Absa Bank Limited shareholder report 2007

ABSA

# ABSA BANK LIMITED

## Shareholder report

For the year ended 31 December 2007

Member of the BARCLAYS Group

ABSA

# Other contact information

## SHAREHOLDER CONTACT INFORMATION

Shareholder and investment queries about Absa should be directed to either of the following departments:

### Group Investor Relations

*Telephone:* 011 350 6008

*Telefax:* 011 350 6487

*e-mail:* ir@absa.co.za

### Group Secretariat

*Telephone:* 011 350 4828

*Telefax:* 011 350 4009

*e-mail:* groupsec@absa.co.za

## OTHER CONTACTS

### Group Media Relations

*Telephone:* 011 350 5768

### General Legal Counsel

*Telephone:* 011 350 4313

### Head office switchboard

*Telephone:* 011 350 4000

## CUSTOMER SUPPORT

Absa aims to maintain a high standard of customer service, but disputes may arise. Matters can be raised by contacting any one of the following:

*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

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 Bank. This line is available 24 hours a day, seven days a week and 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 telephone number of the caller. The fraud and corruption hotline is 0860 557 557.

BASTION GRAPHICS

# Contents

## 2007 highlights

Headline earnings growth of 27,6%

Headline earnings per share up by 27,2%

Return on average equity of 26,4%

Cost-to-income ratio of 54,2%

## Accolades in 2007

- **The number-one banking brand in South Africa**
  (Sunday Times/Markinor Top Brands survey)
- **The coolest bank**
  (Sunday Times Generation Next survey)
- **Most caring financial services company in South Africa**
  (Corporate and Market Research, Corporate Care Check)

# Salient features

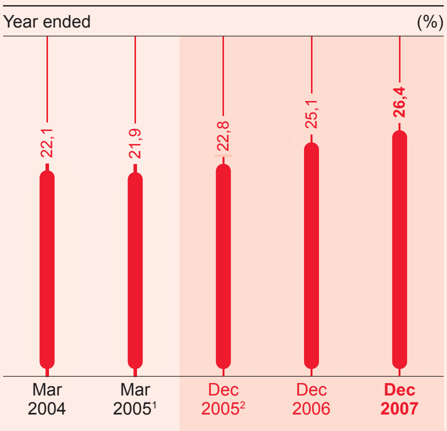
## Year ended 31 December

| | 2007 | 2006[1] | Change % |
|---|---|---|---|
| **Income statement (Rm)** | | | |
| Headline earnings[2] | **7 476** | 5 861 | 27,6 |
| Profit attributable to ordinary equity holder of the Bank | **7 620** | 6 051 | 25,9 |
| **Balance sheet (Rm)** | | | |
| Total assets | **587 059** | 453 726 | 29,4 |
| Loans and advances to customers | **443 120** | 367 199 | 20,7 |
| Deposits due to customers | **304 877** | 275 407 | 10,7 |
| **Financial performance (%)** | | | |
| Return on average equity | **26,4** | 25,1 | |
| Return on average assets | **1,48** | 1,42 | |
| **Operating performance (%)** | | | |
| Net interest margin on average assets | **3,54** | 3,42 | |
| Net interest margin on average interest-bearing assets | **3,82** | 3,71 | |
| Impairment losses on loans and advances as a percentage of average loans and advances to customers | **0,54** | 0,44 | |
| Non-interest income as a percentage of total operating income | **41,5** | 44,3 | |
| Cost-to-income ratio | **54,2** | 57,2 | |
| Effective tax rate, excluding indirect taxation | **29,2** | 28,4 | |
| **Share statistics (million)** | | | |
| (including "A" ordinary shares) | | | |
| Number of shares in issue | **337,3** | 337,3 | |
| Weighted average number of shares | **337,3** | 336,3 | |
| Weighted average diluted number of shares | **337,3** | 336,3 | |

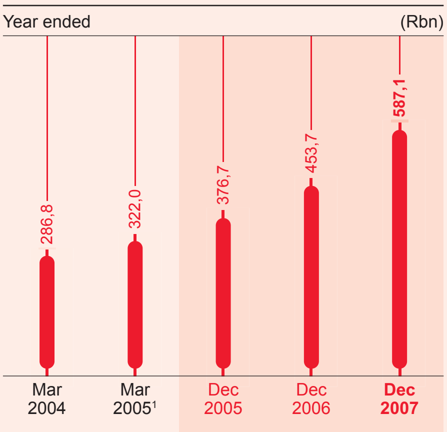
*[1]Certain comparatives have been reclassified in terms of Annexure A.*

*[2]After allowing for **R313 million** (December 2006: R73 million) profit attributable to preference equity holders of the Bank.*

**RETURN ON AVERAGE EQUITY**




**TOTAL ASSETS**




*[1] The comparatives for March 2005 have been restated for International Financial Reporting Standards (IFRS) throughout the document. Only the December comparatives have been adjusted for the restatements and reclassifications mentioned in Annexure A of the financial statements.*

