**	**(37)**	**(66)**	**230**

Reconciliation of intangible assets – 2005

	Opening balance Rm	Additions Rm	Amortisation Rm	Impairment loss Rm	Closing balance Rm
Computer software development costs	58	47	(13)	(40)	52
Goodwill	139	—	—	—	139
	197	47	(13)	(40)	191

	Group	
	31 December 2006 Rm	31 December 2005 Rm
13. Intangible assets (continued)		
Goodwill comprises:		
Abvest Holdings (Proprietary) Limited	**27**	27
Absa Vehicle Management (Proprietary) Limited	**112**	112
	139	139

Intangible assets with a cost and accumulated amortisation or impairments of R130 million (December 2005: R61 million) are fully amortised or impaired and are still in use by the Group.

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

	31 December 2006			31 December 2005		
	Cost Rm	**Accumulated depreciation Rm**	**Carrying value Rm**	Cost Rm	Accumulated depreciation Rm	Carrying value Rm
Freehold property	**1 392**	**(153)**	**1 239**	1 471	(364)	1 107
Leasehold property	**493**	**(326)**	**167**	491	(299)	192
Furniture and other equipment	**2 949**	**(1 848)**	**1 101**	2 690	(1 692)	998
Motor vehicles	**45**	**(35)**	**10**	45	(31)	14
Computer equipment	**3 213**	**(1 980)**	**1 233**	3 093	(1 953)	1 140
	8 092	**(4 342)**	**3 750**	7 790	(4 339)	3 451

Reconciliation of property and equipment – 2006

	Opening balance Rm	**Additions Rm**	**Disposals Rm**	**Foreign exchange movements Rm**	**Depre-ciation Rm**	**Impairment loss Rm**	**Closing balance Rm**
Freehold property	**1 107**	**172**	**(8)**	**1**	**(33)**	**—**	**1 239**
Leasehold property	**192**	**2**	**—**	**(1)**	**(26)**	**—**	**167**
Furniture and other equipment	**998**	**462**	**(76)**	**1**	**(284)**	**—**	**1 101**
Motor vehicles	**14**	**6**	**(1)**	**—**	**(5)**	**(4)**	**10**
Computer equipment	**1 140**	**508**	**(24)**	**—**	**(391)**	**—**	**1 233**
	3 451	**1 150**	**(109)**	**1**	**(739)**	**(4)**	**3 750**

14. Property and equipment (continued)

Reconciliation of property and equipment – 2005

	Opening balance Rm	Additions Rm	Disposals Rm	Foreign exchange movements Rm	Depre- ciation Rm	Closing balance Rm
Freehold property	1 173	73	(109)	(5)	(25)	1 107
Leasehold property	211	—	—	—	(19)	192
Furniture and other equipment	895	339	(52)	—	(184)	998
Motor vehicles	12	8	(1)	—	(5)	14
Computer equipment	918	552	(12)	(1)	(317)	1 140
	3 209	972	(174)	(6)	(550)	3 451

Leasehold properties are encumbered under finance leases (refer to note 24).

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.

	Group	
	31 December 2006 Rm	31 December 2005 Rm
15. Current tax assets		
Amount due from revenue authorities	**24**	17
16. Deferred tax		
16.1 Reconciliation of net deferred tax liability		
Balance at the beginning of the year/period	**2 476**	1 676
Impact of IFRS adjustments applied prospectively	**—**	(9)
Deferred tax on unrealised capital gains	**—**	1
Deferred tax asset (raised)/released on STC credits (refer to note 16.4)	**(23)**	11
Disposal of subsidiaries (refer to note 54)	**(31)**	(2)
Income statement charge (refer to note 42)	**154**	708
Deferred tax on amounts (charged)/transferred directly to equity	**(188)**	36
Tax effect of translation and other differences	**20**	55
Balance at the end of the year/period	**2 408**	2 476

	Group	
	31 December 2006 Rm	31 December 2005 Rm
16. Deferred tax (continued)		
16.2 Deferred tax liability/(asset)		
Tax effects of temporary differences between tax and book value for:		
Accruals and provisions	**2 800**	2 616
Impairment of advances	**(346)**	(268)
Property allowances	**70**	45
Gains on investments and derivatives	**(202)**	(92)
Lease and rental debtor allowances	**254**	246
Other differences	**(39)**	15
Deferred tax liability	**2 537**	2 562
Deferred tax asset – normal	**(95)**	(75)
Deferred tax asset – STC (refer to note 16.4)	**(34)**	(11)
Deferred tax assets	**(129)**	(86)
Net deferred tax liability	**2 408**	2 476

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.

16.3 Future tax relief

The Group has estimated tax losses of R618 million (December 2005: R531 million).

The above figures exclude tax losses and reversing temporary differences of R132 million (December 2005: R248 million) for which deferred tax assets have been raised.

Balance at the beginning of the year/period	**531**	202
Losses incurred	**250**	283
Deferred tax asset not raised	**—**	73
Operating losses utilised	**(135)**	(5)
Movement in temporary differences	**(28)**	(22)
Balance at the end of the year/period	**618**	531

16.4 Secondary tax on companies (STC)

Accumulated STC credits	**270**	88
Deferred tax asset raised (refer to note 16.2)	**34**	11
Movement in deferred tax asset for the year/period (refer to note 16.1)	**23**	(11)

If the total reserves of R28 288 million as at 31 December 2006 (December 2005: R22 553 million) were to be declared as dividends, the secondary tax impact at a rate of 12,5% would be R3 536 million (December 2005: R2 819 million).

	Group	
	31 December 2006 Rm	31 December 2005 Rm
17. Deposits from banks		
Deposits from banks	**35 156**	25 745
Portfolio analysis		
Amortised cost	**35 156**	25 745

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 Group's parent company of R8 420 million (December 2005: R4 777 million). Refer to note 48 for the full disclosure of related party transactions.

Comparatives have been reclassified in terms of Annexure I.

	Group	
	31 December 2006 Rm	31 December 2005 Rm
18. Trading liabilities and hedging liabilities		
Non-qualifying hedging liabilities	**643**	1 518
Trading liabilities	**22 841**	19 397
Total trading liabilities	**23 484**	20 915
Hedging liabilities	**1 902**	486
	25 386	21 401
Portfolio analysis		
Held for trading	**22 841**	19 397
Fair value through profit and loss	**643**	1 518
Hedging liabilities	**1 902**	486
	25 386	21 401

All trading and hedging liabilities are carried at fair value.

Included in trading liabilities are derivative liabilities with the Group's parent company of R1 237 million (December 2005: Rnil), refer to note 48 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.

	Group	
	31 December 2006 Rm	31 December 2005 Rm
19. Deposits due to customers		
Call deposits	**42 595**	43 108
Cheque account deposits	**90 087**	75 320
Fixed deposits**	**91 340**	67 946
Negotiable certificates of deposits	**68 983**	47 373
Savings and transmission deposits	**26 584**	22 543
Foreign currency deposits	**13 679**	16 720
Promissory notes	**16 066**	9 604
Other deposits*	**9 880**	11 190
Notice deposits**	**6 879**	6 740
Credit card deposits	**2 291**	2 233
Liabilities to clients under acceptances	**20**	961
Fair value adjustments	**45**	207
	368 449	303 945
Portfolio analysis		
Loans and receivables	**352 605**	302 654
Fair value through profit and loss	**15 844**	1 291
	368 449	303 945

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

Refer to "Interest expense and similar charges" (note 30) for related income charges on the above deposits.

Comparatives have been reclassified in terms of Annexure I.

*Other deposits include items such as securitised deposits and preference share funding.

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

	Group 31 December 2006 Rm	Group 31 December 2005 Rm
20. Current tax liabilities		
Normal tax	**1 181**	345
Secondary tax on companies (STC)	**—**	72
	1 181	417
The comparatives have been restated in terms of Annexure I.		
21. Liabilities under investment contracts		
Balance at the beginning of the year/period	**6 287**	4 325
Effect of change in accounting policy in relation to cell captives*	**(2 828)**	(2 566)
Restated balance at the beginning of the year/period	**3 459**	1 759
Changes in investment contracts (refer to note 34)	**508**	338
Inflows on investment contracts	**1 922**	1 321
Policyholder benefits on investment contracts	**(769)**	(147)
Reinsurance asset and policy charge	**9**	188
Balance at the end of the year/period	**5 129**	3 459
The following assets and liabilities are linked to investment contracts:		
Money market assets (refer to note 2)	**1 317**	933
Investments (refer to note 11)	**3 586**	2 332
Other assets	**1**	24
Other liabilities	**(6)**	(12)
Reinsurance assets (refer to note 9)	**231**	182
	5 129	3 459
22. Policyholder liabilities under insurance contracts		
Short-term insurance contracts:		
Claims outstanding including claims incurred but not reported	**536**	442
Claims reported and loss adjustment expense (refer to note 22.3)	**425**	337
Claims incurred but not reported (refer to note 22.3)	**111**	105
Unearned premiums (refer to note 22.4)	**661**	539
	1 197	981
Long-term insurance contracts – without fixed terms (refer to note 22.5)	**1 914**	1 673
Maintenance contracts accounted for as insurance contracts	**76**	82
	3 187	2 736
22.1 Reinsurances' share of insurance liabilities (refer to note 9)		
Short-term insurance contracts:		
Claims outstanding including claims incurred but not reported	**(58)**	(142)
Claims reported and loss adjustment expense (refer to note 22.3)	**(56)**	(139)
Claims incurred but not reported (refer to note 22.3)	**(2)**	(3)
Unearned premiums (refer to note 22.4)	**(21)**	(19)
	(79)	(161)
Long-term insurance contracts – without fixed terms	**(80)**	(80)
	(159)	(241)

*Refer to "Change in accounting policies" (note 1.23.2) and Annexure I.

	Group	
	31 December 2006 Rm	31 December 2005 Rm
22. Policyholder liabilities under insurance contracts (continued)		
22.2 Net insurance liabilities		
Short-term insurance contracts:		
Claims outstanding including claims incurred but not reported	**478**	300
Claims reported and loss adjustment expense	**369**	198
Claims incurred but not reported	**109**	102
Unearned premiums	**640**	520
	1 118	820
Long-term insurance contracts – without fixed terms (refer to note 22.5)	**1 834**	1 593
Maintenance contracts accounted for as insurance contracts	**76**	82
	3 028	2 495
Linked insurance contracts		
Gross	**725**	519
Non-linked insurance contracts	**2 303**	1 976
Gross	**2 462**	2 217
Reinsurance	**(159)**	(241)
	3 028	2 495
22.3 Reconciliation of claims outstanding including claims incurred but not reported		
Gross		
Balance at the beginning of the year/period	**442**	450
Cash paid for claims settled in the year/period*	**(935)**	(793)
Increase in liabilities – arising from current year/period claims*	**1 053**	784
(Decrease)/increase in liabilities – arising from prior period/year claims	**(24)**	7
Net exchange difference	**—**	(6)
Balance at the end of the year/period	**536**	442
Comprising		
Claims reported and loss adjustment expense (refer to note 22)	**425**	337
Claims incurred but not reported (refer to note 22)	**111**	105
	536	442
Reinsurance		
Balance at the beginning of the year/period	**142**	83
Cash paid for claims settled in the year/period	**(46)**	—
Increase in liabilities – arising from current year/period claims	**51**	28
(Decrease)/increase in liabilities – arising from prior period/year claims	**(89)**	31
Balance at the end of the year/period	**58**	142
Comprising		
Claims reported and loss adjustment expense (refer to note 22.1)	**56**	139
Claims incurred but not reported (refer to note 22.1)	**2**	3
	58	142

*The prior period's figures have been grossed up to be consistent with the current year.

	Group 31 December 2006 Rm	Group 31 December 2005 Rm
22. Policyholder liabilities under insurance contracts (continued)		
22.3 Reconciliation of claims outstanding including claims incurred but not reported (continued)		
Net		
Balance at the beginning of the year/period	**300**	367
Cash paid for claims settled in the year/period*	**(889)**	(793)
Increase in liabilities – arising from current year/period claims*	**1 002**	756
Increase/(decrease) in liabilities – arising from prior period/year claims	**65**	(24)
Net exchange difference	**—**	(6)
Balance at the end of the year/period	**478**	300
Comprising		
Claims reported and loss adjustment expense (refer to note 22.2)	**369**	198
Claims incurred but not reported (refer to note 22.2)	**109**	102
	478	300
22.4 Reconciliation of provisions for unearned premiums		
Gross		
Balance at the beginning of the year/period	**539**	457
Increase in the year/period	**1 725**	773
Release in the year/period	**(1 603)**	(691)
Balance at the end of the year/period (refer to note 22)	**661**	539
Reinsurance		
Balance at the beginning of the year/period	**19**	9
Increase in the year/period	**148**	88
Release in the year/period	**(146)**	(78)
Balance at the end of the year/period (refer to note 22.1)	**21**	19
Net		
Balance at the beginning of the year/period	**520**	448
Increase in the year/period	**1 577**	685
Release in the year/period	**(1 457)**	(613)
Balance at the end of the year/period (refer to note 22.2)	**640**	520
22.5 Reconciliation of the long-term insurance contracts – without fixed terms		
Balance at the beginning of the year/period	**1 673**	1 483
Premiums received in the year/period (refer to note 32)	**1 332**	804
Liabilities released for payment on death, surrender and other termination benefits	**(218)**	(204)
Increase in units and market value	**251**	149
Cash paid in respect of claims (refer to note 33)	**(316)**	(224)
Other movements	**(808)**	(335)
Balance at the end of the year/period	**1 914**	1 673

*The prior period's figures have been grossed up to be consistent with the current year.

22. Policyholder liabilities under insurance contracts (continued)

22.6 Short-term insurance contracts – assumptions, change in assumptions and sensitivities

Process used to decide on assumptions

The risks associated with these short-term insurance contracts are subject to a number of variables. The exposure of the Group to policyholder claims is described in this section. This exposure is geographically concentrated in South Africa.

The Group uses a case-by-case method to measure its claims liabilities. The Group reviews the individual estimates as and when information regarding the claim becomes available.

For each class of business, the cost of the future claims includes estimates of the cost for the indemnity and the associated loss adjustment expenses.

For each contract, estimated losses are compared to the maximum loss payable under the terms of the policy and reduced to such amount if lower than the estimated loss.

Change in assumptions and sensitivity analysis

A stochastic claims reserving model is being used to calculate the incurred but not yet reported (IBNR) claims liability for all products except motor warranty and legal products, where no IBNR is provided because of the nature of the product. For each calendar year-end from 31 December 1996 to 31 December 2005, the actual amount of claims that occurred before the year-end, but were only reported after the year-end, expressed as a percentage of net premium income, was calculated net of reinsurance. A statistical distribution was then fitted to the percentage actual claims reported after year-end. This distribution is used to calculate a 95% confidence level for the IBNR at 31 December 2006. Based on this calculation, the Group requires an IBNR equal to 6,25% of net premium income.

Over the past ten years the Group has experienced on average higher amounts of claims reported after month end over December compared to other months. This is mainly owing to the rainy conditions experienced in the summer months and as many policyholders are on holiday in December. The historical run off of 3,86% is lower than the 6,25%. However, the statistical distribution described above was applied to 10 data points, representing the ten December month-ends from 31 December 1996 to 31 December 2005. Owing to the limited number of data points used, a pure average run off percentage is considered unreliable and therefore a statistical distribution was applied.

The required IBNR is calculated as a percentage of net premium income. An implicit assumption is made that reserve inflation will be the same as the net premium income inflation. It is also implicitly assumed that the average loss ratio will be the same as that experienced in the past. The confidence level used in setting the IBNR will provide some protection should either of the above assumptions not be borne in practice.

Reinsurance

The Group continues to benefit from reinsurance programmes that include proportional and non-proportional cover. The reinsurers' share of claim liabilities is estimated net of the provision for known and expected incidents of insolvency of reinsurers.

The Group also has stop-loss cover in place.

22.7 Long-term insurance contracts – assumptions, change in assumptions and sensitivities

Valuation methodology

Liabilities are valued using a discounted cash flow approach on bases consistent with PGN 104. The liabilities represent the present value of expected future benefit payments and expenses less the present value of expected future premium receipts.

Assumptions used for valuing policy liabilities are based on best estimates of future experience, guided by recent past experience and increased by margins prescribed by the ASSA for prudence and further discretionary margins to ensure that profits are released appropriately over the term of each policy.

Policyholders' reasonable expectations are allowed for by valuing all guaranteed benefits. Maturity guarantee reserves have been included in accordance with the requirements of PGN 110. An internationally recognised real-world stochastic model is used to do a range of asset projections from which the reserve is derived. In terms of PGN 110 the projections allow for at least a certain minimum level of market volatility. The reserve is equal to the discounted shortfall (of simulated maturity values against minimum guaranteed values) across all projections for the policies concerned.

Source of operational earnings

Operational earnings predominantly stem from unwinding of margins (compulsory and discretionary) in the valuation basis, differences between actual and expected experience over the period and from new business. Experience profits have predominantly stemmed from mortality experience and investment returns that were better than expected.

22. Policyholder liabilities under insurance contracts (continued)

22.7 Long-term insurance contracts – assumptions, change in assumptions and sensitivities (continued)

Philosophy on release of profits in the valuation basis

The valuation assumptions include certain margins over and above compulsory (first tier) margins as required by the Long-term Insurance Act of 1998. The Act allows such additional (second tier) margins if the statutory actuary believes that the compulsory margins are insufficient for prudent reserving and/or to defer the release of profits in line with policy design and company practice.

It is the Group's policy that profit margins contained in the premium basis, which are expected to be released in future as the business runs off, should not be capitalised and recognised prematurely. Such margins should only be released and added to profits once premiums have been received and the risk cover has been provided.

The following additional margins were incorporated in the liability calculations:

- Additional margin on mortality, disability and dread disease (equal to compulsory margins for most product lines) to take account of the size of the book of business, uncertainty surrounding future mortality trends (especially the Aids pandemic), lack of catastrophe reinsurance and the fact that certain classes of business are not underwritten.
- Reduced lapse assumptions on certain product lines due to the fact that lapses are inherently volatile and as it is not deemed prudent to take credit in advance for future lapses that might not arise.
- Minimum liability equal to the surrender value of a policy and elimination of all negative liabilities to ensure that solvency is maintained if policy cancellations increase. It is also not the philosophy of the Group to take credit (prematurely) for the expected future profits of a policy by treating the policy as an asset.
- No recognition of future investment charges on linked business as the Group's profit recognition policy determines that asset-based fees are more appropriately accounted for as and when they are received.
- A percentage of premiums for certain regular premium business were not taken into account when liabilities were valued. The effect is to increase liabiltities. This allows for uncertainty as to whether the premiums will actually be received and is in line with the profit recognition policy whereby profit is not recognised in advance.

Assumptions

The value of the life and new business is determined using assumptions regarding future mortality, morbidity, discontinuance rates and expenses which all equal the best estimate assumptions used in determining the liabilities. These assumptions were based on recent experience investigations. The risk discount rate used to discount future profits includes a margin over assumed investment returns to allow for the risk that experience in future years may differ from that assumed. The economic assumptions used were as follows (gross of tax where applicable):

	31 December 2006 %	31 December 2005 %
Risk-free rate return	**8,00**	7,50
Equity return	**10,00**	9,50
Cash return	**6,00**	5,50
Overall investment return	**8,40**	7,90
Risk discount return	**11,00**	10,50
Expense inflation	**4,50**	4,00

The compulsory margins prescribed by ASSA in PGN 104 and which have been applied in the valuation of liabilities are summarised in the table below:

Assumption	**Margin**
Mortality	7,5% (increase for assurance, decrease for annuities)
Morbidity	10%
Medical	15%
Lapse	25% (eg if the best estimate is 10%, the margin is 2,5%)
Termination for disability income benefits in payments	10%
Surrenders	10% (increase or decrease, depending on which alternative increases liabilities)
Expenses	10%
Expense inflation	10% (of estimated escalation rate)
Charge against investment return	25 basis points in the management fee or an equivalent asset-based or investment performance-based margin

22. Policyholder liabilities under insurance contracts (continued)

22.7 Long-term insurance contracts – assumptions, change in assumptions and sensitivities (continued)

(a) Mortality, disability and dread disease

A standard industry mortality table (SA 85-90), published in 1997, is taken as a base table and adjusted for the major product lines to reflect best estimates.

Provision is made for deteriorating claim experience due to the Aids pandemic in accordance with guidelines as issued by the ASSA. Experience over a period of five years or the maximum period available, if less, is investigated with particular emphasis on more recent trends. Specific Aids investigations are also undertaken from time to time. The last investigation was performed during the first quarter of 2006. Adjustments are typically percentage factors of the standard tables. For underwritten lives, selected tables are used. For disability, dread disease and critical illness products with limited own past experience, guidance is obtained from reinsurers and their rates are used, both for pricing and valuation purposes.

(b) Persistency

Experience investigations were conducted over the last five years and it is assumed that recent experience and trends will continue in future. Persistency assumptions vary by product type, policy duration and target market. Lapse rates are typically higher for funeral and credit life business and take into account the behaviour with respect to the particular bank product to which the insurance contract is linked.

(c) Expenses

The expense basis is based on the results of an annual activity-based costing exercise whereby the previous financial period's expenses are allocated to product types and also to initial, renewal and claims activities. The expense basis allows for future inflationary increases at a rate consistent with the investment return assumptions.

(d) Investment return

Fixed interest securities of an average term equal to the mean term of the liability outflows would constitute a matched position. The current investment mandate consciously mismatches the liabilities to some extent. However, in the valuation it has been assumed that a sufficient quantity of gilts of appropriate duration is held. The future gross redemption yield on these benchmark assets was 8,0% (December 2005: 7,5%) per annum on the valuation date and this has been used to value the liabilities. An adjustment is made for future income tax on investment returns.

(e) Mismatch reserve

A mismatch reserve is maintained to allow for the fact that non-linked liabilities have been valued assuming a fully matched position (between assets and liabilities), whereas the investment mandate has consciously mismatched the liabilities to some extent at year-end. More particularly, a portion of assets backing non-linked liabilities has been invested in equities at year-end, whereas the liability valuation has assumed that this was not the case. The methodology in setting up the mismatch reserve is consistent with previous years: cognisance is taken of the difference between gross redemption yields on gilts of appropriate maturity and the earnings yield on equities and applied to the portion of assets that is held in equities.

(f) How is inflation assumed

The expense inflation assumption in the liability valuation represents a long-term view of future expected inflation levels. The assumption will not necessarily be equal to the published consumer price index on the valuation date. The Group sets the inflation assumption in line with its fixed interest investment assumption by assuming that inflation will be 350 basis points less than the fixed interest investment assumption. The assumed fixed interest investment assumption is taken from the zero coupon yield curve produced by the Bond Exchange of South Africa as at the valuation date.

(g) Provision for surrender values

On 12 December 2005 a statement of intent was issued by the long-term insurance industry and the Minister of Finance regarding minimum surrender values. This statement specifies the measures that will be implemented in respect of retirement annuity fund member policies and other savings products offered by the long-term insurance industry when such policies are surrendered. These measures are effective from 1 December 2006.

The Group intends to at least meet the minimum standards in future and the actuarial liability was increased at 31 December 2005 as a result. It was calculated assuming that policyholders receive at least a certain minimum fixed percentage of the fund value when endowment policies are surrendered. The basis for future surrenders on these policies was left unchanged at 31 December 2006. A liability for past surrenders was also established at 31 December 2005. Certainty was however obtained during the year that this liability was unnecessary, since the Group's products fall outside the scope of the statement of intent in relation to surrendered policies, and it was released on 31 December 2006.