*[2] Nine-month figure.*

| | 2007 | 2006[1] | Change % |
|---|---|---|---|
| **Share statistics (cents)** | | | |
| Earnings per share | **2 259,4** | 1 799,0 | 25,6 |
| Diluted earnings per share | **2 259,4** | 1 799,0 | 25,6 |
| Headline earnings per share | **2 216,4** | 1 742,5 | 27,2 |
| Diluted headline earnings per share | **2 216,4** | 1 742,5 | 27,2 |
| Dividends per ordinary share relating to income for the year | **789,8** | 591,9 | 33,4 |
| Dividend cover (times) | **2,8** | 2,9 | |
| Net asset value per share | **9 149** | 7 630 | 19,9 |
| Tangible net asset value per share | **9 081** | 7 586 | 19,7 |
| **Capital adequacy (%)** | | | |
| Absa Bank | **12,5** | 12,3 | |

[1]*Certain comparatives have been reclassified in terms of Annexure A.*

# Structure

## Absa Group Limited

100%

## Absa Bank Limited

### Wholly owned subsidiaries

**RETAIL BANKING**

Absa Private Bank

Retail Bank

Absa Islamic Banking

Absa Home Loans[1]

Absa Card

Absa Vehicle and Asset Finance

**CORPORATE AND COMMERCIAL BANKING**

Absa Corporate and Business Bank

**INVESTMENT BANKING**

Absa Capital

**OTHER**

African operations

### Associated undertakings and other interests[2]

**BANKING**

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

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

**OTHER**

Virgin Money South Africa (Proprietary) Limited (50%)

Sanlam Home Loans (Proprietary) Limited (50%)

Maravedi Group (Proprietary) Limited (45%)

Property24 (Proprietary) Limited (50%)

[1] *Includes Repossessed Properties.*

[2] *Commercial property associated undertakings and joint venture companies are not disclosed in detail. Refer to note 13 of Absa Bank Limited and its subsidiaries' financial statements for further information.*

# COMMENTARY

CONTENTS

# Letter from the Chairperson and the Chief Executive

Gill Marcus *(Chairperson)*

Steve Booysen *(Chief Executive)*

## Dear Shareholder

Absa Bank has succeeded in maintaining its earnings momentum of recent years. The Bank's results were achieved through further diversification of earnings, improvements in operational efficiency and continued growth arising from its strong market position in retail banking.

### KEY FINANCIAL HIGHLIGHTS

Absa Bank's headline earnings increased by 27,6% to R7 476 million (2006: R5 861 million), with solid contributions from all of the major business units, particularly commercial and investment banking. Absa Capital and Absa Corporate and Business Bank increased attributable earnings by 65,0% and 38,9% respectively.

Absa's retail banking operations continued to perform well, increasing attributable earnings by 21,8% to R4 989 million (2006: R4 095 million) as a result of strong growth in advances and deposits as well as transaction volumes. An increase in the Bank's customer base, which grew by 7,1% to nine million customers, further supported this.

### INTERNATIONAL ECONOMIC LANDSCAPE

Although global economic expansion during 2007 was among the most rapid in the past three decades, the outlook has changed dramatically.

As international concerns grew over the anticipated losses related to subprime asset-backed securities, financial market volatility increased and liquidity problems emerged, adding greater solvency challenges and posing significant risks to the global financial and banking systems. Although the full extent of the potential losses at banks associated with the subprime problem remains unclear, a number of large international banks have already announced material losses. Absa has no exposure to the subprime market.

Uncertainty prevails with regard to global economic and financial forecasts, with indications being that the financial market turmoil has begun to spill over to the broader global economy. Past experiences suggest that downturns driven by falling asset prices and credit problems tend to be identified relatively slowly and tend to be protracted in nature. Consequently, there is a real risk that the situation could deteriorate further.

# Letter from the Chairperson and the Chief Executive

Confidence needs to be restored to the global markets. What is required is a comprehensive package of measures that will help prevent a prolonged downturn in the major economies. In the US we have already seen aggressive action by the Federal Reserve and the announcement of a significant fiscal stimulus as the authorities respond to downside economic risks. Other jurisdictions and multilateral bodies are also closely monitoring the situation and determining appropriate responses. Though these actions should help moderate the worst of downside risks, indications are that 2008 will be a challenging year for global markets.

## SOUTH AFRICAN ECONOMIC LANDSCAPE

Not only is the global environment becoming more challenging, but local conditions have also deteriorated. The outlook for 2008 remains of concern as South Africa will not be immune to international economic developments. Although domestic growth remained resilient in 2007, the economy's growth has been accompanied by rising inflation and increasing interest rates. Sharply higher household debt levels and debt servicing costs have caused a significant slowing of consumer spending, particularly for consumer durables.

## KEY INITIATIVES DRIVING GROWTH

The key drivers underpinning the Bank's strong performance comes from strategic initiatives that have been put in place over the past two years to position Absa to compete effectively, maintain its market position, reduce the cyclicality of earnings and improve efficiencies.

### Diversifying earnings

Absa has been viewed primarily as a retail bank with a relatively high exposure to the consumer cycle. However, our ability to compete and grow in a diverse range of businesses has allowed us to increase the diversification of our earnings base.

It is pleasing to note that, over the past year, we made significant progress in growing the non-retail earnings contribution of the business. In 2007, 41,0% of earnings were derived from non-retail sources, compared with 36,1% in 2006.

### Driving efficiencies

The past year has seen a strong focus on efficiency improvement initiatives. Absa has embraced initiatives to heighten efficiency, especially by streamlining processes.