(h) Tax

Future tax on income is allowed for according to current tax legislation at 29% in the corporate fund and 30% in the individual policyholder fund. It has been assumed that current legislation and rates remain unaltered. For the individual policyholder fund, 25% of capital gains are taxable at the normal tax rate of 30% giving a tax rate of 7,5% at realisation of the assets. However, the Group assumes a holding period of seven years for the underlying asset and hence the payment of the capital gains tax is deferred resulting in a lower assumption of 5% being used in the valuation. In the corporate fund, 50% of capital gains are taxable at 29%.

22. Policyholder liabilities under insurance contracts (continued)

22.7 Long-term insurance contracts – assumptions, change in assumptions and sensitivities (continued)

Change and effect of assumptions since previous valuation

Changes in assumptions to determine the insurance liabilities have a material effect on the financial results.

The table below displays the effect of the changes in the major assumptions.

Change in assumptions	**Increase/ (reduction) in insurance liabilities 2006 Rm**	Increase/ (reduction) in insurance liabilities 2005 Rm
Economic basis and asset mix	**(14)**	30
Expense assumptions	**(17)**	11
Mortality and Aids assumptions	**(108)**	(130)
Revised valuation method	**—**	21
Revised surrender values	**4**	22
Revised valuation	**—**	11

The economic basis was changed in line with market movements. The assumptions about the future investment return on assets and future inflation were adjusted to reflect the change in gilt yields, resulting in a 0,5% per annum higher (December 2005: 1% per annum lower) investment return assumption compared to the previous period.

The expense assumptions were changed to reflect the results of the most recent expense investigation, decreasing the liability by R17 million (December 2005: increase of R11 million).

The Aids assumptions were lightened following an experience investigation conducted during 2006. Female lives under funeral products experienced lower mortality than expected under the previous period's mortality basis and the basis was adjusted as a result. For certain mortgage protection products the mortality experience was slightly higher than expected.

Sensitivity analysis

The results of the sensitivities in the table below show that the assumptions regarding future mortality and morbidity experience have a major impact on the size of the actuarial liability. This is to be expected given the nature of the business (risk insurance). This implies that future developments in mortality and morbidity experience, whether positive or negative, will impact on profits in future years. These are, of course, the areas that are influenced by Aids. Next in importance is the impact of investment returns. Although a significant portion of the book (such as credit life) is short-term, the mortgage protection business increases the duration of the business, hence the importance of future investment returns. The business is not very sensitive to changes in other assumptions.

	31 December 2006		31 December 2005	
	Insurance liability Rm	**Change %**	Insurance liability Rm	Change %
Base value	**1 834**	**n/a**	1 593	n/a
Mortality and morbidity + 10%	**2 053**	**11,95**	1 814	13,88
Lapse rate + 10%	**1 793**	**(2,24)**	1 547	(2,89)
Renewal and termination expenses + 10%	**1 861**	**1,48**	1 620	1,70
Expense inflation + 1%	**1 857**	**1,26**	1 602	0,57
Investment return – 1%	**1 906**	**3,93**	1 664	4,46

The above analyses are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur as changes in some of the assumptions are correlated.

Concentration of insurance risk

Investment risks attributable to assets that back insurance liabilities are well diversified and hence concentration risk is considered to be low.

As insurance products are sold to banking customers within the Group, the concentration risk for the geographical location of customers is negated by the fact that the Group's banking customers are spread across South Africa, with no significant geographical concentration risk. Therefore, the risk of an increase in the number of claims resulting from localised events is substantially reduced owing to the diversification of the geographical spread of the customer base.

For larger individual exposures, retention limits are in place with excess reinsurance to cover these large individual exposures.

Credit risk concentration with regard to reinsurers is also considered to be low as there is a diversification of reinsurers, all with strong credit ratings.

		Group	
		31 December 2006 Rm	31 December 2005 Rm
23. Borrowed funds			
The subordinated debt instruments listed below qualify as secondary capital in terms of the Banks Act of 1990.			
23.1 Variable rate debentures		**—**	3
Interest rate	Redemption date		
Variable	No terms of redemption		

The above debentures were issued by Absa Specialised Investments (Proprietary) Limited. These debentures' interest rate is variable and is linked to the return of the underlying hedge funds that are held by Absa Specialised Investment Trusts A, B and C. Absa Specialised Investments lends money to the three trusts, which invest the funds into various hedge funds. The hedge funds earn a return on the money invested. This return is then paid out by the trusts, once a year, in the form of interest income. The debenture is payable on demand to the debenture holder. The subsidiary was sold on 13 November 2006.

23.2 Secured redeemable compulsorily convertible debenture		**—**	3
Interest rate	Redemption date		
13,75%	4 April 2008		

The above debentures were issued by Abvest Holdings (Proprietary) Limited. These debentures bear interest at 13,75% and are compulsorily redeemable for each R82 542 special dividend paid on the "B" ordinary shares. Any remaining debentures are compulsorily redeemable on 4 April 2008. As security, Abvest granted first ranking cessions over book debts, insurance policies and all cash balances and deposits. These debentures were redeemed on 29 September 2006.

23.3 Subordinated callable notes		**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%.

	Group 31 December 2006 Rm	Group 31 December 2005 Rm

23. Borrowed funds (continued)

23.3 Subordinated callable notes (continued)

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 of 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.

These 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.

			Group 31 December 2006 Rm	Group 31 December 2005 Rm
23.4 Redeemable cumulative option-holding preference shares			**152**	151
Preference dividend rate	Option exercise dates	Number		
72% of the prime overdraft rate	1 July 2007 to 1 July 2009 1 March, 1 June, 1 September or 1 December of each year	79 237 500*	**158**	158
Accrued dividend			**6**	5
Less: shares held by the Absa Group Limited Employee Share Ownership Administrative (ESOP) Trust		6 085 200	**(12)**	(12)

The dividends are compounded and payable semi-annually in arrear on 30 September and 31 March of each year. The shares were issued by Absa Group Limited on 1 July 2004 and the redemption dates commence on the first business day after the third anniversary of the date of issue of the redeemable preference shares and ending on the fifth anniversary of the date of issue. Such exercise and notice will be deemed to be effective only on the option exercise dates being 1 March, 1 June, 1 September or 1 December of each year. The shares are convertible into ordinary shares at the option of the preference shareholders on the redemption dates in lots of 100.

	Group 31 December 2006 Rm	Group 31 December 2005 Rm
	8 420	6 483
Fair value	**8 816**	7 350
Maturity analysis		
Current	**308**	218
Non-current	**8 112**	6 265
	8 420	6 483
Portfolio analysis		
At amortised cost	**6 105**	6 067
Fair value through profit and loss	**2 315**	416
At amortised cost	**2 400**	403
Fair value adjustment	**(85)**	13
	8 420	6 483

*Refer to note 26.

	Group	
	31 December 2006 Rm	31 December 2005 Rm
24. Other liabilities and sundry provisions		
Audit fee accrual	**27**	32
Creditors and other accruals	**7 473**	9 321
Share-based payment liability (refer to note 53)	**81**	—
Deferred income	**169**	180
Leave pay accrual	**459**	403
Liabilities under finance leases (refer to note 25)	**919**	913
Retirement benefit obligation (refer to note 46)	**308**	285
Staff bonus and incentive accrual	**1 310**	678
	10 746	11 812

The Group, 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 Group does not expect the ultimate resolution of any of the proceedings to which the Group is party to, to have a significant adverse effect on the financial position of the Group and the Group 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 twelve months with the exception of liabilities under financial leases (refer to note 25), retirement benefit obligations (refer to note 46) and the abovementioned legal claims.

The comparatives have been restated in terms of Annexure I.

	Group	
	31 December 2006 Rm	31 December 2005 Rm
25. Liabilities under finance leases		
Minimum lease payments due		
Less than one year	**201**	171
Between one and two years	**224**	189
Between two and three years	**246**	210
Between three and four years	**225**	233
Between four and five years	**231**	212
More than five years	**497**	844
	1 624	1 859
Less interest		
Less than one year	**157**	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	**77**	224
	705	946
Principal		
Less than one year	**44**	10
Between one and two years	**77**	32
Between two and three years	**116**	60
Between three and four years	**117**	97
Between four and five years	**145**	94
More than five years	**420**	620
Present value of minimum lease payments	**919**	913

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

Refer to note 14 for details of property subject to finance leases.

	Group	
	31 December 2006 Rm	31 December 2005 Rm
26. Share capital and premium		
Ordinary share capital		
Authorised		
800 000 000 (December 2005: 800 000 000) ordinary shares of R2 each	**1 600**	1 600
Issued		
671 955 074 (December 2005: 666 855 074) ordinary shares of R2 each	**1 344**	1 334
Less: **2 654 828** (December 2005: 3 074 268) shares held by the Absa Group Limited Share Incentive Trust	**(6)**	(6)
Less: **178 370** (December 2005: 388 200) treasury shares held by Absa Life Limited	**—**	(1)
	1 338	1 327
Total issued capital		
Ordinary shares	**1 338**	1 327
Share premium	**2 067**	1 875
	3 405	3 202

Unissued shares

The unissued shares are under the control of the directors subject to a limit of 5% of issued ordinary share capital as at 31 December 2006, 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 forthcoming annual general meeting of the Company.

The Group has a share incentive trust in terms of which shares are issued and options are granted. Details of the share incentive trust are set out in note 53. As required by the JSE Limited the Share Incentive Trust has been consolidated into the Group's annual financial statements.

As required by IFRS, the shares held by the life fund within Absa Life Limited were eliminated as treasury shares in the Group's consolidated financial statements for the first time during the period ended 31 December 2005.

Shares issued during the year

On 5 June 2006, 3 300 000 ordinary shares were issued at R36,17 per share, being R2 par value and R34,17 share premium. A further 1 800 000 ordinary shares were issued on 1 December 2006 at R33,92 per share, being R2 par value and R31,92 share premium. All shares issued by the Group are paid in full. These shares were issued to meet the obligation of the share incentive trust.

Preference share capital – unlisted		
Authorised		
80 467 500 (December 2005: 80 467 500) redeemable cumulative option-holding preference shares of R2 each	**161**	161
Issued		
79 237 500 (December 2005: 79 237 500) redeemable cumulative option-holding preference shares of R2 each	**158**	158

These shares meet the definition of debt under IAS 32 and have therefore been included under borrowed funds (refer to note 23).

The shares held by Batho Bonke Capital (Proprietary) Limited (73 152 300) are entitled to voting rights equivalent to those of the listed ordinary shares. The remaining shares held by the Absa Group Limited Employee Share Ownership Administrative (ESOP) Trust are not entitled to voting rights.

	Group	
	31 December 2006 Rm	31 December 2005 Rm
27. Minority interest – preference shares		
Preference share capital – listed		
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**	—
Total issued capital		
Preference shares	**1**	—
Share premium	**2 991**	—
	2 992	—

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 by Absa Bank Limited 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 Group with funding for strategic initiatives.

28. 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 Group'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 Group's share of an associate's and/or joint venture's distributable reserves.

Insurance statutory reserve

The insurance statutory reserve comprises the contingency reserve which must be kept in compliance with the Short-term Insurance Act of 1998 and is not distributable.

Regulatory general credit risk reserve

Total impairments, consisting of identified and unidentified impairments, computed in terms of IAS 39 should exceed the 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 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 share premium when equity instruments are transferred to employees.

	Group	
	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
29. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	**230**	225
Money market assets	**221**	318
Statutory liquid asset portfolio	**1 446**	1 029
Capital market assets	**109**	131
Loans and advances to customers and banks (refer to note 29.1)	**36 362**	21 175
Fair value adjustments on hedging instruments (refer to note 29.2)	**—**	159
	38 368	23 037
29.1 Loans and advances to customers and banks		
Cheque accounts	**1 880**	1 254
Corporate overdrafts	**380**	123
Credit cards	**1 344**	629
Foreign currency loans	**795**	738
Instalment credit agreements	**5 908**	3 617
Loans granted under resale agreements (Carries)	**1 540**	263
Microloans	**261**	168
Mortgage loans	**18 430**	10 249
Net present value unwinding on non-performing book (refer to note 7)	**119**	98
Other advances*	**264**	436
Overnight finance	**546**	320
Personal loans	**1 813**	1 062
Preference shares	**1 057**	742
Securitised corporate loans (Abacas)	**768**	261
Specialised and project finance	**1 176**	1 150
Term loans	**81**	65
	36 362	21 175
29.2 Fair value adjustment on hedging instruments		
Cash flow hedges	**—**	(89)
Fair value hedges	**—**	248
	—	159
Fair value adjustments included in interest and similar income		
Mortgage loans	**—**	(22)
Other advances	**(7)**	(2)
Specialised and project finance	**72**	49
Instalment credit agreements	**—**	(55)
	65	(30)

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 Group's parent company of R42 million (December 2005: R7 million). Refer to note 48 for the full disclosure of related party transactions.

The comparatives have been reclassified in terms of Annexure I.

*Includes items such as related party interest, interest on factored debtors books and interest on loans to associates.

	Group	
	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
30. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	**762**	725
Deposits from customers and banks (refer to note 30.1)	**22 288**	12 718
Fair value adjustments on hedging instruments (refer to note 30.2)	**181**	—
Interest incurred on finance leases	**163**	122
Net other interest	**33**	131
	23 427	13 696
30.1 Deposits from customers and banks		
Call deposits	**3 919**	1 960
Cheque account deposits	**3 550**	2 065
Fixed deposits	**5 865**	3 831
Notice deposits	**337**	232
Savings and transmission deposits	**536**	319
Foreign currency deposits	**866**	587
Other deposits*	**1 135**	736
Negotiable certificates of deposits	**5 150**	2 437
Credit card deposits	**61**	44
Promissory notes	**869**	507
	22 288	12 718
30.2 Fair value adjustment on hedging instruments		
Cash flow hedges	**99**	—
Fair value hedges	**82**	—
	181	—
Fair value adjustments included in interest expense and similar charges		
Negotiable certificates of deposits	**(2)**	1
Other deposits	**(23)**	10
	(25)	11

Refer to notes 17, 18, 19, 23 and 24 for the liabilities to which the above interest charges relate.

Included above is interest paid to the Group's parent company of R143 million (December 2005: R46 million). Refer to note 48 for full disclosure of related party transactions.

The comparatives have been reclassified in terms of Annexure I.

*Includes items such as related party interest, interest on bank repos and interest on securitised deposits.

	Group Twelve months ended 31 December 2006 Rm	Group Nine months ended 31 December 2005 Rm
31. Net fee and commission income		
Fee and commission income		
Credit related fees and commissions (refer to note 31.1)	**8 948**	5 779
Corporate finance fees	**136**	265
Portfolio and other management fees	**180**	171
Asset management and related fees	**59**	30
Insurance commission received	**771**	563
Trust and estate income	**201**	127
Pension fund payment services	**452**	326
External administration fees	**204**	180
	10 951	7 441
Fee and commission expense		
Fee and commission paid	**(577)**	(355)
	10 374	7 086
31.1 Credit related fees and commissions		
Credit cards	**1 390**	863
Cheque accounts	**2 405**	1 624
Electronic banking	**2 248**	1 530
Other	**2 905**	1 762
	8 948	5 779

The comparatives have been reclassified in terms of Annexure I.

	Group Twelve months ended 31 December 2006 Rm	Group Nine months ended 31 December 2005 Rm
32. Net insurance premium income		
Gross insurance premiums	**3 269**	2 146
Life insurance contracts (refer to note 22.5)	**1 332**	804
Short-term insurance contracts	**1 937**	1 342
Premiums ceded to reinsurers	**(275)**	(198)
Reinsurance on life insurance contracts	**(67)**	(47)
Reinsurance on short-term insurance contracts	**(208)**	(151)
	2 994	1 948

	Group	
	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
33. Net insurance claims and benefits paid		
Gross claims and benefits paid on insurance contracts	**1 376**	913
Life claims and benefits (refer to note 22.5)	**316**	224
Short-term claims and benefits	**1 060**	689
Reinsurance recoveries	**(57)**	(116)
Reinsurance recoveries on life insurance contracts	**(13)**	(12)
Reinsurance recoveries on short-term insurance contracts	**(44)**	(104)
	1 319	797
Comprising**:**		
Life	**303**	212
Home mortgage protection	**97**	63
Funeral business	**80**	57
Credit life	**110**	87
Other	**16**	5
Short term	**1 016**	585
Property and engineering	**640**	310
Motor and personal	**202**	135
Guarantees	**126**	101
Miscellaneous	**48**	39
	1 319	797
34. Changes in insurance and investment liabilities		
Insurance liabilities	**240**	188
Investment contracts (refer to note 21)	**508**	338
	748	526

The comparatives have been restated in terms of Annexure I.

	Group	
	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
35. Gains and losses from banking and trading activities		
Fair value through profit and loss (refer to note 35.1)		
Equity securities	**439**	360
Available-for-sale		
Equity securities	**—**	5
Associates		
Profit on sale	**167**	—
Held for trading (refer to note 35.2)		
Net trading income	**943**	744
Non qualifying hedges	**(202)**	(254)
	1 347	855
35.1 Fair value through profit and loss		
Fair value adjustment	**314**	286
Net interest received	**98**	55
Dividends received	**27**	19
	439	360
35.2 Held for trading		
Fair value adjustment	**370**	417
Net interest received	**392**	213
Dividends received	**181**	114
	943	744

The comparatives have been reclassified in terms of Annexure I.

		Group	
		Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
36.	**Gains and losses from investment activities**		
	Fair value through profit and loss (refer to note 36.1)	**1 272**	976
	Money market assets	**126**	101
	Debt securities	**142**	105
	Equity securities	**1 004**	770
	Available-for-sale		
	Equity securities	**—**	(115)
	Subsidiaries		
	Profit on sale	**50**	—
	Associates	**74**	14
	Profit on sale	**54**	—
	Dividends received	**20**	14
	Investments linked to investment contracts (refer to note 36.2)	**520**	384
		1 916	1 259
36.1	**Fair value through profit and loss**		
	Fair value adjustment	**700**	630
	Net interest received	**367**	238
	Dividends received	**205**	108
		1 272	976
36.2	**Investments linked to investment contracts**		
	Fair value adjustment	**435**	290
	Net interest received	**75**	62
	Dividends received	**10**	32
		520	384

The comparatives have been reclassified and restated in terms of Annexure I.

37.	**Other operating income**		
	Unit/property trust commission	**267**	170
	Property rental	**92**	53
	Property development profit	**148**	95
	Other banking income	**339**	191
	Profit on sale of property and equipment (refer to note 44)	**11**	18
	Profit and loss on exchange differences	**81**	21
		938	548

The comparatives have been reclassified in terms of Annexure I.

	Group Twelve months ended 31 December 2006 Rm	Group Nine months ended 31 December 2005 Rm
38. Operating expenses		
Lease rentals on operating leases	**757**	557
Amortisation of intangible assets (refer to note 13)	**37**	13
Depreciation (refer to note 14)	**739**	550
Freehold property	**33**	25
Leasehold property	**26**	19
Furniture and other equipment	**284**	184
Motor vehicles	**5**	5
Computer equipment	**391**	317
Staff costs (refer to note 39)	**8 577**	5 807
Other operating costs	**3 266**	2 203
Information technology	**1 159**	813
Other professional fees	**1 272**	880
Marketing costs	**746**	541
Audit fees	**67**	69
Audit fees current year/period	**58**	57
Other fees	**9**	12
	16 620	11 433

The comparatives have been reclassified in terms of Annexure I.

	Group Twelve months ended 31 December 2006 Rm	Group Nine months ended 31 December 2005 Rm
39. Staff costs (refer to note 38)		
Salaries	**6 070**	4 290
Bonuses	**1 433**	787
Training costs	**150**	146
Other staff costs	**337**	202
Employer contributions to post-retirement funds	**433**	312
Share-based payments (refer to note 53)	**154**	70
	8 577	5 807
Average number of employees employed by the Group	**34 348**	33 029
40. Impairments		
Property and equipment (refer to note 14)	**4**	—
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
	75	54

The quantum of the 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 property and equipment are reported in the Africa segment, investments in associated undertakings and joint ventures are reported in the Absa corporate and business banking segment and available-for-sale investments and computer software development costs are reported in the other segment.

	Group	
	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
41. Indirect taxation		
Regional Services Council levies	**57**	66
Value-added tax net of input credits	**668**	433
Payments to third parties	**92**	189
Training levy	**54**	36
	871	724
42. Taxation expense		
Current		
South African current taxation	**2 654**	1 193
South African current taxation prior period/year	**34**	14
Secondary tax on companies (STC)	**199**	199
Foreign taxation	**110**	77
	2 997	1 483
Deferred		
Deferred taxation (refer to note 42.1)	**154**	708
	3 151	2 191
Reconciliation between accounting profit and the taxation expense is as follows:		
Profit before tax	**11 304**	6 930
Tax calculated at 29%	**3 278**	2 010
Effect of different tax rates in other countries	**48**	12
Income not subject to tax	**(534)**	(436)
Expenses not deductible for tax purposes	**166**	431
Secondary tax on companies (STC)	**199**	199
Other	**(6)**	(25)
	3 151	2 191
42.1 The deferred taxation charge in the income statement comprises the following temporary differences:		
Accelerated tax depreciation	**26**	(22)
Allowances for loan losses	**(80)**	(111)
Other provisions	**(183)**	(53)
Other temporary differences	**391**	894
	154	708

	Group	
	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
43. Earnings per share		
Basic earnings per share		
Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year/period.		
Profit attributable to ordinary equity holders of the Group	**8 105**	4 776
Weighted average number of ordinary shares in issue (millions)	**666,1**	662,1
Issued shares at the beginning of the year/period (millions)	**666,9**	655,1
Effect of shares issued during the year/period (weighted millions)	**2,1**	10,5
Less: treasury shares held by Absa Life (weighted millions)	**(0,2)**	(0,4)
Less: shares held by the Absa Group Limited Share Incentive Trust (weighted millions)	**(2,7)**	(3,1)
Basic earnings per share (cents)	**1 216,8**	721,4
Diluted earnings per share		
Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible debt and share options. The convertible debt is assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual quoted market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.		
In calculating the diluted earnings per share on share options to employees and other share-based payment arrangements, the Group adjusts the exercise price of potential ordinary shares to include the fair value of goods or services that will be recognised as an expense in a future period.		
Profit attributable to ordinary equity holders of the Group	**8 105**	4 776
Interest expense on convertible debt (net of tax)	**13**	9
Diluted earnings	**8 118**	4 785
Weighted average number of ordinary shares in issue (millions)	**666,1**	662,1
Adjustments for:		
Options linked to redeemable preference shares (weighted millions)	**28,6**	17,3
Share options (weighted millions)	**8,5**	11,4
Diluted weighted average number of ordinary shares in issue (millions)	**703,2**	690,8
Diluted earnings per share (cents)	**1 154,4**	692,7

The dilution represents the effective discount between the average option price and the average market price at which option holders can convert into ordinary shares. This includes options issued in respect of the Share Incentive Trust, the Absa Group Limited Employee Share Ownership Administrative (ESOP) Trust and Batho Bonke Capital (Proprietary) Limited, Absa's black economic empowerment partner.