### Enhancing our market position in retail banking

Enhancing our accessibility, growing retail deposits, increasing our exposure to the unsecured lending market and improving our positioning in the wealth management arena have been core focus areas for the year under review.

Absa's share of the deposit market improved during the year under review, increasing from 22,6% in December 2006 to 23,6% in December 2007. Our ability to effectively leverage our distribution footprint has largely supported this.

Currently, 12,1% of the Bank's retail advances are unsecured. We have improved our presence in this market primarily by establishing a dedicated business unit focusing on micro-lending and by placing a greater emphasis on enhancing the credit card value proposition.

By increasing our presence in the wealth management arena, we have restructured our wealth management business. This is in the process of being branded Absa Wealth, following a process of collaboration between Absa Private Bank and Barclays Wealth. We are thus building on the positive reputation of the Absa brand and the strengths of Barclays Wealth.

### Focusing on the basics

To further improve our competitiveness, we continued to focus on the cornerstones of our business, namely attracting and retaining the best people, embracing transformation, becoming the number one choice for customers, enhancing compliance and control, and achieving the synergy targets set for the Absa-Barclays integration programme.

## CORPORATE CITIZENSHIP

Absa takes its role as a leading and concerned corporate citizen seriously and is firmly committed to advancing the principles and practice of sustainable development. Responsible corporate citizenship underlies all our actions. The Bank is intent on being a caring organisation and on doing business in such a way that all our stakeholders benefit from our actions.

Our corporate social investment programme continued to focus on health (with a particular emphasis on HIV/Aids), education (giving attention to skills development in mathematics and science, as well as early childhood development) and entrepreneurship (with the aim of creating sustainable employment). We have also been actively involved in initiatives aimed at easing the country's housing backlog. This included the formation of a successful housing development and home ownership partnership with the government, which has committed to building 100 000 additional homes by 2010.

To further limit our impact on the environment, strategies have been implemented to reduce the use of power, improve the "greening" of our buildings and optimise recycling opportunities.

## LOOKING AHEAD

Global uncertainties will continue to impact on financial markets, the broader economy and the banking environment in 2008. South Africa's large current account deficit, in particular, leaves key financial markets exposed to the sentiment of foreign money managers. There are new domestic challenges as well. Recent disruptions to electricity supply and the clear need to manage lower electricity demand present a major challenge to business, particularly the energy-dependent mining and manufacturing sectors. This is likely to lead to lower economic growth, particularly in the first half of 2008. Inflation, already uncomfortably high, looks likely to face further upward pressure in the near-term before beginning a downward trajectory later in the year. This increases the chance of further rate hikes, though the deterioration in the economic growth outlook leaves policymakers with a difficult decision. Household indebtedness, coupled with the increased cost of credit, will continue to impact on affordability, resulting in a more moderate growth in advances and may lead to a further increase in the impairment charge.

On the other hand, record-high commodity prices, particularly in precious metals, will help offset some of the impact arising in those sectors that have proven most vulnerable to electricity supply problems. Generally, buoyant public and private investment spending looks likely to continue in 2008, supporting corporate and commercial lending and investment banking activities.

The resilience of Absa will be tested in 2008. Strategies and action plans are in place to address the challenges and opportunities going forward.

**Gill Marcus**
*Chairperson*

**Steve Booysen**
*Chief Executive*

Johannesburg
12 April 2008

# Operational highlights

## Introduction

Absa Bank recorded strong headline earnings growth of 27,6% to R7 476 million (2006: R5 861 million) for 2007. The Bank's return on average equity increased to 26,4% for 2007, up from the 25,1% recorded in 2006.

### THE YEAR UNDER REVIEW

All the Bank's businesses delivered strong growth in attributable earnings. Absa's commercial and investment banking operations performed exceptionally well.

### SEGMENTAL PERFORMANCE

### PROFIT CONTRIBUTION BY BUSINESS AREA

Year ended 31 December

| | 2007 Rm | 2006[1] Rm | Change % |
|---|---|---|---|
| Retail banking | **4 989** | 4 095 | 21,8 |
| • Absa Private Bank | **237** | 178 | 33,1 |
| • Retail Bank | **2 144** | 1 400 | 53,1 |
| • Absa Home Loans and Repossessed Properties | **1 279** | 1 086 | 17,8 |
| • Absa Card | **706** | 700 | 0,9 |
| • Absa Vehicle and Asset Finance | **623** | 731 | (14,8) |
| Absa Corporate and Business Bank (ACBB)[2] | **1 922** | 1 384 | 38,9 |
| Absa Capital[3] | **1 533** | 929 | 65,0 |
| African operations | **(31)** | (44) | 29,5 |
| Corporate centre[4] | **(95)** | 83 | >(100,0) |
| Capital and funding centre | **94** | 131 | (28,2) |
| **Total earnings from business areas** | **8 412** | 6 578 | 27,9 |
| Synergy costs (after tax)[5] | **(479)** | (454) | (5,5) |
| Profit attributable to preference equity holders | **(313)** | (73) | >(100,0) |
| **Profit attributable to ordinary equity holder** | **7 620** | 6 051 | 25,9 |
| Headline earnings adjustments | **(144)** | (190) | 24,2 |
| **Total headline earnings** | **7 476** | 5 861 | 27,6 |