	Group	
	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
44. Headline earnings per share		
Headline earnings is determined as follows:		
Net income attributable to ordinary equity holders of the Group	**8 105**	4 776
Adjustments for:		
Net profit on disposal of property and equipment (refer to note 37)	**(11)**	(18)
Net (profit)/ loss on disposal of available-for-sale assets and strategic investments	**(231)**	130
Impairment costs:		
Available-for-sale assets and strategic investments	**(5)**	14
Investments in associated undertakings and joint venture companies (refer to note 12)	**10**	—
Property and equipment (refer to note 14)	**4**	—
Headline earnings	**7 872**	4 902
Interest expense on convertible debt (net of tax)	**13**	9
Diluted headline earnings	**7 885**	4 911
Headline earnings per share (cents)	**1 181,8**	740,4
Diluted headline earnings per share (cents)	**1 121,3**	710,9
45. Income taxes paid/(refunded)		
Balance at the beginning of the year/period		
Current taxation (refer to notes 15 and 20)	**400**	484
Deferred taxation (refer to note 16)	**2 476**	1 676
Income statement change		
Current and deferred taxation (refer to note 42)	**3 151**	2 191
Indirect taxation (refer to note 41)	**871**	724
Balance at the end of the year/period		
Current taxation (refer to notes 15 and 20)	**(1 157)**	(400)
Deferred taxation (refer to note 16)	**(2 408)**	(2 476)
	3 333	2 199

	Group 31 December 2006 Rm	31 December 2005 Rm
46. Retirement benefit obligations		
Balance sheet obligation for:		
Pension benefits (refer to note 46.1)	**307**	284
Other post-retirement benefits	**1**	1
Disclosed under other liabilities (refer to note 24)	**308**	285

	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
Income statement charge		
Pension benefits – subsidiaries	**38**	19
Pension benefits – Absa Group	**1**	1
Included under staff costs	**39**	20

	31 December 2006 Rm	31 December 2005 Rm
46.1 Subsidiaries' pension schemes		
Funded obligations		
Present value of funded obligation	**296**	284
Unrecognised actuarial gains	**11**	—
	307	284
Reconciliation of movement in obligation:		
Balance at the beginning of the year/period	**284**	—
First-time recognition of liability	**—**	282
Current service cost	**6**	6
Interest cost	**32**	32
Net actuarial gains recognised during the year/period	**—**	(19)
Net unrecognised actuarial gains	**(11)**	—
Exchange differences	**5**	1
Benefits paid	**(20)**	(18)
Balance at the end of the year/period	**296**	284

	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
Total expense recognised in the income statement		
Current service cost	**6**	6
Interest cost	**32**	32
Net actuarial gains recognised during the year/period	**—**	(19)
Total included in staff costs	**38**	19

	Group	
	31 December 2006 Rm	31 December 2005 Rm
46. Retirement benefit obligations (continued)		
46.1 Subsidiaries' pension schemes (continued)		
The principal actuarial assumptions used relating to African subsidiaries, were as follows:		
Discount rate	**14,50%**	12,00%
Expected rate on plan assets	**13,00%**	9,60%
Future pension increases	**4,80%**	3,60%
Future salary increases	**12,00%**	9,00%
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 65 is as follows:		
Male	**12,6**	12,6
Female	**14,5**	14,5
Pension fund assets		
Investments		
Government bonds	**115**	152
Treasury bills	**12**	—
Current assets		
Interest owing by government	**6**	6
Bank balance with Banco Austral, Sarl	**204**	171
Total assets	**337**	329
These assets have been ringfenced/allocated to the retirement benefits, but do not qualify as plan assets in terms of IAS 19 as they are not in a separate entity and therefore are carried on the Group's balance sheet. The major constraint in this regard is the lack of enabling legislation in certain African countries.		
46.2 The Absa Group Pension Fund		
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

	Group 31 December 2006 Rm	Group 31 December 2005 Rm
46. Retirement benefit obligations (continued)		
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 the Group, with a fair value of R220 million (December 2005: R314 million). Refer to note 48 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)
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.

46. Retirement benefit obligations (continued)

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 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 the Group'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 regards 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 statutory 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.

	Group	
	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
47. Dividends per share		
Dividends paid to ordinary equity holders		
Final dividend number 39 of 135 cents per ordinary share (March 2005: 200 cents)	**900**	1 334
Interim dividend number 40 of 208 cents per ordinary share (September 2005: 160 cents)	**1 394**	1 067
Total dividends paid during the year/period	**2 294**	2 401
Interim dividend number 40 of 208 cents per ordinary share (September 2005: 160 cents)	**1 394**	1 067
Final dividend number 41 of 265 cents per ordinary share (February 2006: 135 cents)	**1 781**	900
Total dividends relating to income for the year/period	**3 175**	1 967

A final dividend of 265 cents per ordinary share was approved by the board on 20 February 2007. The total dividend amounts to R1 781 million and the STC payable by the Group in respect of the dividend approved and declared subsequent to 31 December 2006 amounts to R223 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 minority preference equity holders		
Interim dividend number 1 of 2 435,42 cents per preference share	**73**	—
Total dividends paid during the year/period	**73**	—
Interim dividend number 1 of 2 435,42 cents per preference share (September 2006)	**73**	—
Final dividend number 2 of 3 784,3 cents per preference share (February 2007)	**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 Group 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.

48. Related party transactions

The Group's ultimate parent company is Barclays PLC (incorporated in the United Kingdom), which owns 56,45% (December 2005: 56,61%) of the 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 Group:

- The parent, Barclays Bank PLC
- Subsidiaries (refer to Annexure F)
- Associated undertakings and joint ventures (refer to Annexure F)
- Post-retirement benefit funds
- Key management personnel

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 Group has accordingly defined key management personnel to include:

(i) executive and non-executive directors;
(ii) members of the Group Executive Committee (Exco);
(iii) minor children and spouses of executive and non-executive directors and members of the 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:

48.1 Transactions with parent company

The following transactions were entered into with the 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 as in the normal course of business.

48.2 Subsidiaries

Details of the principal subsidiaries are shown in Annexure F.

48.3 Associates, joint ventures and retirement benefit funds

At December 2006 the Absa Group 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 the Group.

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

Details of investments in associated undertakings and joint ventures are given in Annexure F.

48. Related parties (continued)

In aggregate, the amounts included in the Group's financial statements are as follows:

	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	**7 541**	**104**	**—**	**7 645**
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	5 399	24	—	5 423
Other assets	60	—	—	60
Value of investments managed by Absa	—	—	4 837	4 837
Deposits	(234)	—	(26)	(260)
Other liabilities	(39)	—	—	(39)

48.4 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 to management are at the fringe benefit tax rate that all employees of the Group are entitled to.

48. Related parties (continued)

	31 December 2006 Transactions with key management/ directors Rm	31 December 2006 Transactions with entities controlled by key management/ directors Rm	31 December 2005 Transactions with key management/ directors Rm	31 December 2005 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 Group	**—**	**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 Group managed on behalf of key management personnel certain investments. These management agreements are entered into in the normal course of business under terms that are 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.

48.5 Key management personnel compensation

	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
Directors		
Salaries and other short-term benefits	**47**	44
Post-employment benefits	**1**	1
Share-based payments	**18**	5
	66	50
Other key management personnel		
Salaries and other short-term benefits	**49**	56
Post-employment benefits	**1**	1
Share-based payments	**17**	7
	67	64

	Group	
	31 December 2006 Rm	31 December 2005 Rm
49. Managed funds		
Estates	**2 223**	1 755
Portfolio management	**9 673**	6 390
Trusts	**4 980**	4 603
Participation bond schemes	**1 583**	1 344
Unit trusts	**65 795**	52 303
Property funds	**—**	15 263
Other	**7 343**	6 202
	91 597	87 860
50. Commitments		
Authorised capital expenditure		
Contracted for but not provided for	**171**	140
The Group had capital commitments in respect of computer equipment and property purchases. The Group'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	**661**	580
Later than one year and no later than five years	**1 423**	1 557
Later than five years	**506**	403
	2 590	2 540
No contingent rent is payable.		
Operating lease payments represent rentals payable by the Group 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	**273 600**	256 355
51. Contingencies		
Guarantees	**9 616**	14 037
Letters of credit	**2 139**	2 294
Other contingencies	**16**	—
	11 771	16 331

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

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

	Group Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
52. Cash and cash equivalents		
Cash, cash balances and balances with central banks (refer to note 2)	**16 461**	15 036
Statutory liquid asset portfolio (refer to note 3)	**20 829**	16 289
Loans and advances to banks (refer to note 4)	**21 800**	20 805
Less: amounts not held for cash flow purposes	**(54 303)**	(43 787)
	4 787	8 343

53. Share-based payments

During 2006, R95 million (December 2005: R70 million) and R59 million (December 2005: Rnil) were 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 the Group 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 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 ten years from the issuing date. Options issued since August 2005 (issue 193) have vesting performance criteria associated with them, which require 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 Group'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	**25 126**	**47,76**
Granted during the year	**586**	**81,90**
Less: exercised during the year	**(6 137)**	**35,72**
Less: forfeited during the year	**(797)**	**51,37**
Outstanding at the end of the year	**18 778**	**53,01**
Of which are exercisable	**5 305**	**—**
2005		
Outstanding at the beginning of the period	30 705	36,23
Granted during the period	4 347	91,48
Less: exercised during the period	(9 606)	30,50
Less: forfeited during the period	(320)	41,68
Outstanding at the end of the period	25 126	47,76
Of which are exercisable	3 390	—

Options exercised in 2006 resulted in 6 136 613 shares (December 2005: 9 606 000 shares) being allocated at an average price of R35,72 each (December 2005: R30,50). The related weighted average share price at the time of exercise was R109,85 (December 2005: R82,54).

53. 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
2006				
27,75 – 38,05	**30,47**	**0,66**	*****	**153 415**
17,85 – 43,92	**23,60**	**2,17**	*****	**372 540**
21,16 – 36,19	**26,70**	**3,36**	*****	**472 273**
24,74 – 39,27	**36,72**	**4,63**	*****	**1 447 785**
27,05 – 35,97	**33,59**	**5,55**	*****	**2 862 281**
32,00 – 46,05	**35,16**	**6,73**	*****	**2 978 797**
44,39 – 73,35	**49,86**	**7,72**	**19,40**	**5 918 112**
74,97 – 94,63	**91,47**	**8,77**	**28,59**	**4 007 270**
89,57 – 113,95	**106,92**	**9,37**	**31,83**	**566 000**
2005				
20,77 – 22,25	20,77	0,75	*	114 676
27,75 – 38,05	30,55	1,75	*	215 245
17,85 – 43,92	24,59	2,75	*	809 952
21,16 – 36,19	26,77	4,75	*	711 877
24,74 – 39,27	36,63	5,75	*	3 336 411
27,05 – 35,97	33,62	6,75	*	4 957 521
32,00 – 46,05	35,32	7,75	*	4 238 778
44,36 – 73,35	49,81	8,75	17,08	6 457 276
74,97 – 94,63	91,49	9,75	26,84	4 284 008

The following shares and options are available for allocation:

	% of total issued shares	Number of shares
31 December 2006		
Maximum shares and options available	**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	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

*There was no requirement under IFRS to value the options prior to 31 March 2005.

	Group	
	31 December 2006	31 December 2005

53. Share-based payments (continued)

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:

	31 December 2006	31 December 2005
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 Group Executive Committee members	**5 years**	8 years
Expected option life for all employees	**5 years**	5 years
Expected lapse ratio for 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 was assumed that all Share Incentive Trust options issued since August 2005 (issue 193) will meet the Group performance criteria set.

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

Batho Bonke Capital (Proprietary) Limited

The Group entered into a black economic empowerment (BEE) transaction with Batho Bonke Capital (Proprietary) Limited in July 2004. As the shares issued in terms of the transaction vested immediately and the issue was before 1 January 2005, the provisions of IFRS 2 were not applicable. No costs will be recognised in the income statement of the Group.

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	**73 152**	73 152
Forfeited during the year/period	48 – 69	**—**	—
Outstanding at the end of the year/period	48 – 69	**73 152**	73 152

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). None of the above options were exercisable as at 31 December 2006 (31 December 2005: nil).

*Volatility assumptions vary according to the bipolar distribution observed over five-year rolling periods (and five years for Group Executive Committee members) up to the end of the financial period in which the grant occurs.

53. 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 Group (excluding executive directors of Absa Group and Absa Bank), 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 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 Group 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	**5 359**	5 665
Forfeited during the year/period	48 – 69	**(512)**	(306)
Outstanding at the end of the year/period	48 – 69	**4 847**	5 359

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 and the BEE transaction 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.

53. 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% – 39,6%
Expected option life	5 years
Expected lapse ratio for ESOP Trust	22,56%
Expected lapse ratio for Batho Bonke Capital (Proprietary) Limited	0%
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 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 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 the Group fails to meet the minimum performance criteria.

	31 December 2006 Number of options '000
Granted during the year	1 118
Outstanding at the end of the year	**1 118**

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 Group 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 Group 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 the Group; 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 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 the Group, 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 the Group, to a fixed option strike price of R58,00 per ordinary share.

53. Share-based payments (continued)

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

Certain qualifying participants with banked bonuses under any of the Group'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 the 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 year	**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 ESAS awards at grant date is based on the share price at grant date. The Group considers adjustments to reflect expectations for options that might lapse before the shares vest.

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

Absa Group Phantom Joiners Share Award Plan (JSAP)

The JSAP is a cash-settled share-based payment arrangement that enables the Group to attract and motivate new employees by buying out the "in the money" portion of a participant's shares or options under their 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	90
Outstanding at the end of the year	**90**

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 JSAP awards at grant date is based on the share price at grant date. The Group considers adjustments to reflect expectations for options that might lapse before the shares vest. At each reporting date the Group 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.

	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
53. Share-based payments (continued)		
Staff costs		
The income statement charge for share-based payments is as follows (refer to note 39):		
Equity-settled arrangements:		
Absa Group Limited Share Incentive Trust	**78**	53
Absa Group Limited Share Ownership Administrative Trust	**16**	17
Executive Share Award Scheme	**1**	—
Cash-settled arrangements:		
Phantom Performance Share Plan	**58**	—
Phantom Joiners Share Award Plan	**1**	—
	154	70

	31 December 2006 Rm	31 December 2005 Rm
Total carrying amount of liabilities for cash-settled arrangements (refer to note 24)	**81**	—

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

54. Acquisition and disposals of subsidiaries

54.1 Acquisition of subsidiaries

On 29 September 2006, the Group acquired an additional 30% interest in Absa Asset Management (Proprietary) Limited (previously known as Abvest Associates (Proprietary) Limited) and the Group acquired an additional 10% in Abvest Holdings (Proprietary) Limited, which is now a wholly owned subsidiary.

	31 December 2006 Rm
Details of the net assets acquired and goodwill are as follows:	
Cash paid and payable	**44**
Less: fair value of net assets acquired	**(6)**
Goodwill transferred to equity	**38**
Total purchase consideration	**(44)**
Cash outflow on acquisition	**(44)**

	31 December 2006 Rm

54. Acquisition and disposals of subsidiaries

54.2 Disposal of subsidiary

On 1 January 2006, the Group 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
Loan 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 16)	(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 outflow arising on disposal:	
Cash consideration received	338
Final dividend	108
Cash and cash equivalents disposed of	(579)
	(133)

54.3 Disposal of subsidiary

On 13 November 2006 the Group disposed of Specialised Investments (Proprietary) Limited.

The net assets of Specialised Investments (Proprietary) Limited at the date of disposal were as follows:

	31 December 2006 Rm
Debt securities and equity securities	26
Other assets	6
Borrowed funds	(26)
Other liabilities	(6)
	0
Gain on disposal	0
Total consideration	**0**
Satisfied by:	
Cash	0
Net cash inflow arising on disposal:	
Cash consideration received	0
Cash and cash equivalents disposed of	0
	0

	Group				
	For the year ended 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	4 521	11 940	—	—	16 461
Statutory liquid asset portfolio	—	9 122	7 727	3 980	20 829
Loans and advances to banks	5 349	6 471	7 116	2 864	21 800
Trading assets	1 967	9 626	4 864	1 526	17 983
Hedging assets	—	249	319	108	676
Loans and advances to customers	66 650	48 570	83 165	187 789	386 174
Reinsurance assets	34	351	—	—	390
Other assets	660	11 134	269	112	12 175
Investments	3 194	6 748	2 563	1 293	13 798
Investments in associated undertakings and joint ventures	—	354	64	275	693
Intangible assets	—	7	73	150	230
Property and equipment	44	162	1 782	1 762	3 750
Current tax assets	—	2	7	15	24
Deferred tax assets	—	66	51	12	129
Total assets	82 424	104 802	108 000	199 886	495 112
Liabilities					
Deposits from banks	3 308	31 711	137	—	35 156
Trading liabilities	23 484	—	—	—	23 484
Hedging liabilities	—	544	1 136	222	1 902
Deposits due to customers	149 702	195 175	17 406	6 166	368 449
Current tax liabilities	—	1 181	—	—	1 181
Liabilities under investment contracts	—	—	—	5 129	5 129
Policyholder liabilities under insurance contracts	3	27	174	2 983	3 187
Borrowed funds	—	308	97	8 015	8 420
Other liabilities and sundry provisions	769	7 399	1 674	904	10 746
Deferred tax liabilities	—	147	888	1 502	2 537
Total liabilities	177 266	236 492	21 512	24 921	460 191
Equity					
Capital and reserves					
Attributable to the ordinary equity holders:					
Share capital	—	—	—	1 338	1 338
Share premium	—	—	—	2 067	2 067
Other reserves	17	32	77	286	412
Retained earnings	2 179	1 230	955	23 512	27 876
	2 196	1 262	1 032	27 203	31 693
Minority interest – ordinary shares	—	—	—	236	236
Minority interest – preference shares	—	—	—	2 992	2 992
Total equity	2 196	1 262	1 032	30 431	34 921
Total equity and liabilities	179 462	237 754	22 544	55 352	495 112
Net liquidity position	(97 038)	(132 952)	85 456	144 534	—

Annexure A: Residual maturity analysis

	Group				
	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	11 516	3 440	80	—	15 036
Statutory liquid asset portfolio	—	7 240	9 049	—	16 289
Loans and advances to banks	4 602	6 326	7 077	2 800	20 805
Trading assets	22 530	272	648	—	23 450
Hedging assets	—	309	25	62	396
Loans and advances to customers	37 238	43 903	75 472	150 243	306 856
Reinsurance assets	34	389	—	—	423
Other assets	1 842	4 829	—	91	6 762
Investments	1 116	6 295	2 148	345	9 904
Investments in associated undertakings and joint ventures	—	8	277	610	895
Intangible assets	—	6	66	119	191
Property and equipment	917	138	1 033	1 363	3 451
Current tax assets	4	13	—	—	17
Deferred tax assets	22	63	—	1	86
Total assets	79 821	73 231	95 875	155 634	404 561
Liabilities					
Deposits from banks	25 745	—	—	—	25 745
Trading liabilities	20 915	—	—	—	20 915
Hedging liabilities	(1 510)	348	1 333	315	486
Deposits due to customers	119 056	166 991	9 949	7 949	303 945
Current tax liabilities	282	25	33	77	417
Liabilities under investment contracts	—	—	—	3 459	3 459
Policyholder liabilities under insurance contracts	1	477	143	2 115	2 736
Borrowed funds	—	218	149	6 116	6 483
Other liabilities and sundry provisions	2 018	7 805	815	1 174	11 812
Deferred tax liabilities	1 559	148	196	659	2 562
Total liabilities	168 066	176 012	12 618	21 864	378 560
Equity					
Capital and reserves					
Attributable to the ordinary equity holders:					
Share capital	—	—	—	1 327	1 327
Share premium	—	—	—	1 875	1 875
Other reserves	29	48	8	537	622
Retained earnings	4 809	157	269	16 696	21 931
	4 838	205	277	20 435	25 755
Minority interest – ordinary shares	—	—	—	246	246
Total equity	4 838	205	277	20 681	26 001
Total equity and liabilities	172 904	176 217	12 895	42 545	404 561
Net liquidity position	(93 083)	(102 986)	82 980	113 089	—

	Group 31 December 2006					
	ZAR Rm	USD Rm	GBP Rm	Euro Rm	Other Rm	Total Rm
Assets						
Cash, cash balances and balances with central banks	14 425	20	—	1	2 015	16 461
Statutory liquid asset portfolio	20 829	—	—	—	—	20 829
Loans and advances to banks	14 316	5 820	896	269	499	21 800
Trading assets	13 094	4 233	163	487	6	17 983
Hedging assets	676	—	—	—	—	676
Loans and advances to customers	378 004	3 392	1 440	1 047	2 291	386 174
Reinsurance assets	390	—	—	—	—	390
Other assets	11 813	212	111	5	34	12 175
Investments	12 757	268	187	78	508	13 798
Investments in associated undertakings and joint ventures	693	—	—	—	—	693
Intangible assets	217	—	—	—	13	230
Property and equipment	3 541	1	4	—	204	3 750
Current tax assets	24	—	—	—	—	24
Deferred tax assets	103	—	7	—	19	129
Total assets	470 882	13 946	2 808	1 887	5 589	495 112
Liabilities						
Deposits from banks	26 701	7 915	121	419	—	35 156
Trading liabilities	17 137	5 769	141	355	82	23 484
Hedging liabilities	1 902	—	—	—	—	1 902
Deposits due to customers	358 449	4 434	1 174	500	3 892	368 449
Current tax liabilities	1 176	—	5	—	—	1 181
Liabilities under investment contracts	5 129	—	—	—	—	5 129
Policyholder liabilities under insurance contracts	3 187	—	—	—	—	3 187
Borrowed funds	8 420	—	—	—	—	8 420
Other liabilities and sundry provisions	10 077	—	29	—	640	10 746
Deferred tax liabilities	2 510	—	18	—	9	2 537
Total liabilities	434 688	18 118	1 488	1 274	4 623	460 191
Equity						
Capital and reserves						
Attributable to the ordinary equity holders:						
Share capital	1 338	—	—	—	—	1 338
Share premium	2 067	—	—	—	—	2 067
Other reserves	317	195	(9)	—	(91)	412
Retained earnings	27 362	(50)	267	—	297	27 876
	31 084	145	258	—	206	31 693
Minority interest – ordinary shares	148	—	—	—	88	236
Minority interest – preference shares	2 992	—	—	—	—	2 992
Total equity	34 224	145	258	—	294	34 921
Total equity and liabilities	468 912	18 263	1 746	1 274	4 917	495 112
Gross currency position		(4 317)	1 062	613	672	(1 970)
Foreign currency derivative						2 691
Net currency position						721
Credit commitments	11 264	—	177	—	330	11 771

Annexure B: Currency analysis

	Group					
	31 December 2005					
	ZAR Rm	USD Rm	GBP Rm	Euro Rm	Other Rm	Total Rm
Assets						
Cash, cash balances and balances with central banks	12 262	313	342	538	1 581	15 036
Statutory liquid asset portfolio	16 289	—	—	—	—	16 289
Loans and advances to banks	20 805	—	—	—	—	20 805
Trading assets	20 892	—	—	2 558	—	23 450
Hedging assets	396	—	—	—	—	396
Loans and advances to customers	289 075	13 237	1 217	2 971	356	306 856
Reinsurance assets	423	—	—	—	—	423
Other assets	6 442	3	84	187	46	6 762
Investments	8 628	629	29	136	482	9 904
Investments in associated undertakings and joint ventures	895	—	—	—	—	895
Intangible assets	177	—	—	—	14	191
Property and equipment	3 257	—	5	19	170	3 451
Current tax assets	17	—	—	—	—	17
Deferred tax assets	57	—	5	24	—	86
Total assets	379 615	14 182	1 682	6 433	2 649	404 561
Liabilities						
Deposits from banks	25 745	—	—	—	—	25 745
Trading liabilities	20 915	—	—	—	—	20 915
Hedging liabilities	486	—	—	—	—	486
Deposits due to customers	279 569	13 237	560	5 456	5 123	303 945
Current tax liabilities	417	—	—	—	—	417
Liabilities under investment contracts	3 208	158	16	77	—	3 459
Policyholder liabilities under insurance contracts	2 736	—	—	—	—	2 736
Borrowed funds	6 483	—	—	—	—	6 483
Other liabilities and sundry provisions	10 817	34	39	265	657	11 812
Deferred tax liabilities	2 532	—	—	23	7	2 562
Total liabilities	352 908	13 429	615	5 821	5 787	378 560
Equity						
Capital and reserves						
Attributable to the ordinary equity holders:						
Share capital	1 327	—	—	—	—	1 327
Share premium	1 875	—	—	—	—	1 875
Other reserves	608	(4)	6	9	3	622
Retained earnings	21 450	(158)	204	321	114	21 931
	25 260	(162)	210	330	117	25 755
Minority interest – ordinary shares	197	—	—	1	48	246
Total equity	25 457	(162)	210	331	165	26 001
Total equity and liabilities	378 365	13 267	825	6 152	5 952	404 561
Gross currency position		915	857	281	(3 303)	(1 250)
Foreign currency derivative						1 972
Net currency position						722
Credit commitments	15 536	17	380	107	291	16 331

	Group					
	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	14 863	3,03	451	14 113	3,85	543
Statutory liquid asset portfolio	18 715	7,73	1 446	15 337	6,71	1 029
	33 578	5,65	1 897	29 450	5,34	1 572
Other assets						
Loans and advances to customers and banks	367 626	9,91	36 444	299 714	7,09	21 251
Investments and trading assets	16 201	0,67	109	35 580	0,37	131
Hedging assets	19 029	(0,43)	(82)	498	16,76	83
Reinsurance assets	399	—	—	372	—	—
Other assets	10 985	—	—	7 163	—	—
Current tax assets	18	—	—	11	—	—
Deferred tax assets	74	—	—	135	—	—
Investments in associated undertakings and joint ventures	1 100	—	—	751	—	—
Property and equipment and intangible assets	3 624	—	—	3 524	—	—
Total assets	452 634	8,48	38 368	377 198	6,11	23 037
Liabilities						
Deposits from customers and banks	365 774	6,02	22 001	303 022	4,24	12 849
Trading liabilities	8 560	—	—	20 472	—	—
Hedging liabilities	15 217	1,20	182	1 048	0,00	—
Other liabilities and sundry provisions	14 983	3,21	482	11 275	1,08	122
Current tax liabilities	844	—	—	466	—	—
Deferred tax liabilities	2 519	—	—	2 211	—	—
Liabilities under investment contracts and insurance contracts	9 842	—	—	7 869	—	—
Borrowed funds	7 866	9,69	762	6 081	11,92	725
Total liabilities	425 605	5,50	23 427	352 444	3,89	13 696
Equity						
Share capital	1 299	—	—	1 319	—	—
Share premium	1 901	—	—	1 743	—	—
Other reserves	410	—	—	503	—	—
Retained earnings	21 145	—	—	20 950	—	—
	24 755	—	—	24 515	—	—
Minority interest – ordinary shares	221	—	—	239	—	—
Minority interest – preference shares	2 053	—	—	—	—	—
Total equity	27 029	—	—	24 754	—	—
Total liabilities and equity	452 634	5,18	23 427	377 198	3,63	13 696
Net interest margin		3,30			3,27	

Daily averages have been used to calculate the average balances.