[1] *The comparative period has been restated for the migration of customers from Absa Private Bank to Retail Bank in the current year.*
[2] *Absa Bank's corporate and commercial banking operations.*
[3] *Absa Bank's investment banking operations.*
[4] *In the prior year, the corporate centre included the gains on disposal of Bankhaus Wölbern & Co and AST.*
[5] *Synergies relate to the Absa-Barclays integration programme following the acquisition by Barclays of a majority share in Absa Group Limited. Synergy costs are one-off costs incurred in achieving synergy benefits.*

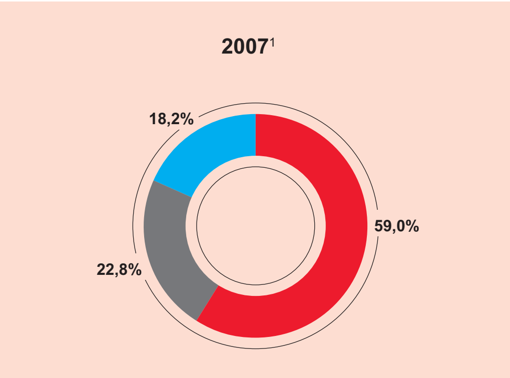
## REVENUE CONTRIBUTION BY BUSINESS AREA

Year ended 31 December

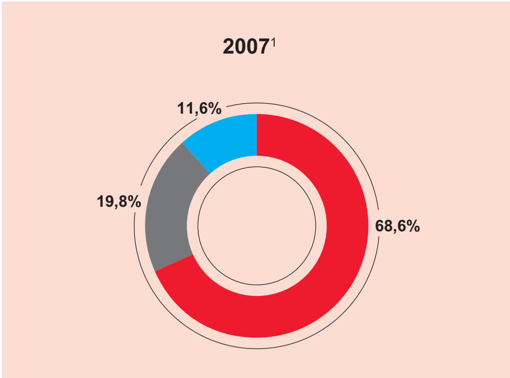
| | 2007 Rm | 2006[1] Rm | Change % |
|---|---|---|---|
| Retail banking | **21 259** | 17 799 | 19,4 |
| • Absa Private Bank | **1 403** | 1 208 | 16,1 |
| • Retail Bank | **10 647** | 8 582 | 24,1 |
| • Absa Home Loans and Repossessed Properties | **3 880** | 3 170 | 22,4 |
| • Absa Card | **2 466** | 2 134 | 15,6 |
| • Absa Vehicle and Asset Finance | **2 863** | 2 705 | 5,8 |
| Absa Corporate and Business Bank[2] | **6 152** | 5 168 | 19,0 |
| Absa Capital[3] | **3 595** | 2 318 | 55,1 |
| African operations | **(5)** | (3) | (66,7) |
| Corporate centre[4] | **(493)** | (37) | >(100,0) |
| Capital and funding centre | **103** | 184 | (44,0) |
| **Total revenue** | **30 611** | 25 429 | 20,4 |

[1] *The comparative period has been restated for the migration of customers from Absa Private Bank to Retail Bank in the current year.*
[2] *Absa Bank's corporate and commercial banking operations.*
[3] *Absa Bank's investment banking operations.*
[4] *In the prior year, the corporate centre included the gains on disposal of Bankhaus Wölbern & Co and AST.*

### ATTRIBUTABLE EARNINGS CONTRIBUTION




### REVENUE CONTRIBUTION




Retail banking · Absa Corporate and Business Bank (ACBB) · Absa Capital

[1] *Contribution based on the total for retail banking, ACBB and Absa Capital.*

### Retail banking

Attributable earnings of R4 989 million were achieved as a result of volume growth in advances, deposits and transactions. Absa Bank's retail banking operations recorded strong advances growth from mortgage and credit card advances.

# Operational highlights

Transaction volumes grew as a result of an increase in the customer base, improved product use and improved accessibility. The retail customer base increased by 7,2% to 8,9 million as at 31 December 2007, compared with 8,3 million as at 31 December 2006. There was good growth in internet and cell phone banking transactions and moderate growth in automated teller machine (ATM) transactions.

Net interest margins remained broadly in line with those in 2006. Margins on deposit products widened, following the increase in interest rates and the composite asset margin was slightly better because the advances mix changed in favour of higher-yielding advances. These benefits were countered by increased competition and the larger proportion of wholesale funding used.

The retail impairment ratio for 2007 increased compared with 2006. Consumers are under pressure as a result of higher interest rates and increased indebtedness. Credit criteria were strengthened early in 2007 in anticipation of the tougher environment and this has led to a marginal reduction in market share in some retail products. In addition, the capacity and technology of the collections department have been upgraded to deal with the increased number of customers that require assistance to manage their debt.

The growth in operating expenses was mainly as a result of the continued expansion of the delivery footprint and higher business volumes. Initiatives were implemented to enhance efficiency, especially relating to process streamlining.

### Absa Corporate and Business Bank (ACBB)

ACBB increased its attributable earnings to R1 922 million from the R1 384 million achieved in 2006. This performance was driven by growth in advances, deposits and transaction volumes. The quality of the advances book is sound, as evidenced by a lower impairment loss ratio.

Non-interest income increased moderately over the past year. Solid growth in electronic banking transaction volumes underpinned the growth in non-interest income and the commercial property finance portfolio also performed well. Cheque accounts and corporate overdraft fees, which constitute a third of non-interest income, grew moderately as customers migrated to more sophisticated electronic channels and products.