Annexure D: Segment reporting – per geographical segment

	Group				
	Twelve months ended 31 December 2006				
	South Africa Rm	**Rest of Africa Rm**	**Europe Rm**	**Asia Rm**	**Total Rm**
Net interest income	**14 420**	**376**	**141**	**4**	**14 941**
Impairment of advances	**(1 334)**	**(52)**	**(188)**	**1**	**(1 573)**
Non-interest income	**15 270**	**219**	**13**	**0**	**15 502**
Operating expenditure	**(16 206)**	**(385)**	**(27)**	**(2)**	**(16 620)**
Taxation and other	**(4 371)**	**(31)**	**28**	**(4)**	**(4 378)**
Headline earnings	**7 779**	**127**	**(33)**	**(1)**	**7 872**
Other assets	**101 393**	**4 204**	**3 087**	**254**	**108 938**
Advances	**382 727**	**2 291**	**1 156**	**—**	**386 174**
Total assets	**484 120**	**6 495**	**4 243**	**254**	**495 112**
Other liabilities	**88 858**	**593**	**2 211**	**80**	**91 742**
Deposits and current accounts	**363 430**	**4 974**	**45**	**—**	**368 449**
Total liabilities	**452 288**	**5 567**	**2 256**	**80**	**460 191**
Capital expenditure	**1 603**	**62**	**—**	**—**	**1 665**

	Nine months ended 31 December 2005*				
	South Africa Rm	Rest of Africa Rm	Europe Rm	Asia Rm	Total Rm
Net interest income	8 838	263	211	29	9 341
Impairment of advances	(513)	(12)	(14)	(30)	(569)
Non-interest income	9 794	229	340	10	10 373
Operating expenditure	(10 653)	(348)	(370)	(62)	(11 433)
Taxation and other	(2 727)	(43)	(43)	3	(2 810)
Headline earnings	4 739	89	124	(50)	4 902
Other assets	92 848	3 601	931	365	97 705
Advances	299 019	1 786	5 923	128	306 856
Total assets	391 867	5 387	6 854	453	404 561
Other liabilities	73 022	615	754	224	74 615
Deposits and current accounts	289 649	4 088	10 197	11	303 945
Total liabilities	362 671	4 703	10 951	235	378 560
Capital expenditure	1 356	—	—	—	1 356

*Restated and reclassified in terms of Annexure I.

Annexure E: Segment reporting – per market segment

	Retail Banking		Absa Corporate and Business Bank		Absa Capital	
	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*
Income statement (Rm)						
Net interest income	**10 048**	6 416	**3 079**	2 007	**1 146**	593
Net interest income – external	**22 753**	12 695	**838**	1 145	**(10 218)**	(5 156)
Net interest income – internal	**(12 705)**	(6 279)	**2 241**	862	**11 364**	5 749
Impairment of advances	**(1 195)**	(344)	**(331)**	(112)	**2**	(150)
Non-interest income	**8 111**	4 912	**1 931**	1 424	**1 424**	1 018
Non-interest income – external	**7 552**	4 776	**1 771**	1 284	**1 764**	1 263
Non-interest income – internal	**559**	136	**160**	140	**(340)**	(245)
Depreciation and amortisation	**(57)**	(38)	**(6)**	(3)	**(9)**	(3)
Other operating expenditure	**(10 515)**	(6 847)	**(2 813)**	(1 888)	**(981)**	(636)
Equity accounted earnings	**19**	54	**34**	—	**—**	—
Other	**(297)**	(205)	**(48)**	(69)	**(114)**	(169)
Profit before taxation	**6 114**	3 948	**1 846**	1 359	**1 468**	653
Taxation	**(1 948)**	(1 282)	**(564)**	(514)	**(353)**	(162)
Profit for the year/period	**4 166**	2 666	**1 282**	845	**1 115**	491
Earnings attributable to:						
Ordinary equity holders of the Group	**4 166**	2 666	**1 282**	845	**1 115**	491
Minority interest – preference shares	**—**	—	**—**	—	**—**	—
Minority interest – ordinary shares	**—**	—	**—**	—	**—**	—
Headline earnings	**4 166**	2 666	**1 186**	845	**1 115**	491
Operating performance (%)						
Net interest margin on average assets	**3,21**	3,25	**4,10**	4,27	**n/a**	n/a
Charge for impairment of advances to average advances	**0,48**	0,23	**0,67**	0,39	**0,00**	0,46
Non-interest income as % of operating income	**44,7**	43,4	**38,5**	41,5	**55,4**	63,2
Cost-to-income ratio	**58,2**	60,8	**56,3**	55,1	**38,5**	39,6
Cost-to-assets ratio	**3,4**	3,6	**3,8**	4,0	**0,4**	0,4
	31 December 2006	31 December 2005	**31 December 2006**	31 December 2005	**31 December 2006**	31 December 2005
Balance sheet (Rm)						
Other assets	**72 581**	60 869	**23 967**	26 577	**231 064**	174 992
Other assets – external	**21 977**	17 099	**5 640**	5 087	**44 416**	45 740
Other assets – internal	**50 604**	43 770	**18 327**	21 490	**186 648**	129 252
Loans and advances to customers	**276 176**	215 978	**56 606**	42 891	**50 845**	38 832
Investments in associates	**283**	248	**344**	—	**—**	37
Total assets	**349 040**	277 095	**80 917**	69 468	**281 909**	213 861
Deposits due to customers	**84 350**	73 368	**69 150**	60 053	**209 780**	158 118
Other liabilities	**250 211**	192 197	**6 897**	5 561	**67 833**	51 802
Other liabilities – external	**5 690**	8 159	**5 781**	4 773	**57 869**	51 300
Other liabilities – internal	**244 521**	184 038	**1 116**	788	**9 964**	502
Total liabilities	**334 561**	265 565	**76 047**	65 614	**277 613**	209 920
Financial performance (%)						
Return on average equity	**29,0**	31,5	**27,2**	35,4	**27,1**	16,2
Return on average assets	**1,33**	1,28	**1,57**	1,46	**0,44**	0,39

*Reclassified in terms of Annexure I.

Note: The Group has reclassified the segments to be more in line with management of these segments. AVAF moved to retail banking segment and a portion of Absa's Corporate operations has moved to Absa Corporate and Business Bank. Abvest moved from other to the bancassurance segment. 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

	African operations		Bancassurance		Other	
	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*
Income statement (Rm)						
Net interest income	**376**	263	**37**	18	**255**	44
Net interest income – external	**391**	277	**37**	18	**1 140**	362
Net interest income – internal	**(15)**	(14)	**(0)**	—	**(885)**	(318)
Impairment of advances	**(52)**	(12)	**(2)**	(3)	**5**	52
Non-interest income	**219**	229	**3 081**	2 368	**736**	422
Non-interest income – external	**219**	229	**3 195**	2 426	**1 001**	395
Non-interest income – internal	**0**	—	**(114)**	(58)	**(265)**	27
Depreciation and amortisation	**(28)**	(27)	**(19)**	(12)	**(658)**	(480)
Other operating expenditure	**(357)**	(319)	**(981)**	(683)	**(196)**	(497)
Equity accounted earnings	**51**	34	**—**	—	**9**	13
Other	**(3)**	(3)	**(59)**	(40)	**(425)**	(292)
Profit before taxation	**206**	165	**2 057**	1 648	**(274)**	(738)
Taxation	**(19)**	(28)	**(553)**	(553)	**286**	348
Profit for the year/period	**187**	137	**1 504**	1 095	**12**	(390)
Earnings attributable to:						
Ordinary equity holders of the Group	**127**	90	**1 500**	1 092	**(85)**	(408)
Minority interest – preference shares	**—**	—	**—**	—	**73**	—
Minority interest – ordinary shares	**60**	47	**4**	3	**24**	18
Headline earnings	**127**	89	**1 479**	1 093	**(201)**	(282)
Operating performance (%)						
Net interest margin on average assets	**6,26**	7,13	**n/a**	n/a	**n/a**	n/a
Charge for impairment of advances to average advances	**2,56**	1,05	**n/a**	n/a	**n/a**	n/a
Non-interest income as of operating income	**36,8**	46,6	**98,8**	99,2	**n/a**	n/a
Cost-to-income ratio	**64,8**	70,6	**32,1**	29,1	**n/a**	n/a
Cost-to-assets ratio	**6,4**	9,4	**5,2**	5,9	**n/a**	n/a
	31 December 2006	31 December 2005	**31 December 2006**	31 December 2005	**31 December 2006**	31 December 2005
Balance sheet (Rm)						
Other assets	**4 283**	3 280	**23 829**	14 111	**15 086**	15 500
Other assets – external	**4 158**	3 280	**23 711**	14 001	**8 344**	11 603
Other assets – internal	**125**	—	**118**	110	**6 742**	3 897
Loans and advances to customers	**2 291**	1 786	**120**	93	**136**	7 276
Investments in associates	**46**	320	**—**	—	**20**	290
Total assets	**6 620**	5 386	**23 949**	14 204	**15 242**	23 066
Deposits due to customers	**4 974**	4 088	**—**	—	**195**	8 318
Other liabilities	**718**	615	**19 911**	10 689	**8 737**	12 269
Other liabilities – external	**663**	299	**18 939**	9 644	**2 801**	439
Other liabilities – internal	**55**	316	**972**	1 045	**5 936**	11 830
Total liabilities	**5 692**	4 703	**19 911**	10 689	**8 932**	20 587
Financial performance (%)						
Return on average equity	**23,3**	25,9	**38,9**	42,5	**n/a**	n/a
Return on average assets	**2,12**	2,41	**7,75**	9,23	**n/a**	n/a

*Reclassified in terms of Annexure I.

Note: The Group has reclassified the segments to be more in line with management of these segments. AVAF moved to retail banking segment and a portion of Absa's Corporate operations has moved to Absa Corporate and Business Bank. Abvest moved from other to the bancassurance segment. 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.

	Absa Group	
	Twelve months ended 31 December 2006	Nine months ended 31 December 2005* (Restated)
Income statement (Rm)		
Net interest income	**14 941**	9 341
Net interest income – external	**14 941**	9 341
Net interest income – internal	**—**	—
Impairment of advances	**(1 573)**	(569)
Non-interest income	**15 502**	10 373
Non-interest income – external	**15 502**	10 373
Non-interest income – internal	**—**	—
Depreciation and amortisation	**(776)**	(563)
Other operating expenditure	**(15 844)**	(10 870)
Equity accounted earnings	**113**	101
Other	**(946)**	(778)
Profit before taxation	**11 417**	7 035
Taxation	**(3 151)**	(2 191)
Profit after taxation	**8 266**	4 844
Earnings attributable to ordinary equity holders of the Group	**8 105**	4 776
Earnings attributable to minority interest – preference shares	**73**	—
Earnings attributable to minority interest – ordinary shares	**88**	68
Headline earnings	**7 872**	4 902
Operating performance (%)		
Net interest margin on average assets	**3,30**	3,27
Charge for impairment of advances to average advances	**0,44**	0,26
Non-interest income as % of operating income	**50,9**	52,6
Cost-to-income ratio	**54,6**	58,0
Cost-to-assets ratio	**3,7**	4,0
	31 December 2006	31 December 2006
Balance sheet (Rm)		
Other assets	**370 810**	295 329
Other assets – external	**108 246**	96 810
Other assets – internal	**262 564**	198 519
Loans and advances to customers	**386 174**	306 856
Investment in associates	**693**	895
Total assets	**757 677**	603 080
Deposits due to customers	**368 449**	303 945
Other liabilities	**354 307**	273 133
Other liabilities – external	**91 743**	74 614
Other liabilities – internal	**262 564**	198 519
Total liabilities	**722 756**	577 078
Financial performance (%)		
Return on average equity	**27,4**	26,5
Return on average assets	**1,74**	1,73

*Restated and reclassified in terms of Annexure I.

Note: The Group has reclassified the segments to be more in line with management of these segments. AVAF moved to retail banking segment and a portion of Absa's Corporate operations has moved to Absa Corporate and Business Bank. Abvest moved from other to the bancassurance segment. 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.

*The African operations segment contains products of both a retail and commercial nature. These have been separately disclosed as the Group

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	**1 341**	805	**1 086**	793
Total assets (Rm)	**26 741**	22 518	**63 569**	54 158	**177 762**	137 616
Total advances (Rm)	**24 768**	20 672	**13 848**	9 447	**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	**119,0**	116,0	**16,5**	20,9
Cost-to-income ratio (%)	**66,4**	69,0	**71,8**	75,2	**40,8**	42,4

	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	**779**	530	**4 166**	2 666
Total assets (Rm)	**11 189**	7 470	**69 779**	55 333	**349 040**	277 095
Total advances (Rm)	**9 998**	6 630	**62 344**	51 038	**276 176**	215 978
Total deposits and current accounts (Rm)	**2 247**	2 230	**3 535**	2 920	**84 350**	73 368
Return on average equity (%)	**104,4**	108,4	**16,8**	19,2	**29,0**	31,5
Cost-to-income ratio (%)	**42,3**	45,7	**44,9**	47,6	**58,2**	60,8

*Reclassified and restated 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.

	Note	Total bancassurance Twelve months ended 31 December 2006 Rm	Total bancassurance Nine months ended 31 December 2005* (Restated) Rm
Assets			
Cash balances		**2 403**	2 723
Insurance	1	**2 079**	2 199
Other		**324**	524
Other assets		**10 890**	3 581
Investments		**10 626**	7 876
Insurance	1	**10 053**	7 276
Other		**573**	600
Property and equipment		**30**	24
Total assets		**23 949**	14 204
Liabilities			
Current tax liabilities		**223**	130
Liabilities under investment contracts		**5 129**	3 459
Policyholders liabilities under insurance contracts		**3 187**	2 736
Other liabilities and sundry provisions		**11 024**	4 124
Deferred tax liabilities		**348**	240
Total liabilities		**19 911**	10 689

	31 December 2006 Listed Rm	31 December 2006 Unlisted Rm	31 December 2006 Cash on fixed interest Rm	31 December 2006 Total Rm
1. Cash and investments (insurance operations)				
Shareholder investments	**2 734**	**475**	**1 543**	**4 752**
Life	**770**	**150**	**508**	**1 428**
Non-life	**1 964**	**325**	**1 035**	**3 324**
Policyholder investments	**802**	**3 977**	**2 601**	**7 380**
Insurance contracts	**514**	**679**	**1 284**	**2 477**
Investment contracts	**288**	**3 298**	**1 317**	**4 903**

	31 December 2005 Listed Rm	31 December 2005 Unlisted Rm	31 December 2005 Cash on fixed interest Rm	31 December 2005 Total Rm
Shareholder investments	2 157	422	1 565	4 144
Life	679	110	527	1 316
Non-life	1 478	312	1 038	2 828
Policyholder investments	701	2 639	1 991	5 331
Insurance contracts	534	474	1 058	2 066
Investment contracts	167	2 165	933	3 265

*Restated and reclassified in terms of Annexure I.

In managing the liabilities toward policyholders, certain assets have been allocated to be specifically for the purposes of backing the policyholder liability, although no such split legally exists. The above disclosures reflect management of the policyholder liability rather than the legal claim.

Annexure E: Segment reporting – bancassurance operations

	Note	Life insurance Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
Net earned premium		**1 265**	757
Net insurance claims		**(303)**	(212)
Investment income			
• Policyholder insurance contracts	1	**317**	229
• Policyholder investment contracts	1	**520**	384
Changes in insurance and investment contracts			
• Insurance contracts		**(240)**	(189)
• Investment contracts		**(508)**	(337)
Other income		**16**	10
Gross operating income		**1 067**	642
Commissions*		**(344)**	(208)
Operating expenditure		**(129)**	(69)
Net operating income		**594**	365
Investment income on shareholder funds	1	**216**	160
Taxation		**(219)**	(173)
Profit for the year/period		**591**	352
Investment income			
Policyholder – investment contracts		**520**	384
Interest		**75**	62
Dividends		**10**	32
Gains and losses		**435**	290
Policyholder – insurance contracts		**317**	229
Interest		**78**	59
Dividends		**19**	18
Gains and losses		**220**	152
Investment on shareholder funds		**216**	160
Interest		**15**	5
Dividends		**12**	13
Gains and losses		**189**	142
Total		**1 053**	773
Interest		**168**	126
Dividends		**41**	63
Gains and losses		**844**	584

*Commissions include internal commissions, eliminated on consolidation of Absa Group.

In managing the liabilities toward policyholders, certain assets have been allocated to be specifically for the purposes of backing the policyholder liability, although no such split legally exists. The above disclosures reflect management of the policyholder liability rather than the legal claim.

Short-term insurance		Other		Total bancassurance	
Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm	**Twelve months ended 31 December 2006 Rm**	Nine months ended 31 December 2005 Rm	**Twelve months ended 31 December 2006 Rm**	Nine months ended 31 December 2005 Rm
1 729	1 191	**—**	—	**2 994**	1 948
(1 016)	(585)	**—**	—	**(1 319)**	(797)
61	40	**—**	—	**378**	269
—	—	**—**	—	**520**	384
—	—	**—**	—	**(240)**	(189)
—	—	**—**	—	**(508)**	(337)
2	10	**1 149**	811	**1 167**	831
776	656	**1 149**	811	**2 992**	2 109
(274)	(178)	**—**	—	**(618)**	(386)
(145)	(103)	**(784)**	(563)	**(1 058)**	(735)
357	375	**365**	248	**1 316**	988
422	474	**99**	23	**737**	657
(185)	(231)	**(149)**	(149)	**(553)**	(553)
594	618	**315**	122	**1 500**	1 092
—	—	**—**	—	**520**	384
—	—	**—**	—	**75**	62
—	—	**—**	—	**10**	32
—	—	**—**	—	**435**	290
61	40	**—**	—	**378**	269
61	40	**—**	—	**139**	99
—	—	**—**	—	**19**	18
—	—	**—**	—	**220**	152
422	474	**99**	23	**737**	657
63	56	**52**	23	**130**	84
63	37	**20**	—	**95**	50
296	381	**27**	—	**512**	523
483	514	**99**	23	**1 635**	1 310
124	96	**52**	23	**344**	245
63	37	**20**	—	**124**	100
296	381	**27**	—	**1 167**	965

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

Name	Nature of business
CBZ Holdings Limited	A commercial bank that provides primarily retail and commercial banking services from a network of branches, sub-branches and agencies (operating in Zimbabwe).
Capricorn Investment Holdings Limited	Financial services institution, providing primarily retail and commercial banking services in Namibia with a network of branches and ATMs (sold during the year).
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.
Meeg Bank Limited	Provides a comprehensive range of banking and financial services to the personal market, small- to medium-sized corporates and the public sector in the Eastern Cape.
MAN Financial Services (S.A.) (Proprietary) Limited	Joint venture between Absa Bank and MAN Financial Services GmbH for financing of trucks and busses.
Unitrans Finance (Proprietary) Limited	Strategic alliance between Absa Bank and Unitrans Motors.
Blake and Associates Holdings (Proprietary) Limited	Provides debt recovery management and operates an international call centre.
Maravedi Group (Proprietary) Limited	Provides debtor management.
Paramount Property Fund Limited	Property investment company with investments in retail, industrial and commercial properties in major South African centres (sold during the year).

Name	Nature of business
Lynmor Trading Company (Proprietary) Limited	Property development.
Alamo Trading Company (Proprietary) Limited	Property development.
Ballito Junction Development (Proprietary) Limited	Retail property development of 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.
Banco Comercial Angolano	A commercial bank that provides retail and commercial banking services from a network of branches in Angola.
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.

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

Name	Country of incorporation	31 December 2006 Carrying values Rm	31 December 2006 Current assets Rm
CBZ Holdings Limited(2)	Zimbabwe	0	817
Capricorn Investment Holdings Limited*(1)	Namibia	—	—
Conbros Limited**	Isle of Man	—	—
FFS Finance South Africa (Proprietary) Limited	South Africa	211	20
Meeg Bank Limited**	South Africa	36	173
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	—
Blake and Associates Holdings**	South Africa	10	38
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
Banco Comercial Angolano	Angola	46	1 819
Absa Corob Trust Joint Venture*****	South Africa	1	—
Sanlam Home Loans (Proprietary) Limited	South Africa	—	13
		693	3 164

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

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

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

The financial statements of CBZ Holdings Limited, Capricorn Investment Holdings Limited, Meeg Bank Limited, Blake and Associates Holdings, Maravedi Group (Proprietary) Limited, Paramount Property Fund Limited and Absa Corob Trust Joint Venture have different reporting dates to that of the Group, as these were the financial reporting dates established when the entities were incorporated.