An increase in operating expenses was mainly owing to an increased employee complement and the investment in upgrading expertise and skills.

### Absa Capital

Absa Capital increased attributable earnings to R1 533 million from R929 million in 2006 owing to a strong performance across all business units. A key driver of this growth has been the ability to leverage off the synergies between Barclays Capital and Absa Capital in terms of technology, operating models, products and distribution.

The revenue of Secondary Markets grew exceptionally strongly in 2007. Secondary Markets has become an area of strength for Absa Capital by providing a broader product offering and increasing the deal flow from new and existing clients.

Primary Markets continued to experience solid revenue growth during the year. Absa Capital has invested significantly in the Primary Markets business to enhance the team and transform the business approach according to a client-centric model that offers comprehensive international and local solutions. This has resulted in increased client deal flow and strong performances in the securitisation, leveraged finance and global loans businesses.

Equity Investments and Investor Services performed well, with a significant proportion of earnings attributable to the realisation of investments. Active management of the investment portfolio has positioned Equity Investments favourably for future growth, and Investor Services continues to perform well by deepening relationships with key mandates.

# CORPORATE GOVERNANCE

CONTENTS

# Corporate governance statement

## Introduction

Good corporate governance is an integral part of Absa's operations. Accordingly, Absa Bank Limited is fully committed to the principles of the Code of Corporate Practices and Conduct (the code) 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 board of directors (the board) recognises the need to conduct the enterprise with integrity and according to generally accepted corporate practices.

Owing to Absa's position as a subsidiary of Barclays, Absa is also required to conform to the regulatory requirements applicable to Barclays. From a governance perspective, Absa takes cognisance of the international best practice guidelines set out in the UK's Combined Code on Corporate Governance.

### THE YEAR UNDER REVIEW

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

- the appointment of G Marcus as Chairperson on 1 July 2007, replacing D C Cronjé, who retired from the board;
- commencement of a planned restructure of the board in accordance with the Bank's transformation objectives;
- further improvement in reporting processes to the main board, board committees and the Executive Committee (Exco);
- refinement of the programme set up in 2006 for compliance with section 404 of the Sarbanes-Oxley Act, within the context of the materiality limits applicable to Barclays PLC;
- ongoing alignment of governance standards and practices with those applied by Barclays, as well as other international best practices, where deemed appropriate by the Absa board; and
- progress with regard to meeting the requirements of the FSC and commitment to aligning the FSC with the black economic empowerment Codes of Good Practice.

### COMPLIANCE WITH KING II

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

### APPLICATION OF THE CODE AND APPROACH TO CORPORATE GOVERNANCE

All entities in the Bank are required to subscribe to the spirit and principles of the code. In addition, the code is applied to all operating divisions of the nature and size identified in King II (such as banks, financial services and insurance entities).

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

# Corporate governance statement

The Bank facilitates a comprehensive annual process to review compliance with the code by all relevant entities. 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 Absa successfully achieves the objectives determined by the board); and
- a review of current and emerging trends in corporate governance and Absa's governance systems, as well as benchmarking Absa's governance systems against local and international best practice.

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

## Absa's corporate governance standards, which support the Bank's overall strategy, are captured, measured and reported in a balanced scorecard prepared for the Bank.

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, and the interests of Absa's minority shareholders. It also considers the legal implications of the parent/subsidiary relationship between Barclays and Absa, taking cognisance of the fact that Barclays has made a strategic investment in Absa Group Limited, the fiduciary responsibilities of Absa Group Limited 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 annually by the board, taking account of recommendations made by the Directors' Affairs Committee (DAC).

### BOARDS OF DIRECTORS AND BOARD COMMITTEES

#### Board composition

Absa has unitary board structures in all South African companies.

The Absa board has an appropriate balance, with a majority of independent directors (non-executive directors who are independent, as defined by King II). The Chairperson of the Absa board is an independent director.

Details on the categorisation of the directors appear on page 36 of this report. As at 31 December 2007, there were 22 directors, of whom four were executive, seven were non-executive and 11 were considered to be independent directors.

On 31 December 2007, A S du Plessis, an independent director, stepped down and on 9 January 2008, T M G Sexwale, a non-executive director, resigned from the board. P E I Swartz, an independent director, resigned on 11 March 2008 due to health reasons.

In subsidiary companies, the roles of chairpersons and managing directors do not vest in the same persons and the chairpersons are non-executive directors of such entities.

## Board procedures and related matters

The Absa board meets regularly, retains full and effective control over all the companies in the Bank and monitors executive management in implementing board plans and strategies. Additional board meetings, apart from those planned, are convened as circumstances dictate. The number of meetings held during the year under review (including meetings of board-appointed committees) and the attendance of each director are set out on pages 21 to 29 of this report. Where directors are unable to attend a meeting personally, video- and teleconferencing facilities are made available to include them in the proceedings and allow them to participate in the decisions made and conclusions reached.

The board meets with management annually for two days prior to the formulation of the Bank's annual financial budget to debate and agree on the proposed strategy and to consider long-term issues facing Absa.

The board identifies and monitors key risk areas, key performance areas and non-financial aspects relevant to Absa, supported by board-appointed committees, where applicable. The directors are entitled to obtain independent professional advice at the Bank's expense, should they deem this necessary.