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

(1) Capricorn Investment Holdings Limited was previously known as Bank Windhoek Holdings Limited. Capricorn Investment Holdings Limited was sold during the current year.

(2) The adjusted share of attributable income after dividends amounted to Rnil (December 2005: R13 million). The balance sheet figures for December 2005 financial year were adjusted for inflation. The ability of CBZ Holdings Limited to transfer funds to the Group is restricted by the Exchange Control Act Laws of Zimbabwe which provides that except, with the permission of the Exchange Control Authority, no person shall make any payment to or for the credit of, a person resident outside Zimbabwe.

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 %
118	935	728	—	728	—	—	24
—	—	—	—	—	50	—	—
—	—	—	—	—	—	—	100
9 133	9 153	309	8 316	8 625	13	4 426	50
675	848	16	780	796	10	10	50
1 770	1 785	12	1 702	1 714	5	1 195	50
8	9	0	—	0	(0)	(8)	35
—	—	—	—	—	—	—	25
23	61	15	22	37	3	—	28
1	66	47	16	63	1	—	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
70	1 889	1 700	—	1 700	1	—	50
—	—	—	—	—	1	20	50
2 838	2 851	27	2 828	2 855	(3)	1 065	50
19 190	22 354	3 060	15 718	18 778	113	7 655	

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

Name	Country of incorporation	31 December 2005 Carrying values Rm	Current assets Rm
CBZ Holdings Limited**(2)	Zimbabwe	—	366
Capricorn Investment Holdings Limited*(3)	Namibia	280	6 264
Conbros Limited	Isle of Man	37	46
FFS Finance South Africa (Proprietary) Limited	South Africa	199	7 483
Meeg Bank Limited**(1)	South Africa	26	940
MAN Financial Services (S.A.) (Proprietary) Limited	South Africa	30	1 428
Unitrans Finance (Proprietary) Limited	South Africa	3	12
Blake and Associates Holdings**	South Africa	8	27
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
Banco Comercial Angolano	Angola	45	—
Absa Corob Trust Joint Venture*****	South Africa	—	—
Sanlam Home Loans (Proprietary) Limited	South Africa	3	2 008
		895	18 851

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

(1) Meeg Bank Limited was recorded as a subsidiary in the prior year. During the period owing to changing circumstances, the Group concluded that it no longer had control of the entity.

(2) The adjusted share of attributable income after dividends amounted to Rnil (December 2005: R13 million). The balance sheet figures for December 2005 financial year were adjusted for inflation. The ability of CBZ Holdings Limited to transfer funds to the Group is restricted by the Exchange Control Act Laws of Zimbabwe which provides that except, with the permission of the Exchange Control Authority, no person shall make any payment to or for the credit of, a person resident outside Zimbabwe.

(3) Capricorn Investment Holdings Limited was previously known as Bank Windhoek Holdings Limited. Capricorn Investment Holdings was sold during the current year.

31 December 2005							
Non-current assets Rm	Total assets Rm	Current liabilities Rm	Non-current liabilities Rm	Total liabilities Rm	Profit/ (loss) Rm	Loans (from)/to entities Rm	Ownership %
2	368	330	—	330	(2)	—	24
276	6 540	5 784	—	5 784	36	—	35
—	46	11	—	11	—	(28)	100
—	7 483	7 073	—	7 073	44	3 016	50
8	948	878	35	913	—	10	50
—	1 428	1 368	—	1 368	10	1 122	50
—	12	3	—	3	—	(4)	35
15	42	9	9	18	(1)	—	28
—	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
—	—	—	—	—	—	—	50
25	25	—	25	25	—	24	50
84	2 092	40	2 037	2 077	(8)	841	50
1 658	20 509	15 570	3 375	18 945	101	5 405	

Annexure F: Subsidiaries, associated undertakings and joint venture companies

Detailed information on the subsidiaries of the Group

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 (AVAF)	Offers asset-based finance through customised products and services ranging from tax-efficient finance and insurance to finance packages structured to suit the customer's particular needs.	
Shared services		
Retail Delivery	Provides the physical and electronic delivery footprint for the Group'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	Offers 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
Absa Group Limited and its major divisions/subsidiaries:		
Commercial banking		
Absa Development Company Holdings (Proprietary) Limited	Specialises in township development and sale of residential, commercial and industrial land.	South Africa
Absa Debtor Finance Company (Proprietary) Limited	Provides debtor financing to business customers.	South Africa
Woodbook Finance Limited (previously MLS Bank Limited)	Markets and delivers a range of banking and insurance products to medical and dental practitioners and private hospitals in South Africa.	South Africa
AllPay Consolidated Investment Holdings (Proprietary) Limited	Distributes social security grants and other payments to beneficiaries on behalf of third parties, mainly provincial government departments.	South Africa
Alpha Trust	Provides preference share funding.	South Africa

*Sold in the year

**Ceased operations in January 2006

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	**—**	—
0	**100**	—	100	**14**	14	**159**	108
1	**100**	—	100	**—**	—	**(1 116)**	(788)
—	**100**	—	100	**75**	75	**94**	92
	100	—	100	**—**	—	**(1 599)**	(1 558)
n/a	**100**	n/a	100	**500**	500	**—**	—
							—

Annexure F: Subsidiaries, associated undertakings and joint venture companies

Detailed information on the subsidiaries of the Group – continued

Name	Nature of business	Country of incorporation
Banking related – (continued)		
Collateralised Auto Receivables Securitisation1 (Proprietary) Limited	Securitisation vehicle for Absa Vehicle and Asset Finance.	South Africa
Collateralised Auto Receivables Securitisation Programme (Proprietary) Limited	Securitisation vehicle for Absa Vehicle and Asset Finance.	South Africa
UniFer Holdings Limited	Microlending holding company.	South Africa
Banco Austral, Sarl	Commercial bank that provides retail and limited corporate services from a network of branches, ATMs and savings posts.	Mozambique
National Bank of Commerce Limited	Commercial bank that provides retail and limited corporate services from a national network of branches, agencies and ATMs.	Tanzania
Absa Trading and Investment Solutions Holdings Limited	Investment bank holding company.	South Africa
Asset Backed Collateralised Securities (Proprietary) Limited (Abacas)	Securitisation vehicle for Absa Specialised Finance.	South Africa
Financial services		
Absa Financial Services Limited and its major subsidiaries		
Absa Insurance Company Limited	Short-term insurance provider to house and vehicle owners.	South Africa
Absa Life Limited	Provides life assurance products focusing on risk and investment products that complement Absa's offerings to various market segments.	South Africa
Absa Brokers (Proprietary) Limited	Provides a full spectrum of financial advisory services ranging from risk management to wealth creation and preservation and estate planning.	South Africa
Absa Trust Limited	Main activities include the drafting and safe custody of wills, the administration of deceased estates and trusts, portfolio management and estate and financial planning.	South Africa
Absa Consultants and Actuaries (Proprietary) Limited	Offers comprehensive administrative, actuarial and consulting services, including asset consulting services in respect of pension funds, provident funds and other employee benefit group schemes.	South Africa
Absa Fund Managers Limited	Offers a variety of unit trust investment products, ranging from low-risk fixed-interest funds such as the Absa Money Market Fund, to higher-risk specialist equity funds investing both domestically and internationally.	South Africa
Absa Mortgage Fund Managers (Proprietary) Limited	Provides loans to small and large companies, close corporations, trusts, property investors and developers for the development, acquisition or refinancing of income-producing commercial and industrial property.	South Africa
Absa Investment Management Services (Proprietary) Limited	Approved investment manager and linked investment service provider. It offers off-the-shelf local and international linked investment products, as well as investment solutions to suit specific needs.	South Africa
Absa Manx Holdings Limited	Captive insurance company for the Group and responsible for investment in the insurance markets.	Isle of Man
Absa Syndicate Investments Holdings Limited	It is a corporate member of Lloyd's based in London. It underwrites on ten syndicates. It ceased underwriting activities at the end of 2005.	United Kingdom
Absa Stockbrokers (Proprietary) Limited	Enables customers to trade online or by telephone in shares, warrants and exchange traded funds.	South Africa
Abvest Holdings (Proprietary) Limited	An institutional asset management company that offers fixed income, equity, structured products and alternative investment solutions to customers through various pooled and segregated investment mandates.	South Africa
Share trusts		
Absa Group Limited Share* Incentive Trust	Share purchase and option scheme to senior staff.	South Africa
Absa Group Limited Employee* Share Ownership Administrative (ESOP) Trust	Share purchase and option scheme to all staff.	South Africa

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

*The Absa Group Limited Share Incentive Trust and Absa Group Limited Employee Share Ownership Administrative (ESOP) Trust are consolidated under IAS 27 (SIC 12) as the board of directors of Absa Group Limited can appoint or remove trustees of the trusts.

Issued capital 31 December 2006 Rm	Direct holding 31 December 2006 Rm	Issued capital 31 December 2005 %	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
—	**100**	—	100	**92**	60	**(266)**	(21)
				—		**—**	
13	**100**	13	100	**—**	—	**(1 375)**	(1 378)
165	**80**	165	80	**131**	131	**—**	26
81	**55**	81	55	**86**	86	**—**	—
8	**100**	8	100	**857**	857	**(3)**	(2)
—	**100**	—	100	**—**	—	**—**	—
—	**100**	—	100	**118**	118	**(145)**	(207)
31	**100**	31	100	**1 421**	1 421	**—**	—
24	**100**	24	100	**6 924**	6 924	**—**	—
—	**100**	—	100	**8 679**	8 679	**—**	—
—	**100**	—	100	**(20)**	(20)	**—**	—
—	**100**	—	100	**33**	33	**—**	—
3	**100**	3	100	**41**	41	**—**	—
2	**100**	2	100	**470**	470	**—**	—
—	**100**	—	100	**117**	117	**—**	—
—	**100**	—	100	**436**	436	**—**	—
8	**100**	8	100	**292**	292	**—**	—
—	**100**	—	100	**—**	—	**(447)**	(612)
—	**97**	90	90	**76**	68	**—**	—
—	**—**	—	—	**96**	96	**(92)**	(97)
—	**—**	—	—	**12**	12	**—**	—

Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
7 822	4 891
—	(37)

Annexure G: Derivative assets and liabilities

Derivatives held for trading

The Group trades derivative instruments on behalf of customers and for its own positions. The Group transacts derivative contracts to address customer demands both as a market maker in the wholesale markets and in structuring tailored derivatives for customers. The Group 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 Group'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 Group'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 Group'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 Group'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 Group's own positions. Credit derivatives primarily consist of credit default swaps, credit linked notes and total return swaps.

Derivatives held for hedging

The Group 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 Group'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 Group's accounting policies as set out in note 1.6.

Derivatives designated as cash flow hedges

The Group uses interest rate swaps to protect against changes in cash flows of certain variable rate debt issues. The Group applies hedge accounting for its non-trading interest rate risk in major currencies by analysing expected cash flows on a 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 Group 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 Group 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 Group'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 on the pages to follow:

Annexure G: Derivative assets and liabilities

	Group					
	December 2006				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	**16 271**	**(80)**	**24**	**(104)**	2 628	(6)
Interest rate swaps	**392 006**	**(773)**	**2 990**	**(3 763)**	368 599	(2 094)
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
Other OTC interest rate derivatives	**874**	**(11)**	**—**	**(11)**	30	(1)
Total OTC derivatives	**775 099**	**(808)**	**3 322**	**(4 130)**	736 470	(2 082)
Exchange traded futures	**—**	**—**	**—**	**—**	646	—
Exchange traded derivatives	**—**	**—**	**—**	**—**	646	—
	775 099	**(808)**	**3 322**	**(4 130)**	737 116	(2 082)
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	**1 105 703**	**506**	**13 363**	**(12 857)**	1 125 644	(2 691)

Trading (continued)	Group 31 December 2006 Notional amount Rm	Fair value Rm	Fair value assets Rm	Fair value liabilities Rm	31 December 2005 (Pro forma) Notional amount Rm	Fair value Rm
Balance brought forward	**1 105 703**	**506**	**13 363**	**(12 857)**	1 125 644	(2 691)
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	**1 172 463**	**100**	**15 034**	**(14 934)**	1 209 970	(3 535)
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)**	**529**	**(600)**	11 235	(250)
Equity options	**23**	**23**	**23**	**—**	1 149	(8)
	20 860	**(48)**	**552**	**(600)**	12 384	(258)
Total hedges	**131 788**	**(1 226)**	**676**	**(1 902)**	82 825	(91)
Total derivative instruments	**1 304 251**	**(1 126)**	**15 710**	**(16 836)**	1 292 795	(3 626)

Annexure G: Derivative assets and liabilities

	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)**	**(562)**	**(808)**
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)**	**(880)**	**100**
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)**	**(1 148)**	**(1 126)**

	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)	(263)	(408)	(1 229)	(2 082)
Equity derivatives	941	(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	1 012	(373)	(928)	(748)	(2 498)	(3 535)
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	(7)	(13)	(27)	(160)	(51)	(258)
Interest rate swaps	1	(13)	(27)	(160)	(51)	(250)
Equity options	(8)	—	—	—	—	(8)
Total qualifying for hedge accounting	79	59	(23)	(156)	(50)	(91)
Total derivative instruments	1 091	(314)	(951)	(904)	(2 548)	(3 626)

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 Group has ISDA agreements with the same counterparty, the Group'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	**15 710**	**(16 836)**
Add: other trading instruments	**2 949**	**(8 550)**
Total trading and hedging instruments (refer to notes 5 and 18)	**18 659**	**(25 386)**

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 Group'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 Group'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 Group 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 Group 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 in order to achieve an optimal risk-reward profile. This entails coordinated risk assessment and management techniques across the various risk types facing the Group, 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 Group. Overall risk management policies and risk appetite are established on a comprehensive, organisation-wide basis by senior management, and reviewed with, and where appropriate, approved by the board of directors. These policies and appetites are clearly communicated throughout the Group 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 Group's risk management processes for each financial risk type is set out in the pages that follow.

Risk appetite

Risk appetite is the Group'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 Group's utilisation 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 the Group. 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; and
- **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 Group 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 cover 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 the Group, 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 Group risk control framework sets out the minimum acceptable standards to be adhered to by those responsible for credit-related businesses within 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 vests with 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 the Group's credit risk profile and appetite, in accordance with the board and GRC/GACC-approved framework, in order to achieve an acceptable Group 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 relevant credit policies and the ongoing review of the credit exposure of the Group. These responsibilities include, but are not limited to, the monitoring and approval of 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;
- Credit risk exposures' sensitivity 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 related stress testing;
- Credit risk transfer strategies;
- Risk reward; and
- Adequacy of loss provisions and impairments.

Credit risk measurement

The Group 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 encompass the adoption of the Barclays risk appetite framework, establishment of mandate and scale limits, the implementation of 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 include the integration of credit risk drivers in the organisational financial planning processes and strategy setting, including forecasting and stress testing.

Absa uses statistical modelling techniques throughout its business in its credit rating systems to measure credit risk. These systems assist the Group 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 lead to 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 expected loss.

Probability of default (PD)

Absa assesses the credit quality 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 may suffice such as a rating model result.

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 usage 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 that exposure is typically less than the approved loan limit.

When the Group evaluates loans, it takes exposure at default into consideration, using its extensive historical experience. It recognises that customers may make heavier than average usage 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, the Group 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 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 Group'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 Group and ultimately for the whole Group. At this aggregate level, RT is a statistical estimate of the loss inherent in the Group's credit exposures over the next twelve months. Many models are used in the estimation of 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 on 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 Group'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, although 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 during the year from impaired loans. 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 due to changes during the year in the economic environment or in the business conditions in specific sectors or countries and 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 to 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 due to a methodology adjustment (partly relating to EAD for wholesale assets). In relative terms, however, an increase in RT percentage, that 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 in the impairment forecasting and planning process with various stress scenarios generated towards establishing appropriate tolerances against plan.

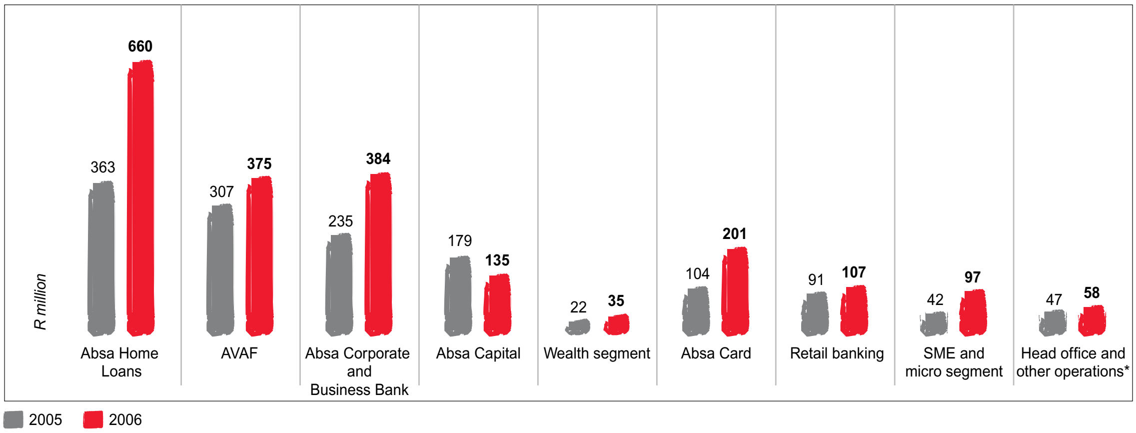
Absa Card's risk tendency increased from R104 million to R201 million. The increase primarily reflects the significant growth in facility limits and balances (41%) attributable to targeted campaigns during the year in order to regain market share and to take advantage of lagging credit cycle improvements.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

Absa Home Loan's 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. An increase attributable to risk profile changes however (as noted above), outweighs balance growth, showing the knock-on effects of interest rate increases during the period and general rise in personal indebtedness.

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

RT increased in Absa Corporate and Business Bank from R235 million to R384 million 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 in Absa Capital was correspondingly lower in 2006.

Risk tendency by business

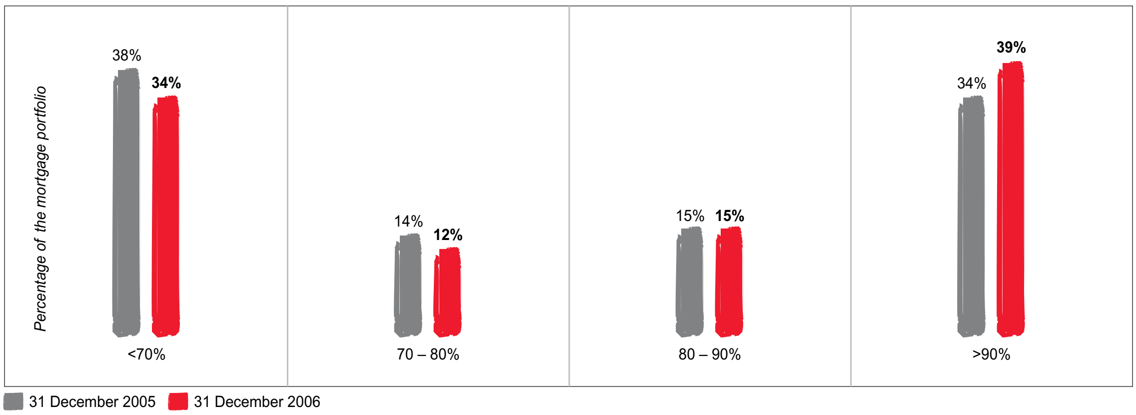


*Head office and other functions comprises joint ventures and alliances and securitisations.

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 Loan's 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, (ie 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 and 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 are in place relating to the exposures to any individual counterparty. 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) that corresponds 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 (mid point)**	**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, while assigned risk ratings are reviewed on an ongoing basis and revised, if needed, to reflect the borrowers’ 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, that are derived from historical loss experience, are used to predict consumer losses.

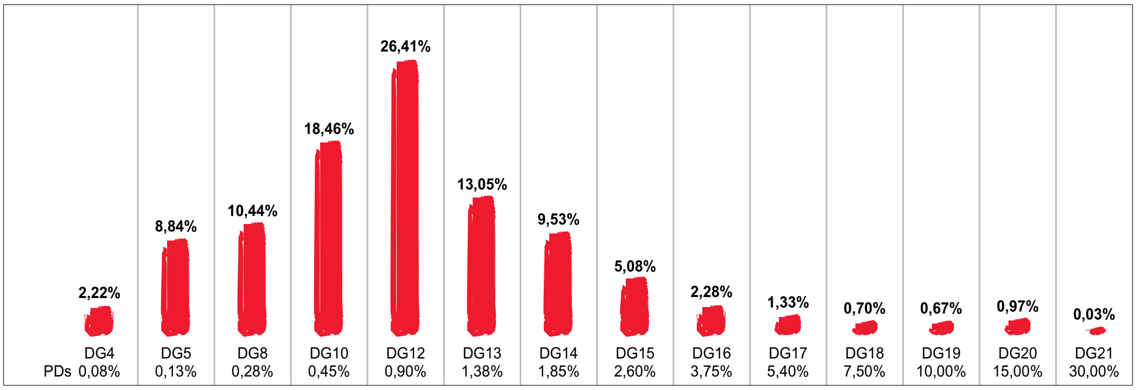
The DG distribution of current exposures across main asset classes and description of the distinct ratings processes are illustrated as follows:

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 is 1,22% (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% comprises secured lendings.

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 historical 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 property price increases of recent periods. An overall rating based on expected loss (post risk mitigation) would translate into a higher equivalent rating.

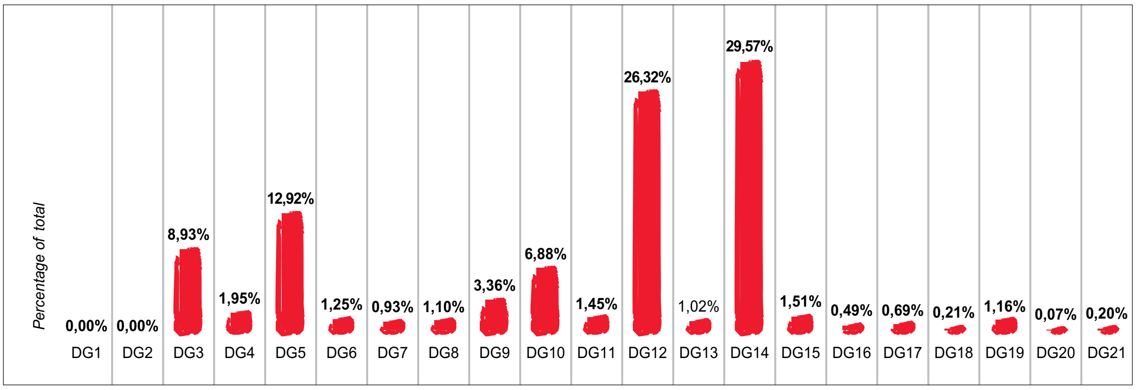
Wholesale exposures

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. Whilst 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.

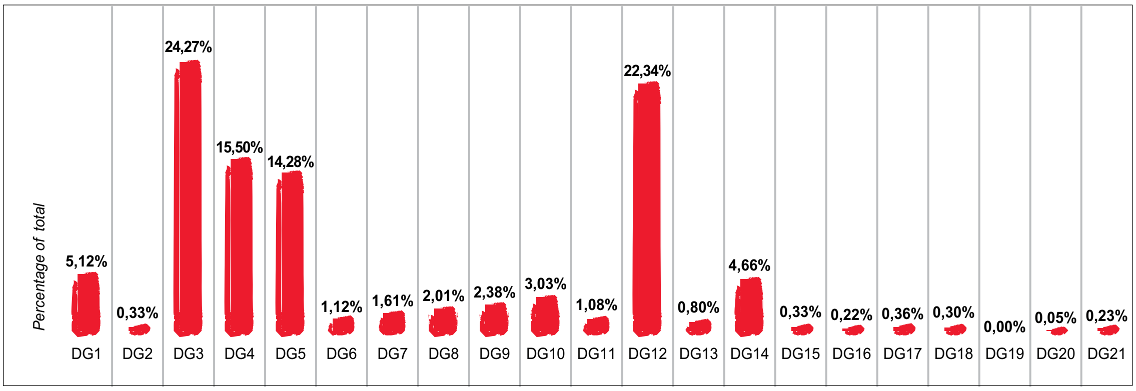
In 2006, the development and implementation of several statistical ratings models for use in the credit assessment, approval and review processes enabled a redesign of credit decisioning processes that entailed the alignment of mandates to internal grades (DG).

The chart below shows a distribution of Absa's corporate loans (includes Absa Corporate and Business Banking and Absa Capital) by internal risk grade assigned to individual counterparties (excludes 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 Group 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.

Recovery rate

The 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 all points in-between.

Impaired advances

Absa reports impairment in accordance with IAS 39 that requires impairment provisions to be held against both identified and unidentified exposures. The impairment of an advance and resulting charge to the income statement is 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) and is hence referred to as an incurred loss approach. Absa's list of potential loss events is contained within 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 is 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. While the non-retail segment of Absa's credit portfolio is influenced by several economic factors, 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 Group'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 Group arise from Absa Bank's asset and liability management activities, insurance investments in Absa Financial Services and trading activities in Absa Capital.

Categorisation of market risk

To facilitate the management, control, measurement and reporting of market risk, Absa has categorised 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; and
- Other market risks
  Absa also incurs market risks that do not fit into the above categories. The principal risks of this type are investment risk, asset management structural market risk and defined-benefit pension fund 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 which 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 and asset management structural market 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

In order to achieve alignment with the Barclays market risk framework and Basel II requirements, the main changes and focus areas in 2006 were:

- 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 Group 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 the Absa Group 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 of time 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; and
- Enhancements to the control framework and quantification and reporting of market risk in Absa's African operations.

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, 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 Group'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 Group. Criteria for setting risk limits include, amongst 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

DVaR statistics for the trading books of Absa Capital and offshore operations are stated in the following tables:

Absa Capital trading book DVaR

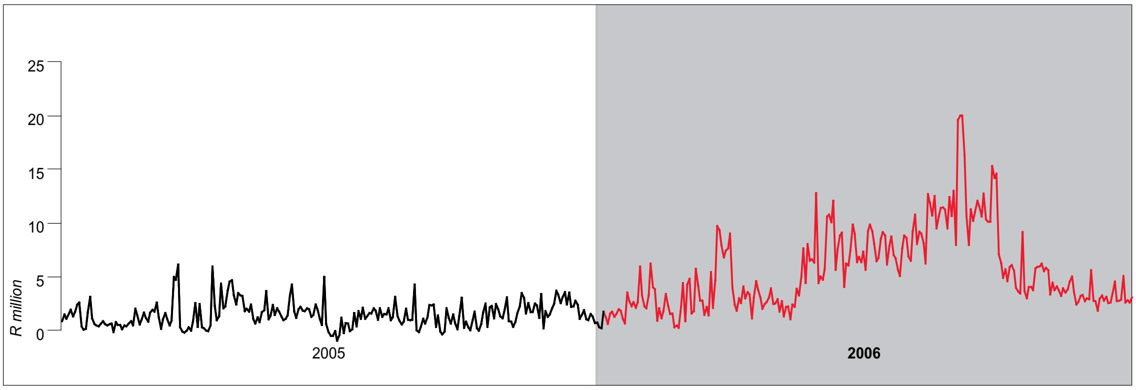
	Twelve months ended 31 December 2006			Twelve months ended 31 December 2005		
	Average Rm	**High* Rm**	**Low* Rm**	Average Rm	High* Rm	Low* Rm
Interest rate risk	**3,344**	**8,824**	**0,682**	1,559	6,395	0,317
Foreign exchange risk	**2,347**	**10,282**	**0,370**	0,862	4,947	0,032
Equity risk	**5,162**	**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)

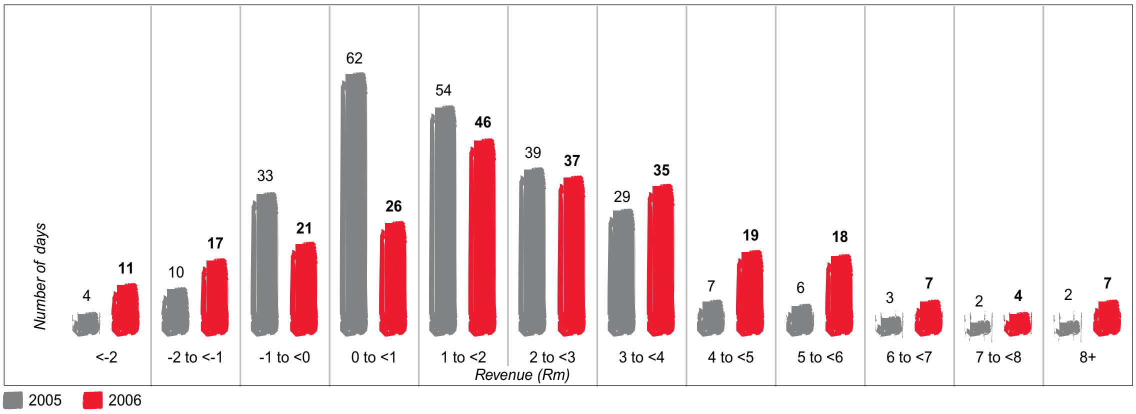


Increased market volatility and calculated risk taking, as indicated in the graph and table above, translated into enhanced trading revenue for the 2006 year compared with 2005.

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



Absa offshore and Africa 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
Africa operations	**0,922**	**2,337**	**0,118**	1,362	2,788	0,136

During 2006, Absa 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, with no further trading activities conducted by the branch.

In the Absa African operations' treasuries, market risk is taken in the banking book to support and facilitate customer activity and towards asset and liability management. The resultant foreign exchange and interest rate risks are measured in terms of DVaR. DVaR statistics for the foreign exchange risk of the African operations are shown in the table above, with the cumulative interest rate repricing gap impact shown as part of the repricing analysis in this annexure.

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 due to 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 Group'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. Applicable accounting rules as stipulated in the Group'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 Group'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 on the following page. Items are allocated to time periods by 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 which are repayable on demand or at short notice, form a stable base for the Group's operations and liquidity needs because of the broad base of customers – numerically and by depositor type.

Repricing analysis for Absa Group

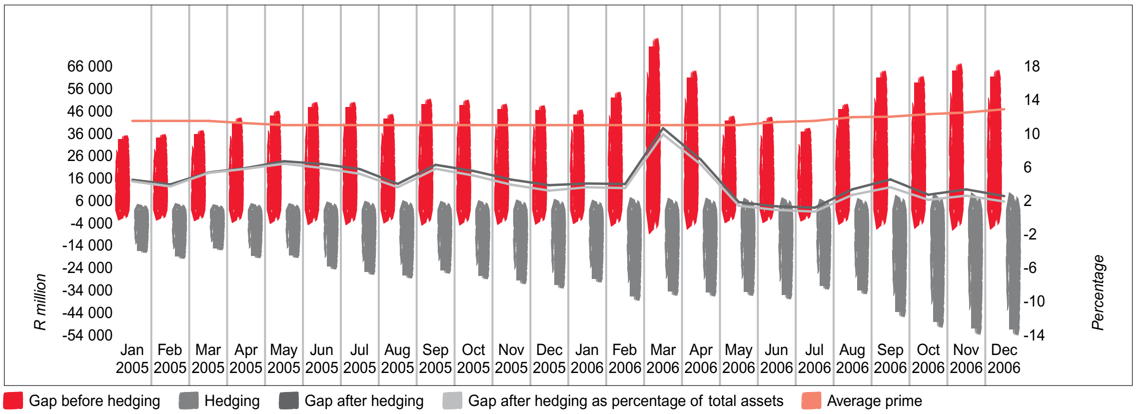
	31 December 2006				
Repricing maturity period	**Call – 3 months Rm**	**4 – 6 months Rm**	**7 – 12 months Rm**	**Over 12 months Rm**	**Not rate sensitive Rm**
Interest rate sensitivity gap	**59 414**	**(18 651)**	**(30 603)**	**8 990**	**(19 149)**
Derivatives*	**(53 236)**	**8 925**	**25 855**	**18 457**	
Cumulative interest rate gap	**6 178**	**(3 548)**	**(8 296)**	**19 150**	
Cumulative interest rate gap including African operations	**4 284**	**(5 015)**	**(8 296)**	**20 106**	

	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	44 434	(12 502)	(20 604)	17 270	(28 597)
Derivatives*	(33 373)	9 524	9 394	14 455	
Cumulative interest rate gap	11 061	8 082	(3 127)	28 598	
Cumulative interest rate gap including African operations	9 819	7 218	(3 678)	28 481	

*Derivatives for interest rate risk management purposes (net nominal value).

Absa Group's monthly three-month cumulative repricing gap is depicted in the graph below.

Absa Group's three-month cumulative repricing gap



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 Group's repricing sensitivity as a percentage of net interest income

31 December 2006	31 December 2005
2,33	2,07

Other market risks

- **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, Absa Corporate and Business Bank, and Absa Financial Services' investment portfolios is based on the VaR methodology. The holding period is set at three months, and the confidence level at 99,95%.

- **Asset management structural market risk**

  Asset management structural market risk is the risk that fee and commission income is affected by a change in market levels, primarily through the link between income and the value of the assets managed. The risk is measured in terms of AEaR and concentrated in Absa Financial Services.

- **Defined benefit pension fund risk**

  The employees of Banco Austral, Sarl are registered with the National Social Security Institute, a state-run defined benefit pension fund. In addition, Banco Austral, Sarl has established a complementary pension fund based on defined benefit principles. Banco Austral, Sarl has full defined benefit accountability only on the complementary fund.

  In respect of this pension fund, the ability of the fund to meet the projected pension payments is maintained through investments. Market risk arises because the estimated market value of the pension fund assets might decline or their investment returns might reduce or because the estimated value of the pension liabilities might increase. In these circumstances, Banco Austral, Sarl might be required or might choose to make extra contributions to this fund.

  Financial details of the pension fund are provided in note 46 to the financial statements.

Liquidity risk

Definition of liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, the consequence of which may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The risk that the Group 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 the Absa Group. Prudent management of liquidity contributes positively to earnings, with sound liquidity risk management being pivotal to the viability of the Group 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 Group focuses on a number of key areas including:

- the continuous management of net anticipated cash outflows, between assets and liabilities, within approved cash outflow limits set for periods of one day, one week and one month;
- the active participation in local money and capital markets required to support day-to-day funding needed to refinance maturities, meet customer withdrawals and growth in advances;
- the maintenance of a portfolio of highly liquid assets that can be easily liquidated in response to any unforeseen interruption to cash flow;
- the monitoring and managing of liquidity costs; and
- the ongoing assessment and evaluation of various funding sources designed to grow and diversify the Group's funding base in order 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 also monitors its 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 Group'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	**82 424**	**104 802**	**108 000**	**199 886**	**495 112**
Total liabilities	**177 266**	**236 492**	**21 512**	**24 921**	**460 191**
Total equity and liabilities	**179 462**	**237 754**	**22 544**	**55 352**	**495 112**

	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	79 821	73 231	95 875	155 634	404 561
Total liabilities	168 066	176 012	12 618	21 864	378 560
Total equity and liabilities	172 904	176 217	12 895	42 545	404 561

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, 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.

Underwriting risk

Definition and categorisation of underwriting risk

Underwriting risk, originating from insurance activities, refers to unexpected losses owing to events which result in exceeding predetermined prudent forecast exposures.

Underwriting risk consists of the following elements:

- **Life assurance underwriting risk** is the risk associated with insuring the life and/or health of an individual or groups of individuals and can be seen as the risk that actual results of an insurer are impacted and differ from expected results relating to assumptions with respect to mortality and morbidity.
- **Short-term insurance underwriting risk** is the risk associated with the short-term underwriting of fixed and/or moveable assets, accidents, guarantees and liabilities and can be seen as the risk that the actual results of an insurer are impacted and differ from expected results relating to assumptions with respect to the frequency and severity of claims.

Underwriting risk is influenced by the type and nature of insurance activities undertaken and includes:

- the risk appetite of the firm;
- the nature of underwriting exposures involved in the products and services;
- portfolio characteristics; and
- the nature and extent of reinsurance cover.

Underwriting risk measurement and control

The principal measurement techniques used to measure and control underwriting risk are the following:

Life assurance underwriting risk

Life assurance underwriting risk is measured at the maximum exposure on a single life. The risk is monitored with reference to monitoring the actual claims experience, investment guarantees, exposure analyses done during the annual actuarial valuation and managing the underwriting costs per policy to ensure the right balance between the actual risk exposure and the cost of underwriting.

Short-term insurance underwriting risk

Short-term insurance underwriting risk is measured by calculating the estimated maximum loss and maximum probable loss per policy. Risk measurement also includes the measuring of geographical and other concentrations of risk and an evaluation of individual risk, including specialised risks. The risk is monitored by monitoring the claims experience, policy movements, concentration of exposures and changes in the environment.

Annexure I: Change in accounting policies and reclassifications

Consolidated balance sheet

Restated for deconsolidation of certain cell captives and other reclassifications of interest on certain insurance assets.

	Commentary	31 December 2005 As previously reported Rm	Accounting policy changes Rm	Reclassi-fications Rm	Restated Rm
Assets					
Cash, cash balances and balances with central banks	1	15 043	(7)	—	15 036
Statutory liquid asset portfolio		16 289	—	—	16 289
Loans and advances to banks	1 & 2	4 602	1	16 202	20 805
Trading assets	3	22 830	—	620	23 450
Hedging assets	3	1 016	—	(620)	396
Loans and advances to customers	2 & 4	322 097	—	(15 241)	306 856
Reinsurance assets		423	—	—	423
Other assets		6 762	—	—	6 762
Investments	1	12 759	(2 855)	—	9 904
Investments in associated undertakings and joint ventures		895	—	—	895
Intangible assets		191	—	—	191
Property and equipment		3 451	—	—	3 451
Current tax assets		17	—	—	17
Deferred tax assets		86	—	—	86
Client liabilities under acceptances	4	961	—	(961)	—
Total assets		407 422	(2 861)	—	404 561
Liabilities					
Deposits from banks	2	28 431	—	(2 686)	25 745
Trading liabilities	3	19 397	—	1 518	20 915
Hedging liabilities	3	2 004	—	(1 518)	486
Deposits due to customers	2 & 4	300 298	—	3 647	303 945
Current tax liabilities	1	438	(21)	—	417
Liabilities under investment contracts	1	6 287	(2 828)	—	3 459
Policyholder liabilities under insurance contracts		2 736	—	—	2 736
Borrowed funds		6 483	—	—	6 483
Other liabilities and sundry provisions	1	11 824	(12)	—	11 812
Deferred tax liabilities		2 562	—	—	2 562
Liabilities to clients under acceptances	4	961	—	(961)	—
Total liabilities		381 421	(2 861)	—	378 560
Equity					
Capital and reserves					
Attributable to ordinary equity holders:					
Share capital		1 327	—	—	1 327
Share premium		1 875	—	—	1 875
Other reserves		622	—	—	622
Distributable reserves		21 931	—	—	21 931
		25 755	—	—	25 755
Minority interest		246	—	—	246
Total equity		26 001	—	—	26 001
Total equity and liabilities		407 422	(2 861)	—	404 561

Consolidated income statement

Restated for deconsolidation of certain cell captives and other reclassifications of interest on certain insurance assets.

	Commentary	Nine months ended 31 December 2005 As previously reported Rm	Accounting policy changes Rm	Reclassi-fications Rm	Restated Rm
Net interest income		9 647	—	(306)	9 341
Interest and similar income	5	23 212	—	(175)	23 037
Interest expense and similar charges		(13 565)	—	(131)	(13 696)
Impairment losses on loans and advances		(569)	—	—	(569)
Net interest income after impairment losses on loans and advances		9 078	—	(306)	8 772
Net fee and commission income		7 067	19	—	7 086
Fee and commission income	1 & 7	7 750	19	(328)	7 441
Fee and commission expense	7	(683)	—	328	(355)
Net insurance premium income		1 948	—	—	1 948
Net insurance claims and benefits paid		(797)	—	—	(797)
Changes in insurance and investment liabilities	1	(1 026)	500	—	(526)
Gains and losses from banking and trading activities	5 & 6	781	—	74	855
Gains and losses from investment activities	1, 5 & 6	1 336	(520)	443	1 259
Other operating income	6	759	—	(211)	548
Operating income before expenses		19 146	(1)	—	19 145
Operating expenditure		(12 216)	5	—	(12 211)
Operating expenses	1 & 4	(11 438)	5	—	(11 433)
Impairments		(54)		—	(54)
Indirect taxation		(724)		—	(724)
Share of retained earnings from associated undertakings and joint venture companies		101		—	101
Operating profit before income tax		7 031	4	—	7 035
Taxation expense	1	(2 187)	(4)	—	(2 191)
Profit for the period		4 844	—	—	4 844
Attributable to:					
Ordinary equity holders of the Group		4 776		—	4 776
Minority interest – ordinary shares		68		—	68
		4 844	—	—	4 844
Headline earnings		4 902		—	4 902

Notes

Change in accounting policies

1. Deconsolidation of certain cell captives

The financial statements for the period ended 31 December 2005 included the assets of all the investment and insurance cells recognised as financial assets and a liability equal to the amount of the assets was recognised in favour of the cell owner.

Where the cell is created for a linked investment product, the inclusion of assets and liabilities is no longer considered to be appropriate. This resulted in a reduction in both the assets and liabilities at 31 December 2005. From an income statement perspective only the fee received by the Group is now reflected.

Where the cell has been established for third party insurance purposes, the policy is issued by the Group. The policyholder therefore has a claim against the Group who will in turn recover amounts from the cell established and hence, consolidation still remains appropriate.

Reclassifications

2. 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 Group has reclassified this funding as part of balances with banks.

3. 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 Group has reclassified these as trading assets.

4. 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 Group has now included them as part of loans and advances to/deposits from customers as they are of a similar nature.

5. 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 Group 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.

6. 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 Group has reclassified these to gains and losses on banking and trading/investment activities.

7. Fee and commission received/paid

The financial statements for the period ended 31 December 2005 grossed up commission received in an agency capacity. The Group has now netted these amounts to better reflect the financial position.

	Twelve months 31 December 2006 Rm	Nine months 31 December 2005 Rm
Shareholders' net assets	**1 430**	1 104
Cost of solvency capital	**(20)**	(18)
Value in force	**1 076**	960
Total embedded value	**2 486**	2 046
Embedded value earnings	**762**	512
Return on embedded value	**37,2%**	35,1%*
Embedded value new business	**263**	118
Value of new business as a percentage of the present value of future premiums	**7,7%**	5,3%

*Annualised

Company balance sheet

		Company	
	Note	**31 December 2006 Rm**	31 December 2005 Rm
Assets			
Cash, cash balances and balances with central banks	2	**—**	59
Loans and advances to banks	3	**30**	14
Other assets	4	**6**	5
Investments in associated undertakings and joint ventures	5	**56**	64
Subsidiaries	6	**8 120**	7 004
Current tax assets	7	**6**	13
Deferred tax assets	8	**4**	—
Total assets		**8 222**	7 159
Liabilities			
Current tax liabilities	9	**—**	40
Borrowed funds	10	**164**	163
Other liabilities and sundry provisions	11	**54**	66
Deferred tax liabilities	8	**6**	2
Total liabilities		**224**	271
Equity			
Share capital	12	**1 344**	1 334
Share premium	12	**2 198**	2 005
Other reserves	13	**171**	109
Retained earnings		**4 285**	3 440
Total equity		**7 998**	6 888
Total equity and liabilities		**8 222**	7 159

		Company	
	Note	**Twelve months ended 31 December 2006 Rm**	Nine months ended 31 December 2005 Rm
Net interest income		**40**	55
Interest and similar income	14	**53**	64
Interest expense and similar charges	15	**(13)**	(9)
Gains and losses from investment activities	16	**3 167**	4 602
Other operating income	17	**—**	8
Operating income before expenses		**3 207**	4 665
Operating expenses	18	**(1)**	(9)
Indirect taxation	19	**(4)**	(6)
Operating profit before income tax		**3 202**	4 650
Taxation expense	20	**(63)**	(93)
Profit for the year/period		**3 139**	4 557
Attributable to:			
Equity holders of the Company		**3 139**	4 557
Headline earnings	21	**2 759**	4 672

Company statement of changes in equity

	Number of ordinary shares ’000	Share capital Rm
Balance at 1 April 2005	655 055	1 310
Shares issued	11 800	24
Less: costs incurred	—	—
Movement in available-for-sale reserve	—	—
Movement in share-based payments reserve	—	—
Dividends declared attributable to ordinary equity holders	—	—
Profit attributable to ordinary equity holders	—	—
Balance at 31 December 2005	666 855	1 334
Balance at 1 January 2006	**666 855**	**1 334**
Shares issued	**5 100**	**10**
Movement in share-based payments reserve	—	—
Dividends declared attributable to ordinary equity holders	—	—
Transfer from share-based payments reserve	—	—
Profit attributable to ordinary equity holders	—	—
Balance at 31 December 2006	**671 955**	**1 344**
Note	**12**	**12**

Note: All movements are reflected net of taxation.