In addition, the board has unrestricted access to all Company information, records, documents and property to enable it to discharge its responsibilities. The information needs of the board are reviewed annually. Efficient and timely procedures for informing and briefing board members prior to board meetings have been developed.

Directors are afforded the opportunity to propose additional matters for discussion at board meetings. Management ensures that board members are provided with all relevant information and facts to enable the board to reach objective and well-informed decisions. Board meetings are scheduled well in advance and include a board forward plan for the year, setting out matters for consideration at each meeting. Board documentation is provided to directors in a timely manner and the tabling of documents at board meetings is done only on an exception basis. The board agenda and meeting structure has been adapted to focus on strategy and performance monitoring, governance and related matters. This ensures that the board's time and energy is appropriately applied.

The board considers a number of key performance indicators, variance reports and industry trends quarterly. A range of non-financial information is also provided to the board to enable it to consider qualitative performance factors that involve broader stakeholder interests.

The board recognises the importance of promoting entrepreneurial flair, while continuing to ensure conformance to governance and other compliance restraints. The directors bring a wealth of skills, knowledge and experience from their own fields of business to the board and ensure that debate on matters of strategy, performance, resources, transformation, diversity, employment equity, standards of conduct and policy is robust, informed and constructive.

Non-executive directors have access to management and may meet separately with management without the attendance of executive directors. In terms of Absa's board charter, arrangements for such meetings are facilitated through the office of the Company Secretary. Prior to every scheduled board meeting, the non-executive directors meet without the presence of management. Directors are kept appropriately informed of key developments affecting the Bank between board meetings.

# Corporate governance statement

The board has developed a charter, the salient aspects of which are set out below.

## The Absa board charter

### Purpose and objectives

The purpose of the charter is to regulate how business is to be conducted by the board in accordance with the principles of good corporate governance. The charter sets out specific responsibilities to be discharged by board members collectively and the individual roles expected of them. The objectives of the charter are to ensure that all board members acting on behalf of the Bank are aware of their duties and responsibilities as board members and the legislation and various regulations affecting their conduct and to ensure that the principles of good corporate governance are applied in all their dealings in respect of and on behalf of the Bank.

### Key features

- The roles of the Chairperson, Deputy Chairperson, the Chief Executive and individual board members.
- Board composition (including qualifications and key competencies for board membership).
- Conduct regarding conflicts of interest.
- The reward system and process of determining board remuneration.
- Director orientation, induction and training.
- Succession planning and director selection and appointment.
- The role of the board (including the adoption of strategic plans and the monitoring of operational performance and management).
- Board procedures.
- Access to management by non-executive directors.
- Matters specifically reserved for the board, including the approval of:
  - the Bank's objectives, strategy, strategic financial plans, business plans and annual budgets and the monitoring of performance against these criteria;
  - annual financial statements, interim reports and related financial matters;
  - Absa's code of ethics;
  - appointments to and removals from the board (including the Chairperson, the Deputy Chairperson, the Chief Executive, and executive and non-executive directors);
  - delegations of authority to the Chief Executive;
  - board committee mandates, authorities and membership;
  - Absa's risk appetite;
  - significant Company policies; and
  - Absa's corporate governance philosophy and ongoing governance compliance.
- Compliance with laws and regulations.
- Risk management and internal controls.
- Stakeholder communication.
- Board/individual director performance evaluation.

## Board appointments and succession planning

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

The initial term of office is three years, whereafter directors 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 Absa Group Limited's annual general meeting, accompanied by appropriate biographical details set out in Absa Group Limited's report to shareholders. Non-executive directors are required to retire at Absa Group Limited's annual general meeting following their 70th birthday.

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

The board as a whole, within its powers, selects and appoints directors, including the Chief Executive and executive directors, on recommendation from the Group Remuneration and Human Resource Committee (GRHRC) (in respect of executive directors) and the 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 Absa's business plans and strategy and address any gaps in this regard, as well as the board transformation process to ensure greater diversity.

All appointments are in terms of a formal and transparent procedure and are subject to confirmation by the shareholders at Absa Group Limited's annual general meeting. Prior to appointment, potential board appointees are subject to a "fit and proper" test, as required by the JSE Limited (JSE) and as prescribed by the Banks Act.

## Director inductions, training and development programmes

Training and orientation workshops, covering topics such as Absa's business, corporate governance, fiduciary duties and responsibilities, new laws and regulations and risk management, are provided to both new and existing directors. Directors (particularly new directors) are encouraged to attend development programmes with regard to their duties, responsibilities, powers and potential liabilities. A formal orientation programme with members of management is provided to all newly appointed directors. The programme typically lasts two days.

In addition, new directors are provided with a "governance file" setting out matters such as important legislation (including the provisions and regulations of the Banks Act), Absa's board/committee governance structure, the board plan for the year, the board charter (which forms part of their letters of appointment), the terms of reference of all board-appointed committees and key company policies. The Company Secretary meets with new directors to take them through the governance file, as well as to review recent board documentation.

Training is regularly scheduled for all directors throughout the year. The internal programme includes sessions prior to most board meetings, as well as specific sessions for board committee members (open to all directors, however) on relevant specialist topics such as International Financial Reporting Standards (IFRS) and Basel ll. Directors are also encouraged to attend external courses such as the Banking Board Leadership Programme presented by the Gordon Institute of Business Science, as well as others focusing on banking topics such as risk management and the responsibilities of bank directors.