Company statement of changes in equity

	Share premium Rm	Available-for-sale reserve Rm	Translation reserve Rm	Share-based payments reserve Rm	Retained earnings Rm	Total Rm
	1 624	(101)	(11)	50	1 284	4 156
	382	—	—	—	—	406
	(1)	—	—	—	—	(1)
	—	101	—	—	—	101
	—	—	—	70	—	70
	—	—	—	—	(2 401)	(2 401)
	—	—	—	—	4 557	4 557
	2 005	—	(11)	120	3 440	6 888
	2 005	**—**	**(11)**	**120**	**3 440**	**6 888**
	170	**—**	**—**	**—**	**—**	**180**
	—	**—**	**—**	**85**	**—**	**85**
	—	**—**	**—**	**—**	**(2 294)**	**(2 294)**
	23	**—**	**—**	**(23)**	**—**	**—**
	—	**—**	**—**	**—**	**3 139**	**3 139**
	2 198	**—**	**(11)**	**182**	**4 285**	**7 998**
	13	**13**	**13**			

Company cash flow statement

	Note	Company Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
Cash flows from operating activities			
Interest and commission received		**53**	64
Net trading and other income		**2 790**	4 725
Cash payments to employees and suppliers		**(13)**	(18)
Income taxes paid	22	**(100)**	(112)
Cash generated from operations		**2 730**	4 659
Changes in operating assets and liabilities:			
Net (increase)/decrease in other assets		**(1)**	109
Net increase in other liabilities		**(13)**	(9)
Net cash generated from operating activities		**2 716**	4 759
Cash flows from investing activities			
Investment in shares		**(785)**	(1 986)
Loans to subsidiaries		**(245)**	(740)
Net increase in securities		**385**	14
Net cash utilised by investing activities		**(645)**	(2 712)
Cash flows from financing activities			
Issue of ordinary shares		**180**	405
Dividends paid	23	**(2 294)**	(2 401)
Net cash utilised by financing activities		**(2 114)**	(1 996)
Net (decrease)/increase in cash and cash equivalents		**(43)**	51
Cash and cash equivalents at the beginning of the year/period		**73**	22
Total cash and cash equivalents at the end of the year/period	2	**30**	73

	Company	
	31 December 2006 Rm	31 December 2005 Rm
1. Summary of significant accounting policies		
The financial statements of Absa Group Limited (Company) are prepared according to the same accounting principles used in preparing the consolidated financial statements of Absa Group Limited. For detailed accounting policies refer to pages 77 to 104 of this report.		
2. Cash, cash balances and balances with central banks		
Money on call (included in cash and cash equivalents calculation – refer to note 24)	**—**	59
3. Loans and advances to banks		
Loans and advances to banks (included in cash and cash equivalents calculation – refer to note 24)	**30**	14
Portfolio analysis		
Loans and receivables	**30**	14
The carrying value of loans and advances to banks approximates their fair value. Loans with variable rates are R18 million (December 2005: Rnil) and loans with fixed rates are R12 million (December 2005: R14 million).		
4. Other assets		
Accounts receivable and prepayments	**6**	—
Accrued dividends	**—**	5
	6	5
5. Investments in associated undertakings and joint ventures		
Shares at book value		
Carrying value at the beginning of the year/period	**64**	133
Acquisitions (refer to note 5.1)	**—**	56
Disposals (refer to note 5.1)	**(8)**	(125)
Carrying value at the end of the year/period	**56**	64
Directors' valuation		
Directors' valuation of unlisted shares	**72**	342

Notes to the Company financial statements

	Company	
	31 December 2006 Rm	31 December 2005 Rm
5. Investments in associated undertakings and joint ventures (continued)		
5.1 Acquisitions and disposals		
Acquisitions		
The following acquisitions were concluded during the previous period, at cost:		
Banco Comercial Angolano	—	45
On 1 April 2005, the Company acquired a 50% stake in Banco Comercial Angolano. The Company is considered to exercise significant influence, therefore this entity has been equity accounted.		
Meeg Bank Limited	—	11
Meeg Bank Limited was previously shown as a subsidiary. During the prior period owing to changing circumstances, the Company concluded that it no longer had control of the entity.		
Total acquisitions	—	56
Disposals	**(8)**	—
Capricorn Investment Holdings Limited		
On 9 November 2006 the Company sold its shares in Capricorn Investment Holdings Limited to a third party.		
The following disposals were concluded during the current year:		
Sage Group Limited	—	(125)
On 19 August 2005, the Company sold its share in Sage Group Limited to a third party.		
Total disposals	**(8)**	(125)
6. Subsidiaries		
Shares at cost	**9 407**	8 536
Loans to subsidiary companies	**(1 287)**	(1 532)
	8 120	7 004
The carrying amounts of subsidiaries are shown net of impairment losses. For further information on subsidiaries, refer to Annexure F of Absa Group Limited and its subsidiaries' financial statements.		
7. Current tax assets		
Amounts due from revenue authorities	**6**	13
8. Deferred tax		
8.1 Reconciliation of deferred tax liabilities/(assets)		
Balance at the beginning of the year/period	**2**	16
Income statement charge (refer to note 20)	—	(14)
Balance at the end of the year/period	**2**	2

	Company 31 December 2006 Rm	31 December 2005 (Pro forma) Rm
8. Deferred tax (continued)		
8.2 Deferred tax liabilities/(assets)		
Tax effects of temporary differences between tax and book value for:		
Gains on investment	**—**	2
Other deferred tax	**6**	—
Deferred tax liabilities	**6**	2
Deferred tax assets – STC	**(4)**	—
	2	2
Deferred income taxes are calculated on all temporary differences under the liability method at the appropriate effective tax rate.		
8.3 Secondary tax on companies (STC)		
Accumulated STC credit	**32**	—
Deferred tax asset raised	**4**	—
Movement in deferred tax assets for the year/period	**4**	—

If the total reserves of R4 456 million as at 31 December 2006 (December 2005: R3 549 million) were to be declared as dividends, the secondary tax impact at a rate of 12,5% would be R557 million (December 2005: R444 million).

			Company 31 December 2006 Rm	31 December 2005 (Pro forma) Rm
9. Current tax liabilities				
Secondary tax on companies			**—**	40
10. Borrowed funds				
10.1 Redeemable cumulative option-holding preference shares				
Preference dividend rate	Option exercise dates	Number		
72% of the prime overdraft rate	1 July 2007 to 1 July 2009 1 March, 1 June, 1 September or 1 December of each year	79 237 500	**158**	158
Accrued dividend			**6**	5

The dividends are compounded and payable semi-annually in arrear on 30 September and 31 March of each year. The shares were issued by Absa Group Limited on 1 July 2004 and the redemption dates commence on the first business day after the third anniversary of the date of issue of the redeemable preference shares and ending on the fifth anniversary of the date of issue. Such exercise and notice will be deemed to be effective only on the option exercise dates, being 1 March, 1 June, 1 September or 1 December of each year. The shares are convertible into ordinary shares at the option of the preference shareholders on the redemption dates in lots of 100.

	Company 31 December 2006 Rm	31 December 2005 (Pro forma) Rm
	164	163
Maturity analysis		
Current	**59**	5
Non-current	**105**	158
	164	163
Portfolio analysis		
Amortised cost	**164**	163

The carrying value of borrowed funds approximates their fair value.

	Company	
	31 December 2006 Rm	31 December 2005 Rm
11. Other liabilities and sundry provisions		
Creditors and other accruals	**53**	66
12. Share capital and premium		
Ordinary share capital – listed		
Authorised		
800 000 000 (December 2005: 800 000 000) ordinary shares of R2 each	**1 600**	1 600
Issued		
671 955 074 (December 2005: 666 855 074) ordinary shares of R2 each	**1 344**	1 334

Unissued shares

The unissued shares are under the control of the directors subject to a limit of 5% of issued ordinary share capital as at 31 December 2006, 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 forthcoming annual general meeting of the Company.

Shares issued during the year

On 5 June 2006, 3 300 000 ordinary shares were issued at R36,17 per share, being R2 par value and R34,17 share premium. A further 1 800 000 ordinary shares were issued on 1 December 2006 at R33,92 per share, being R2 par value and R31,92 share premium. All shares issued by the Company are paid in full.

Issued shares		
Ordinary shares	**1 344**	1 334
Share premium	**2 198**	2 005
	3 542	3 339
Preference share capital – unlisted		
Authorised		
80 476 500 (December 2005: 80 467 500) redeemable cumulative option-holding preference shares of R2 each	**161**	161
Issued		
79 237 500 (December 2005: 79 237 500) redeemable cumulative option-holding preference shares of R2 each	**158**	158

These shares meet the definition of debt under IAS 32 and have therefore been included under borrowed funds (refer to note 10).

The shares held by Batho Bonke Capital (Proprietary) Limited (73 152 300) are entitled to voting rights equivalent to those of the listed ordinary shares. The remaining shares held by the Absa Group Limited Employee Share Ownership Administrative (ESOP) Trust are not entitled to voting rights.

13. Other reserves

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.

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 Company's net investment in a foreign subsidiary.

Share-based payments 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.

	Company	
	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
14. Interest and similar income		
Loans and advances to banks	**6**	8
Loans to subsidiary companies	**47**	56
	53	64
15. Interest expense and similar charges		
Borrowed funds	**13**	9
16. Gains and losses from investment activities		
Fair value through profit and loss		
Equity securities	**3**	—
Subsidiaries		
Dividends received	**2 787**	4 717
Available-for-sale		
Loss on sale	**—**	(115)
Associates		
Profit on sale	**377**	—
	3 167	4 602
17. Other operating income		
Sundry income	**—**	8
18. Operating expenses		
Administrative expenses	**1**	8
Other professional fees	**—**	1
	1	9
19. Indirect taxation		
Regional Services Council levies	**4**	6

	Company	
	Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
20. Taxation expense		
Current		
South African current taxation	**50**	42
Secondary tax on companies	**13**	65
	63	107
Deferred		
Deferred tax (refer to note 8)	**—**	(14)
	63	93
Reconciliation between accounting profit and tax expense		
Profit before tax	**3 202**	4 650
Tax at calculated at the tax rate of 29% (2005: 29%)	**928**	1 348
Tax effect of adjustments on taxable income		
Income not subject to normal taxation	**(926)**	(1 364)
Secondary tax on companies	**9**	65
Other	**52**	44
	63	93
21. Headline earnings		
Headline earnings is determined as follows:		
Net income attributable to equity holders of the Company	**3 139**	4 557
Adjustments for:		
Net (profit)/loss on disposal of available-for-sale assets and strategic investments	**(380)**	115
	2 759	4 672
22. Income taxes paid		
Balance at the beginning of the year/period		
Current taxation (refer to note 7)	**27**	26
Deferred taxation (refer to note 8)	**2**	16
Current tax for the year/period recognised in income statement		
Current and deferred taxation (refer to note 20)	**63**	93
Indirect taxation (refer to note 19)	**4**	6
Balance at the end of the year/period		
Current taxation (refer to note 7 and note 9)	**6**	(27)
Deferred taxation (refer to note 8)	**(2)**	(2)
	100	112

		Company	
		Twelve months ended 31 December 2006 Rm	Nine months ended 31 December 2005 Rm
23.	**Dividends**		
	Dividends		
	Final dividend number 39 of 135 cents per ordinary share (March 2005: 200 cents)	**900**	1 334
	Interim dividend number 40 of 208 cents per ordinary share (September 2005: 160 cents)	**1 394**	1 067
	Total dividends paid during the year/period	**2 294**	2 401
	Interim dividend number 40 of 208 cents per ordinary share (September 2005: 160 cents)	**1 394**	1 067
	Final dividend number 41 of 265 cents per ordinary share (February 2006: 135 cents)	**1 781**	900
	Total dividends relating to income for the year/period	**3 175**	1 967

A final dividend of 265 cents per ordinary share was approved by the board on 20 February 2007. The total dividend amounts to R1 781 million and the STC payable by the Company in respect of the dividend approved and declared subsequent to 31 December 2006 amounts to R223 million. No provision has been made for this dividend and the related STC in the financial statements for the year ended 31 December 2006.

24.	**Cash and cash equivalents**		
	Cash, cash balances and balances with central banks (refer to note 2)	**—**	59
	Loans and advances to banks (refer to note 3)	**30**	14
		30	73

25 Related parties

Refer to note 48 of Absa Group Limited and its subsidiaries' financial statements for the full disclosure of related party transactions.

Shareholder and administrative information – contents

Ordinary shareholders

	31 December 2006 Number of shares held	%
Major ordinary shareholders		
Barclays Bank PLC	379 304 853	56,45
Allan Gray Limited	44 758 793	6,66
Public Investment Corporation	32 453 568	4,83
Old Mutual Asset Managers	22 080 295	3,29
Investec Asset Management	20 937 355	3,12
Coronation Fund Managers	18 387 486	2,74
Sanlam Investment Management	15 307 070	2,28
Stanlib Asset Management	13 737 060	2,04
Capital Group Companies Inc.	12 653 184	1,88
AXA Financial SA (Bernstein and Alliance)	11 829 983	1,76
Other	100 505 427	14,95
Shareholder type		
Principal shareholder	379 304 853	56,45
Private investors	27 598 546	4,11
Other	265 051 675	39,44
Total	671 955 074	100,00

	31 December 2006 Number of shareholders	Number of shares held	%
Public and non-public shareholders			
Public	39 996	287 639 223	42,80
Non-public shareholders			
• Directors and associates	22	1 720 338	0,26
• Trustees of the Absa Share Incentive Trust	1	2 447 187	0,36
• Barclays Bank PLC	1	379 304 853	56,45
• Related holdings	13	843 473	0,13
Total	40 033	671 955 074	100,0

Preference shareholders

Batho Bonke Capital (Proprietary) Limited and the Absa Group Limited Employee Share Ownership Administrative (ESOP) Trust hold 79 237 500 redeemable cumulative option-holding preference shares.

	31 December 2006 Shares held
Batho Bonke Capital (Proprietary) Limited	73 152 300
Absa Group Limited Employee Share Ownership Administrative (ESOP) Trust	6 085 200
Total	79 237 500

Total number of shares

	31 December 2006 Ordinary shares	Preference shares	Total shares
Shares in issue at 31 December 2006	671 955 074	79 237 500	751 192 574

Shareholders' diary

Important events

Financial year-end	31 December 2006
Announcement of results for the twelve months ended 31 December 2006	20 February 2007
Annual general meeting	23 April 2007
Announcement of interim results	2 August 2007

Dividends

	Declaration date	Last day to trade	Ex dividend date	Record date	Payment date
Final – December 2006	20 February 2007	9 March 2007	12 March 2007	16 March 2007	19 March 2007
Interim – June 2007	2 August 2007	24 August 2007	27 August 2007	31 August 2007	3 September 2007

Absa Group Limited

(Incorporated in the Republic of South Africa)

Registration number: 1986/003934/06

ISIN: ZAE000067237

JSE share code: ASA

Issuer code: AMAGB

(the Company)

Notice is hereby given that the twenty-first annual general meeting of ordinary shareholders will be held in the P W Sceales Auditorium, Absa Towers, 160 Main Street, Johannesburg, on Monday, 23 April 2007, at 11:00.

In terms of the Company's articles of association, redeemable cumulative option holding par value preference shareholders have the same rights as ordinary shareholders to attend, speak and vote at general meetings of the Company and will thus be entitled to attend the annual general meeting and to speak and vote thereat.

The Company and all of it subsidiaries are hereinafter referred to as "the Group".

Agenda

1. To consider the Group's and the Company's audited financial statements for the year ended 31 December 2006.
2. To sanction the proposed remuneration payable to non-executive directors from 1 May 2007, as set out in the table contained in the explanatory notes to the resolutions to be considered at the annual general meeting.
3. To re-elect the following directors, who retire by rotation, but being eligible, offer themselves for re-election: Dr S F Booysen, Mr D C Brink, Mr B P Connellan, Dr D C Cronjé, Mr A S du Plessis, Mr L N Jonker and Mr P E I Swartz.
4. To confirm the appointment of Mr F F Seegers and Ms Y Z Cuba as directors of the Company.
5. To consider and, if deemed fit, to pass, with or without modification, the following as an ordinary resolution in order to provide the directors with flexibility to issue the unissued ordinary shares as and when suitable situations arise:

   "Resolved that the authorised but unissued ordinary shares of the Company (other than those specifically identified and authorised for issue in terms of any other authority by shareholders) are hereby placed under the control of the directors, who be and are hereby authorised, subject to any applicable legislation and the Listings Requirements of the JSE Limited (JSE) from time to time and any other stock exchange upon which ordinary shares in the capital of the Company may be quoted or listed from time to time, to allot and issue those ordinary shares on any such terms and conditions as they deem fit, subject to the proviso that the aggregate number of ordinary shares able to be allotted and issued in terms of this resolution shall be limited to 5% (five per cent) of the number of ordinary shares in issue at 31 December 2006."

   The maximum number of shares that can be allotted and issued in terms of the above is 33 597 753 ordinary shares (5% of the 671 955 074 ordinary shares in issue as at 31 December 2006).
6. To consider and, if deemed fit, to pass, with or without modification, the following resolution as a special resolution in order to provide the directors with flexibility to repurchase shares as and when suitable situations arise:

   "Resolved that the Company or any subsidiary of the Company may, subject to the Companies Act, No 61 of 1973 (as amended), the Company's articles of association and the Listings Requirements of the JSE from time to time and any other stock exchange upon which the securities in the capital of the Company may be quoted or listed from time to time, repurchase securities issued by the Company, provided that this authority shall be valid only until the next annual general meeting of the Company or for 15 months from the date of the resolution, whichever is the shorter, and may be varied by special resolution by any general meeting of the Company at any time prior to the next annual general meeting."

Pursuant to the above, the following additional information, required in terms of the Listings Requirements of the JSE, is submitted:

It is recorded that the Company or any subsidiary of the Company may only make a general repurchase of securities if:

- the repurchase of securities is effected through the order book operated by the JSE trading system and is done without any prior understanding or arrangement between the Company and the counterparty;
- the Company is authorised thereto by its articles of association;
- the Company is authorised thereto by its shareholders in terms of a special resolution of the Company in general meeting, which authorisation shall be valid only until the next annual general meeting or for 15 (fifteen) months from the date of the resolution, whichever period is the shorter;
- repurchases are made at a price not greater than 10% (ten per cent) above the weighted average of the market value for the securities for the 5 (five) business days immediately preceding the date of repurchase;
- at any point in time, the Company may only appoint one agent to effect any repurchases on the Company's behalf;
- the Company only undertakes repurchases if, after such repurchase, the Company still complies with shareholder spread requirements in terms of the Listings Requirements of the JSE;
- the Company or its subsidiaries do not repurchase securities during a prohibited period defined in terms of the Listings Requirements of the JSE;
- a paid press announcement containing full details of such repurchases is published as soon as the Company has repurchased securities constituting, on a cumulative basis, 3% (three per cent) of the number of securities in issue prior to the repurchases and for each 3% (three per cent), on a cumulative basis, thereafter; and
- the general repurchase is limited to a maximum of 20% (twenty per cent) of the Company's issued share capital of that class in any one financial year.

The directors of the Company undertake that, for a period of 12 (twelve) months following the date of the annual general meeting or for the period of the general authority, whichever is the longer, they will not undertake such repurchases unless:

- the Company and the Group would be able to repay their debts in the ordinary course of business;
- the assets of the Company and the Group, fairly valued in accordance with International Financial Reporting Standards and the Company's accounting policies used in the latest audited Group financial statements, would be in excess of the liabilities of the Company and the Group for the next year;
- the Company and the Group will have adequate capital and reserves for ordinary business purposes for the next year; and
- the working capital of the Company and the Group will be adequate for the next year's ordinary business purposes.

In terms of the Listings Requirements of the JSE, the maximum number of shares that can be repurchased amounts to 134 391 014 ordinary shares (20% of the 671 955 074 ordinary shares in issue as at 31 December 2006). This authority shall only be valid from the date of this annual general meeting until the following annual general meeting.

The reason for passing of the special resolution is to enable the Company or any of its subsidiaries, by way of a general authority from shareholders, to repurchase securities issued by the Company.

The effect of the special resolution, once registered, will be to permit the Company or any of its subsidiaries to repurchase such securities in terms of the Companies Act. This authority will only be used if circumstances are appropriate.

For the purposes of considering the special resolution and in compliance with paragraph 11.26(b) of the Listings Requirements of the JSE, certain information is either listed below or has been included elsewhere in this report, in which this notice of annual general meeting is included:

- Directors – refer to pages 21 to 28 of this report.
- Major shareholders – refer to page 225 of this report.
- No material changes in the financial or trading position of the Group occurred since 31 December 2006.
- Directors' interests in securities – refer to page 64 of this report.
- Share capital of the Company – refer to page 69 of this report.
- The directors, whose names are set out on pages 21 to 28 of this report, collectively and individually accept full responsibility for the accuracy of the information contained in this **special resolution** and certify that, to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement false or misleading and that they have made all reasonable enquiries in this regard.
- There are no legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Company is aware), which may have or have had a material effect on the Company's financial position over the past twelve months.

The Company will only transact in derivative transactions relating to the repurchase of securities if the following conditions are met with regard to the price of the derivative:

(i) The strike price of any put option written by the Company less the value of the premium received by the Company for that put option may not be greater than the fair value of a forward agreement based on a spot price not greater than 10% above the weighted average of the market value for the securities for the five business days immediately preceding the date on which the transaction is effected;

(ii) The strike price of any call option may be greater than 10% above the weighted average of the market value for the securities for the five business days immediately preceding the date on which the transaction is effected at the time of entering into the derivative agreement, but the Company may not exercise the call option if it is more than 10% "out of the money"; and

(iii) The strike price of the forward agreement may be greater than 10% above the weighted average of the market value for the securities for the five business days immediately preceding the date on which the transaction is effected, but limited to the fair value of a forward agreement calculated from a spot price not greater than 10% above the average of the market value for the securities for the five business days immediately preceding the date on which the transaction is effected.

Proxy and voting procedure

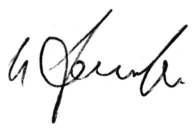
Members who have not dematerialised their shares or who have dematerialised their shares with own name registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy to attend, speak and vote in their stead. The person so appointed need not be a member of the Company.

If certificated members or dematerialised members with own name registration are unable to attend the annual general meeting but wish to be represented thereat, they must complete the proxy form on page 235 of this report.

In order to be effective, proxy forms should be delivered or posted to the transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), so as to reach this address no later than 11:00 on Thursday, 19 April 2007.

Members who have dematerialised their shares, other than those members who have dematerialised their shares with own name registration, should contact their central securities depositary participant (CSDP) or stockbroker:

- to furnish their CSDP or stockbroker with their voting instruction; or
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.



By order of the board

W R Somerville • Group secretary

Johannesburg

15 March 2007

Important notes about the annual general meeting (AGM)

Date: Monday, 23 April 2007, at 11:00.

Venue: P W Sceales Auditorium, Absa Towers, 160 Main Street, Johannesburg.

Time: The AGM will start promptly at 11:00. Shareholders wishing to attend are advised to be in the auditorium no later than 10:45. Reception staff at the Absa Towers complex will direct shareholders to the AGM venue. Refreshments will be served after the AGM.

Admission: Shareholders, representatives of shareholders and proxies attending the AGM are requested to register at the registration desk in the auditorium reception area at the venue. Shareholders, representatives of shareholders and proxies may be required to provide proof of identity.

Security: Secure parking is provided at the venue by prior arrangement. Attendees are asked not to bring cameras, laptop computers or tape recorders. Cellular telephones should be switched off for the duration of the proceedings.

Other important notes

1. General

Shareholders wishing to attend the AGM have to ensure beforehand with the transfer secretaries of the Company that their shares are in fact registered in their name. Should this not be the case and the shares be registered in any other name or in the name of a nominee company, it is incumbent on shareholders attending the meeting to make the necessary arrangements with that party to be able to attend and vote in their personal capacity. The proxy form contains detailed instructions in this regard.

2. Certificated shareholders and dematerialised shareholders with "own name" registration

If you are the registered holder of certificated Absa Group Limited ordinary shares or hold dematerialised Absa Group Limited ordinary shares in your own name and you are unable to attend the AGM and wish to be represented at the AGM, you should complete and return the attached form of proxy in accordance with the instructions contained therein so as to be received by the transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), by no later than 11:00 on Thursday 19 April 2007.

3. Dematerialised shareholders

If you are the holder of dematerialised Absa Group Limited ordinary shares, but not the holder of dematerialised Absa ordinary shares in your own name, you must timeously provide your central securities depositary participant (CSDP) or stockbroker with your voting instructions for the AGM in terms of the custody agreement entered into with your CSDP or stockbroker. If, however, you wish to attend the AGM in person, then you must request your CSDP or stockbroker timeously to provide you with the necessary authority to attend and vote your shares.

4. Proxies

Shareholders must ensure that their proxy forms reach the transfer secretaries as indicated in note 6 on page 236 not later than 11:00 on Thursday, 19 April 2007.

5. Enquiries

Any shareholders having difficulties or queries with regard to the AGM or the above may contact the Group secretary, William Somerville, on (+27) 011 350 4828.