Attendance at courses that form part of the formal training programme is monitored.

# Corporate governance statement

### 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 at 31 December 2007, the following directors met these criteria: G Marcus, D C Brink, D C Arnold, B P Connellan, A S du Plessis (resigned on 31 December 2007), G Griffin, M W Hlahla, T S Munday, L N Jonker, F A Sonn and P E I Swartz. P E I Swartz subsequently resigned on 11 March 2008.

### Board performance assessment

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

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

Individual director performance is assessed against the following criteria: time, availability and commitment to performing the function of an Absa director, strategic thought and specific skills, knowledge and experience brought to the board, the director's views on key issues and challenges facing Absa, the director's views on his/her own performance as a board member, attendance over the past year and other areas or roles where the director's specific skills could be used.

Annually, a collective board effectiveness evaluation is conducted. This assessment is aimed at determining how the board's effectiveness can be improved. The DAC considers the results 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

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

The consolidated directors' emoluments for Absa Bank can be found in note 43 of the consolidated financial statements.

Details of the non-cumulative, non-redeemable preference shares held by Absa Bank's directors are set out on page 51 of this report.

### Attendance at board meetings

**BOARD MEETING ATTENDANCE (2007)**

| Director | Appointment | Resignation/ retirement | Feb | Mar | Apr | Jun | Jun* | Jul | Oct* | Oct | Nov |
|---|---|---|---|---|---|---|---|---|---|---|---|
| L N Angel | | | ✔ | ✔ | A | ✔ | ✔ | ✔ | A | A | ✔ |
| D C Arnold | | | ✔ | ✔ | ✔ | ✔ | A | ✔ | ✔ | ✔ | ✔ |
| D E Baloyi | | 20 Mar ’07 | ✔ | A | – | – | – | – | – | – | – |
| S F Booysen | | | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |
| D C Brink (Deputy Chairperson) | | | ✔ | ✔ | ✔ | ✔ | A | ✔ | ✔ | ✔ | ✔ |
| D Bruynseels | | 21 Aug ’07 | ✔ | ✔ | ✔ | ✔ | A | A | – | – | – |
| B P Connellan | | | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | A |
| D C Cronjé | | 31 Jul ’07 | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | – | – | – |
| Y Z Cuba | | | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |
| A S du Plessis | | 31 Dec ’07 | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |
| R R Emslie (alternate) | | 22 Jan ’07 | – | – | – | – | – | – | – | – | – |
| G Griffin | | | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | A | ✔ |
| M W Hlahla | | | ✔ | ✔ | ✔ | ✔ | A | ✔ | ✔ | A | ✔ |
| R A Jenkins | 4 Jun ’07 | | – | – | – | ✔ | A | ✔ | ✔ | ✔ | ✔ |
| L N Jonker | | | ✔ | ✔ | ✔ | A | ✔ | ✔ | ✔ | ✔ | ✔ |
| R Le Blanc | 4 Jun ’07 | | – | – | – | ✔ | A | ✔ | A | ✔ | ✔ |
| N Kheraj | | 30 Apr ’07 | ✔ | ✔ | A | – | – | – | – | – | – |
| P du P Kruger | | 23 Apr ’07 | ✔ | ✔ | ✔ | – | – | – | – | – | – |
| N P Mageza (alternate) | | 22 Jan ’07 | – | – | – | – | – | – | – | – | – |
| N P Mageza | 10 Sept ’07 | | – | – | – | – | – | – | ✔ | ✔ | ✔ |
| G Marcus (Chairperson) | 1 Jul ’07 | | – | – | – | – | – | ✔ | ✔ | ✔ | ✔ |
| E C Mondlane, Jr. | 26 Sept ’07 | | – | – | – | – | – | – | ✔ | ✔ | ✔ |
| T S Munday | 16 Apr ’07 | | – | – | – | ✔ | ✔ | ✔ | A | ✔ | ✔ |
| J H Schindehütte | | | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |
| F F Seegers | | | ✔ | ✔ | ✔ | A | ✔ | ✔ | A | ✔ | ✔ |
| T M G Sexwale | | | ✔ | ✔ | ✔ | A | ✔ | ✔ | ✔ | ✔ | ✔ |
| F A Sonn | | | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |
| P E I Swartz | | | ✔ | ✔ | ✔ | ✔ | A | 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 on the pages that follow.

The board recognises that it is ultimately accountable and responsible for the performance and affairs of the Bank and that the use of delegated authorities to board committees and management in no way mitigates or dissipates the discharge by the board and its directors of their duties and responsibilities.

# Corporate governance statement

Specific responsibilities have been delegated to these committees, which operate under written terms of reference confirmed by the board. There is transparency and full disclosure from board committees to the board. In this regard, the minutes of committees are submitted to the Absa board for noting. In addition, written summaries of key issues and decisions taken at committee meetings are tabled at each board meeting, and committee chairpersons also provide the board with a verbal report on recent committee activities. Board committees are free to take independent outside professional advice as and when deemed necessary. The office of the Company Secretary provides secretarial services for each of the committees.