6. Results of the annual general meeting

The results of the meeting will be posted on Sens as soon as practicably possible after the AGM.

Consideration of the Group's and the Company's financial statements for the year ended 31 December 2006 (resolution number 1 – ordinary resolution)

The directors must present to members, at the AGM, the financial statements of the Group and the Company, incorporating the report of the directors, for the year ended 31 December 2006, together with the report of the auditors which are contained in this report.

Sanction of proposed remuneration payable to non-executive directors from 1 May 2007 (resolution number 2 – ordinary resolution)

Shareholders are requested to consider and, if deemed appropriate, sanction the proposed remuneration payable to non-executive directors with effect from 1 May 2007, as set out below. Full particulars of all fees and remuneration for the past year as well as the process followed by the Group Remuneration Committee in recommending board fees and remuneration are contained on pages 29 to 43 of this report.

Category	Note	Current annual remuneration R	**Proposed annual remuneration payable with effect from 1 May 2007 R**
Chairman	1	3 154 200	**3 500 000**
Board member	2, 3 & 10	123 200	**135 500**
Group Audit and Compliance Committee (GACC) member	4 & 10	104 400	**114 800**
Group Risk Committee (GRC) member	5 & 10	68 000	**74 800**
Group Remuneration Committee (Rem Com) member	6 & 10	54 600	**60 000**
Directors' Affairs Committee (DAC) member	7 & 10	41 000	**45 100**
Credit Committee: Large Exposures member	8 & 10	41 000	**45 100**
Implementation Committee member	9 & 10	41 000	**41 000**
Group Credit Committee member	11	Pool of R350 000 per annum payable to Board Lending Committee members pro rata to the number of facilities reviewed	**R1 000 per facility reviewed**
Special board meeting (per meeting)		16 500	**18 200**
Special board committee meeting (per meeting)		10 600	**11 700**
Ad hoc board fees:			
• per meeting of ad hoc board committees attended		10 600	**11 700**
• consultancy work		R2 750 per hour	**R3 000 per hour**

Notes

(1) This is the remuneration payable to the outgoing chairman (Dr Cronjé) until his date of retirement. Shareholder ratification for the remuneration of the incoming chairman will be sought at the 2008 AGM.

(2) The deputy chairman receives fees equal to 1,5 times the fee payable to a board member.

(3) Executive directors of Absa Group Limited receive fees, as members of the Absa Group Limited board, equal to the fees payable to a board member.

(4) The GACC chairman receives fees equal to twice the fee payable to a GACC member.

(5) The GRC chairman receives fees equal to twice the fee payable to a GRC member.

(6) The Rem Com chairman receives fees equal to twice the fee payable to a Rem Com member.

(7) As the Group chairman is chairman of the DAC, this is covered by his Group chairman's fee.

(8) As the Group chairman is also the chairman of the Credit Committee: Large Exposures, his fee is covered by his Group chairman's fee.

(9) The Implementation Committee chairman receives fees equal to twice the fee payable to an Implementation Committee member.

(10) The fees payable to non-executive directors of Absa Group Limited in respect of subsidiary companies are not included as these fees are approved by the shareholders of the respective subsidiaries. Amounts received by Absa Group Limited directors from subsidiaries are disclosed annually in the remuneration report.

(11) The Group Credit Committee fee structure has been changed from a "pool" basis (as was done when it was known as the Board Lending Committee) to a rate per facility reviewed per committee member.

Re-election of retiring directors (resolution number 3 – ordinary resolution)

In terms of the Company's articles of association, one-third of the directors are required to retire at each AGM and may offer themselves for re-election. In line with international best practice, Absa has introduced a requirement in terms of which all directors on the board for longer than nine years are subject to annual re-election by shareholders at the AGM. The directors who retire in terms of the above arrangements at the 2007 AGM are: Dr S F Booysen, Mr D C Brink, Mr B P Connellan, Dr D C Cronjé, Mr A S du Plessis, Mr L N Jonker, Mr P du P Kruger and Mr P E I Swartz.

The Absa Group board recommends to shareholders the re-election of the following directors: Dr S F Booysen, Mr D C Brink, Mr B P Connellan, Dr D C Cronjé, Mr A S du Plessis, Mr L N Jonker and Mr P E I Swartz. Biographical details of these directors are set out on pages 21 and 28 of this report.

Mr Kruger has not sought re-election as he will be reaching retirement age during 2007 and will accordingly retire from the board at the conclusion of the 2007 AGM.

Confirmation of appointment of new directors (resolution number 4 – ordinary resolution)

The appointment, by the board of directors, of any persons as directors of the Company during the year requires confirmation by shareholders at the first AGM of the Company after the appointment of such persons as directors. Biographical details of the new directors (Mr Seegers and Ms Cuba) are set out on page 21 of this report.

Placing of unissued ordinary shares under the control of the directors (resolution number 5 – ordinary resolution)

In terms of sections 221 and 222 of the Companies Act, the members of the Company have to approve the placement of the unissued ordinary shares under the control of the directors.

The existing authority granted by the members at the previous AGM on 10 May 2006 expires at the forthcoming AGM, unless renewed. The authority will be subject to the Companies Act, the Banks Act and the Listings Requirements of the JSE. The aggregate number of ordinary shares able to be allotted and issued in terms of this resolution shall be limited to 5% (five per cent) of the number of ordinary shares in issue at 31 December 2006.

The directors have decided to seek annual renewal of this authority in accordance with best practice. The directors have no current plans to make use of this authority, but are seeking its renewal to ensure that the Company has maximum flexibility in managing the Group's capital resources.

Repurchase by the Company or any subsidiary of the Company of securities issued by the Company (resolution number 6 – special resolution)

The Company's articles of association contain a provision allowing the Company or any subsidiary of the Company to repurchase securities issued by the Company. This is subject to the approval of the members in terms of the Company's articles of association, the Companies Act, the Banks Act and the Listings Requirements of the JSE. The existing general authority, granted by the members at the previous AGM on 10 May 2006, is due to expire, unless renewed.

The directors are of the opinion that it would be in the best interests of the Company to extend such general authority and thereby allow the Company or any subsidiary of the Company to be in a position to repurchase the securities issued by the Company through the order book of the JSE, should the market conditions and price justify such an action.

The proposed authority would enable the Company or any subsidiary of the Company to purchase up to a maximum of 134 391 014 ordinary securities in the ordinary issued share capital of the Company (20% of the issued ordinary share capital as at 31 December 2006) with a stated upper limit on the price payable, which reflects the Listings Requirements of the JSE. Repurchases will be made only after the most careful consideration, where the directors believe that an increase in earnings per share will result and where repurchases are, in the opinion of the directors, in the best interests of the Company and its members.

Annual general meeting

Absa Group Limited

Registration number: 1986/003934/06

ISIN: ZAE000067237

JSE share code: ASA

Issuer code: AMAGB

(the Company)

(The Company and all of its subsidiaries, hereinafter referred to as "the Group".)

TO BE COMPLETED BY CERTIFICATED SHAREHOLDERS AND DEMATERIALISED SHAREHOLDERS WITH OWN NAME REGISTRATION ONLY AND REDEEMABLE CUMULATIVE OPTION-HOLDING PAR VALUE PREFERENCE SHAREHOLDERS

I/We ____________________

(name(s) in block letters)

of ____________________

(address in block letters)

being (a) member(s) of the Company, entitled to vote and holding __________ shares do hereby appoint

or, failing him/her, ____________________

or, failing him/her, the chairman of the annual general meeting (AGM) as my/our proxy to attend and speak and vote for me/us and on my/our behalf at the AGM of members of the Company to be held in the P W Sceales Auditorium, Absa Towers, 160 Main Street, Johannesburg, on Monday, 23 April 2007, at 11:00 and at any adjournment thereof, as follows:

	In favour of*	Against*	Abstain*
1. Resolution to consider the audited financial statements of the Group and the Company			
2. Resolution to sanction the proposed remuneration of the non-executive directors, payable from 1 May 2007			
3. Resolution to re-elect retiring directors: Dr S F Booysen			
Mr D C Brink			
Mr B P Connellan			
Dr D C Cronjé			
Mr A S du Plessis			
Mr L N Jonker			
Mr P E I Swartz			
4.1 Resolution to confirm the appointment of Mr F F Seegers as a director			
4.2 Resolution to confirm the appointment of Ms Y Z Cuba as a director			
5. Resolution regarding the placing of the unissued shares under the control of the directors			
6. Special resolution regarding the authority for a general repurchase of securities			

*Please indicate with an "X" in the appropriate spaces provided above how you wish your vote to be cast. If no indication is given, the proxy may vote or abstain as he/she thinks fit.

A member of the Company entitled to attend and vote at the abovementioned meeting is entitled to appoint a proxy or proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the Company.

Signed at ____________________ on ____________________ 2007

Full name(s) ____________________

(in block letters)

Signature(s) ____________________

Assisted by (guardian) ____________________ Date ____________________ 2007

If signing in a representative capacity, see note 4 on page 236.

Notes to form of proxy

1. If two or more proxies attend the AGM, then that person attending the AGM whose name appears first on the proxy form and whose name is not deleted shall be regarded as the validly appointed proxy.
2. The chairman of the AGM may reject or accept a form of proxy which is completed and/or received other than in accordance with these notes.
3. Any alteration to this proxy form, other than a deletion of alternatives, must be initialled by the signatories.
4. Documentary evidence establishing the authority of a person signing the proxy form in a representative or other legal capacity must be attached to this form of proxy unless previously recorded by the Company or the transfer secretaries or waived by the chairman of the AGM.
5. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
6. In order to be effective, proxy forms must be delivered or posted to the transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), so as to reach this address not later than 11:00 on Thursday, 19 April 2007.
7. The delivery of a duly completed proxy form shall not preclude any member or his/her duly authorised representative from attending the AGM and speaking and voting thereat instead of the proxy.
8. Where there are joint holders of shares:
   8.1 any one holder may sign the form of proxy; and
   8.2 the vote of the senior shareholder (for which purpose seniority will be determined by the order in which the names of the shareholders appear in the Company's register) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholders.
9. Shareholders holding dematerialised shares who wish to attend the AGM must contact their central securities depositary participant (CSDP) or stockbroker, who will furnish them with the necessary authority to attend the AGM. Alternatively, such shareholders must instruct their CSDP or stockbroker as to how they wish to vote in this regard. This has to be done in terms of the agreement entered into between such shareholders and their CSDP or stockbroker.

Controlling company

Absa Group Limited
Reg No 1986/003934/06

Registered office
3rd Floor, Absa Towers East,
170 Main Street, Johannesburg,
2001
Postal address: PO Box 7757,
Johannesburg, 2000
Telephone: 011 350 4000
Telefax: 011 350 4009
e-mail: groupsec@absa.co.za

Board of directors
D C Cronjé (chairman)
D C Brink (deputy chairman)
S F Booysen* (Group chief executive)
L N Angel
D C Arnold
D E Baloyi
D Bruynseels* (British)
B P Connellan
Y Z Cuba
A S du Plessis
G Griffin
M W Hlahla
L N Jonker
N Kheraj (British)
P du P Kruger
J H Schindehütte*
F F Seegers (Dutch)
T M G Sexwale
F A Sonn
P E I Swartz
L L von Zeuner*

Transfer secretaries
Computershare Investor Services
2004 (Proprietary) Limited
70 Marshall Street, Johannesburg,
2001
Postal address: PO Box 61051,
Marshalltown, 2107
Telephone: 011 370 5000
Telefax: 011 370 5271/2

ADR depositary
The Bank of New York
Postal address: 101 Barclay
Street, 22W, New York, NY, 10286
Telephone: 001 1 212 815 2248

Auditors
PricewaterhouseCoopers Inc.
Ernst & Young Registered Auditors
Inc.

Group secretary
W R Somerville
e-mail: williams@absa.co.za

Sponsors
Lead sponsor
Merrill Lynch South Africa (Proprietary) Limited
(Member of the Merrill Lynch Group)
138 West Street, Sandown,
Sandton, 2196
Postal address: PO Box 651987,
Benmore, 2010
Telephone: 011 305 5555
Telefax: 011 305 5610

Co-sponsor
Absa Capital
1st Floor, Absa Towers North,
1E2, 180 Commissioner Street,
Johannesburg, 2001
Postal address: PO Box 8054,
Johannesburg, 2000
Telephone: 011 350 4000
Telefax: 011 350 7422

Banking
Absa Bank Limited and its
operating divisions

Absa Bank Limited
Reg No 1986/004794/06

Registered office
3rd Floor, Absa Towers East,
170 Main Street, Johannesburg,
2001
Postal address: PO Box 7735,
Johannesburg, 2000
Telephone: 011 350 4000
Telefax: 011 350 4009
e-mail: groupsec@absa.co.za

Board of directors
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* (British)
B P Connellan
Y Z Cuba
A S du Plessis
G Griffin
M W Hlahla
L N Jonker
N Kheraj (British)
P du P Kruger
J H Schindehütte*
F F Seegers (Dutch)
T M G Sexwale
F A Sonn
P E I Swartz
L L von Zeuner*

Retail banking
Absa Towers, 160 Main Street,
Johannesburg, 2001
Postal address: PO Box 7735,
Johannesburg, 2000
Telephone: 011 350 4000
Telefax: 011 350 4411
e-mail: louisvz@absa.co.za

Absa Private Bank
Ground Floor, Block A, 65 Empire
Road, Parktown, 2193
Postal address: PO Box 67,
Auckland Park, 2006
Telephone: 011 480 5200
Telefax: 011 480 5273
e-mail: bassaza@absa.co.za

Commercial banking – Absa Corporate and Business Bank
Absa Towers, 160 Main Street,
Johannesburg, 2001
Postal address: PO Box 7735,
Johannesburg, 2000
Telephone: 011 350 4000
Telefax: 011 350 5247
e-mail: oscarg@absa.co.za

*Executive in the Absa Group.

Absa Vehicle and Asset Finance

Absa Towers, 160 Main Street,
Johannesburg, 2001
Postal address: PO Box 8842,
Johannesburg, 2000
Telephone: 011 350 4000
Telefax: 011 350 5373
e-mail: vehiclefinance@absa.co.za

Investment banking – Absa Capital

Absa Towers North,
180 Commissioner Street,
Johannesburg, 2001
Postal address: PO Box 2863,
Johannesburg, 2000
Telephone: 011 350 4000
Telefax: 011 350 3064
e-mail: abcap@absa.co.za

Stockbroking

Absa Stockbrokers (Proprietary) Limited

(member of the JSE Limited)
Reg No 1973/010798/07
Park Ridge Office Park, Block A,
65 Empire Road, Parktown, 2193
Postal address: PO Box 61320,
Marshalltown, 2107

Dealing department:
Telephone: 011 647 0892
Telefax: 011 647 0877

Settlement department:
Telephone: 011 647 0819
Telefax: 011 647 0828
e-mail: equitiesadmin@absa.co.za

Factoring and invoice discounting

Absa Debtor Finance (Proprietary) Limited

Reg No 1990/001207/07
Debtor Finance House, 3 West
Street, Houghton, 2041
Postal address: PO Box 7735,
Johannesburg, 2000
Telephone: 011 221 6444
Telefax: 011 333 3884
e-mail: sharonp@absa.co.za

Delivery channels

Retail Delivery

Absa Towers, 160 Main Street,
Johannesburg, 2001
Postal address: PO Box 7735,
Johannesburg, 2000
Telephone: 011 350 4000
Telefax: 011 350 5238
e-mail: venetek@absa.co.za

Credit card services

Absa Card

Volkskas Centre, 230 Van der Walt
Street, Pretoria, 0002
Postal address: PO Box 3915,
Pretoria, 0001
Telephone: 012 317 0000
Telefax: 012 317 0127
e-mail: chris.sweeney@absa.co.za

Asset management

Absa Asset Management (Proprietary) Limited

Reg No 1997/017903/07
Park Ridge Office Park, Block A,
65 Empire Road, Parktown, 2193
Postal address: PO Box 61320,
Marshalltown, 2107
Telephone: 011 480 5335
Telefax: 011 480 5351
e-mail: errol.shear@absa.co.za

Other banking subsidiaries and interests

Tanzania

National Bank of Commerce Limited

Mezzanine Floor, NBC House,
Sokoine Drive, Dar es Salaam
Postal address: PO Box 1863,
Dar es Salaam, Tanzania
Telephone: 00 9255 222 110959
Telefax: 00 255 222 112887
e-mail: nbcltd@nbctz.com

Mozambique

Banco Austral, Sarl

Avenida 25 de Setembro No 1184,
Maputo, Mozambique
Telephone: 00 258 21 427685
Telefax: 00 258 21 301094
e-mail: josem@bancoaustral.co.mz

Angola

Banco Comercial Angolano

83 A – Avenida Comandante
Valodia, Luanda
Postal address: Caixa Postal 6900,
Luanda
Telephone: 00 244 222 448842/8/9
Telefax: 00 244 222 449516
e-mail: gerald.jordaan@bca.co.ao

South Africa

Meeg Bank Limited

Reg No 1976/060115/06
5th Floor, Absa Building, corner
Oxford and Gladstone Streets,
85 Oxford Street, East London,
Eastern Cape, 5201
Postal address: PO Box 429, East
London, 5200
Telephone: 043 702 9600
Telefax: 043 702 9700
e-mail: dz@meegbank.co.za

Financial services and insurance

Absa Financial Services Limited and its major subsidiaries

Absa Financial Services Limited

Reg No 1969/009007/06
Absa Towers East, 170 Main Street, Johannesburg, 2001
Postal address: PO Box 7735, Johannesburg, 2000
Telephone: 011 350 4227
Telefax: 011 350 3946
e-mail: williel@absa.co.za

Absa Consultants and Actuaries (Proprietary) Limited

Reg No 1961/001434/07
Fourways Golf Park, Mowbray Building, Roos Street, Fourways
Postal address: PO Box 4167, Fourways, 2055
Telephone: 011 224 9000
Telefax: 011 467 8442
e-mail: jgrobler@absa.co.za

Absa Health Care Consultants (Proprietary) Limited

Reg No 1983/008344/07
Absa Building, 2nd Floor, 1263 Heuwel Avenue, Centurion, Pretoria, 0157
Postal address: PO Box 10285, Centurion, 0046
Telephone: 012 674 8800
Telefax: 012 663 8673
e-mail: louisjb@absa.co.za

Absa Fund Managers Limited

Reg No 1991/000881/06
65 Empire Road, Parktown, 2193
Postal address: PO Box 6115, Johannesburg, 2000
Telephone: 011 480 5000
Telefax: 011 480 5440
e-mail: alan.miller@absa.co.za

Absa Trust Limited

Reg No 1915/004665/06
65 Empire Road, Parktown, 2193
Postal address: PO Box 223, Auckland Park, 2006
Telephone: 011 480 5000
Telefax: 011 480 5193
e-mail: willieg@absa.co.za

Absa Brokers (Proprietary) Limited

Reg No 1970/002732/07

Life broking

267 Kent Avenue, Randburg, 2194
Postal address: PO Box 3540, Randburg, 2125
Telephone: 011 289 0600
Telefax: 011 289 0740
e-mail: dolkers@absa-ib.co.za

Short-term broking

267 Kent Avenue, Randburg, 2194
Postal address: PO Box 3992, Randburg, 2125
Telephone: 011 289 0600
Telefax: 011 289 0740
e-mail: dolkers@absa-ib.co.za

Absa Insurance Company Limited

Reg No 1992/001737/06
21 Kruis Street, Johannesburg, 2001
Postal address: PO Box 421, Johannesburg, 2000
Telephone: 011 330 2111
Telefax: 011 331 7414
e-mail: coenraad@absa.co.za

Absa Life Limited

Reg No 1992/001738/06
21 Kruis Street, Johannesburg, 2001
Postal address: PO Box 421, Johannesburg, 2000
Telephone: 011 330 2265
Telefax: 011 331 1312
e-mail: coenraad@absa.co.za

Absa Investment Management Services (Proprietary) Limited

Reg No 1980/002425/07
1 Woodmead Drive, Block 6, Woodmead Estate, 2128
Postal address: PO Box 974, Johannesburg, 2000
Telephone: 011 259 0111
Telefax: 011 259 0051/2
e-mail: aims@absa.co.za

Property development

Absa Development Company Holdings (Proprietary) Limited

Reg No 1968/001326/07
Block E, Flora Park Office Park, corner Ontdekkers and Conrad Roads, Florida, 1710
Postal address: PO Box 1132, Johannesburg, 2000
Telephone: 011 671 7300
Telefax: 011 674 1217
e-mail: luthando.vutula@absa.co.za

Real Estate Asset Management (REAM)

Block E, Flora Park Office Park, corner Ontdekkers and Conrad Roads, Florida, 1710
Postal address: PO Box 1132, Johannesburg, 2000
Telephone: 011 350 5206
Telefax: 011 350 4769
e-mail: siphomas@absa.co.za

Provincial advisory boards

Eastern and Southern Cape

Vacant (chairman)
D D Tabata
D R Bruce
B P Erasmus
B C Qupe
J Schewitz

Administration

Free State
E M Makotoko (chairman)
N Bagarette
K M Charlwood
P C Luttig
O A Themba

Gauteng
L I Weil (chairman)
P J Muller (vice-chairman)
H P Africa
S Dakile-Hlongwane
B Mogale
Y A Moti
J J Sauer

Gauteng North
D J de Villiers (chairman)
S Adendorff
F B de Vos
D Motlatla
N R Mistry
S Vil-Nkomo

KwaZulu-Natal
N A Gasa (chairman)
D G Barrett
W D Howie
K Makan
L Moloi
D Myeni
N T Oosthuizen
S J Sibeko

Mpumalanga
N M Phosa (chairman)
J J Claassen
J J Maritz
N P Mazibuko
H van der Merwe

Northern Cape
P Crouse (chairman)
J S Marais
R E Modise
C P van den Heever
M S Wookey

Limpopo
S N Mahomed (chairman)
I I Bower (vice-chairman)
T F Pretorius
H Ramaphosa
L Thembe
P G A Vorster

North West
I Klynsmith (chairman)
M Kropman (vice-chairman)
J P du Preez
R K Mokitime
S Roopa
G van der Merwe

Western Cape
P E I Swartz (chairman)
Z Combi
C du Toit
A Floris
M Isaacs
P Krawitz
G Mallinick
S Young

Shareholder contact information

Shareholder and investment queries about the Absa Group should be directed to the following areas:

Absa Group Investor Relations

Telephone: (+27) 011 350 4601

Telefax: (+27) 011 350 6487

e-mail: ir@absa.co.za

Absa Group Secretariat

Telephone: (+27) 011 350 4828

Telefax: (+27) 011 350 4009

e-mail: groupsec@absa.co.za

Other contacts

Group Media Relations

Telephone: (+27) 011 350 5768

Group Legal Services

Telephone: (+27) 011 350 6390

Head office switchboard

Telephone: (+27) 011 350 4000

Customer support

Although the Absa Group aims to maintain a high standard of customer service, disputes may arise. If one does, the matter can be raised by any of the following means:

Actionline: 0800 414 141

Absa call centre: 0860 008 600 or (+27) 011 276 4000

Customer relationship e-mail: actionline@absa.co.za

General e-mail enquiries: absa@absa.co.za

However, customers are encouraged to first approach the specific branch, area or line manager if a dispute arises.

Reporting fraud or corruption

Absa has a dedicated telephone line to facilitate reporting possible fraud and corruption in the Absa Group. This line is available 24 hours a day, seven days a week. It is open to the general public and Absa employees.

Calls may be made anonymously. They will not be recorded and no attempt will be made to determine the number from which the caller is calling. The number is 0860 557 557.

BASTION GRAPHICS