Notwithstanding the establishment of the various board committees and delegated authorities, the Absa board reserves to itself a range of key decisions to ensure that it retains proper direction and control of the Bank (supported by any recommendation that may be made by the relevant board committee and/or management). A comprehensive framework, setting out authorities and responsibilities with regard to matters affecting the businesses of the boards and committees in Absa, assists in the control of the decision-making process and ensures that there is a balance of power and authority to ensure that no individual has unfettered powers of decision-making. All board-delegated authorities are reviewed and updated annually by the board.

A process is in place to ensure that board committees are subjected to annual evaluation by the board to ascertain their performance and effectiveness.

Although the Absa board still retains overall responsibility for the affairs of the Bank, subsidiary boards play an important role in the Bank's overall governance approach. Absa directors have full access to subsidiary board documentation. These boards meet five times a year, usually prior to the Absa board meetings. The level of detail dealt with by subsidiary boards is generally greater than that dealt with by the Absa board and is specific to the relevant subsidiary.

The Absa board also makes use of ad hoc board committees to deal with specific matters from time to time.

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

**Group Audit and Compliance Committee (GACC)**

**Members:** D C Arnold (Chairperson), Y Z Cuba, A S du Plessis, R Le Blanc, G Griffin and T S Munday. A S du Plessis served as Chairperson until July 2007 and remained a member of the committee until his resignation from the board on 31 December 2007.

**Composition and meeting procedures:** Other than R Le Blanc and Y Z Cuba, who are non-executive directors, the Chairperson and remaining members of the GACC were independent directors on the board of Absa. Amendments to the Banks Act, which became effective on 1 January 2008, require all members of the GACC to be independent directors. Accordingly, Y Z Cuba and R Le Blanc were no longer members of the GACC from that date, but will remain as permanent attendees of the committee.

Meetings are held at least five times a year and are attended by the external and internal auditors, the Compliance Officer and, on invitation, members of executive management, including those involved in risk management, control and finance, and the Chairperson (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 of committee members only, the committee together with management (excluding the external auditors) and the committee together with the external auditors (excluding management). Private discussions provide an opportunity for committee members, management and the external auditors to communicate privately and candidly.

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

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

Specific responsibilities include:

- 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;
- reviewing and/or approving internal audit and compliance policies, plans, reports and findings;
- ensuring compliance with the applicable legislation and regulations;
- making the necessary enquiries to ensure that all risks to which the Bank is exposed are identified and managed in a well-defined control environment;
- recommending to the board the appointment and dismissal of the external auditors and fees payable to the external auditors;
- evaluating the performance of the external auditors;
- approving Absa's policy on the provision of non-audit services by external audit firms and ensuring compliance with the policy;
- reviewing and/or approving external audit plans, findings, reports and fees; and
- collaborating with the Group Risk and Capital Management Committee (GRCMC) and considering issues identified by that committee.

Absa's policy on non-audit services, which is reviewed annually 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. Assignments for allowable services above a certain value must be preapproved by the GACC. Assignments within management's mandate must be preapproved by Absa's Finance Director. All non-audit service fees are reported to the GACC quarterly.

# Corporate governance statement

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 IFRS.

**GROUP AUDIT AND COMPLIANCE COMMITTEE (GACC) – MEETING ATTENDANCE (2007)**

| Director | Appointment | Resignation | Jan* | Feb | Apr | Jul | Sept | Oct* | Nov |
|---|---|---|---|---|---|---|---|---|---|
| D C Arnold (Chairperson) | | | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |
| Y Z Cuba | | | ✔ | ✔ | ✔ | ✔ | A | ✔ | ✔ |
| A S du Plessis | | 31 Dec '07 | ✔ | ✔ | ✔ | ✔ | A | ✔ | ✔ |
| N Kheraj | | 30 Apr '07 | ✔ | ✔ | A | – | – | – | – |
| P du P Kruger | | 23 Apr '07 | A | ✔ | ✔ | – | – | – | – |
| R Le Blanc | 4 Jun '07 | | – | – | – | ✔ | ✔ | ✔ | ✔ |
| G Griffin | 1 May '07 | | – | – | – | ✔ | ✔ | ✔ | ✔ |
| T S Munday | 16 Apr '07 | | – | – | – | ✔ | ✔ | ✔ | ✔ |

Legend: * *Special meeting* ✔ *Attendance* A *Apologies*

**Group Risk and Capital Management Committee (GRCMC)**

**Members:** D C Arnold, A S du Plessis, G Griffin (Chairperson), M W Hlahla, R Le Blanc, G Marcus and P E I Swartz. P du P Kruger served as the Chairperson of the committee until his retirement in April 2007. A S du Plessis resigned on 31 December 2007. P E I Swartz stepped down on 11 March 2008.

**Composition and meeting procedures:** The GRCMC is chaired by an independent director and consists of a further five independent directors and one non-executive director nominated by the parent company. 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 capital management and to ensure compliance with the requirements of the Banks Act regarding risk and capital management. In accordance with a new regulatory requirement making the committee responsible for capital management, the committee's name was changed during the year.

The GRCMC's principal responsibilities are:

- to assist the board in the execution of its duties with regard to risk and capital management specified in the Banks Act, and in particular 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 these risks optimally;
  - in setting up an independent risk management function, to coordinate the globalised monitoring of risk management, 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 annually recommend Absa's risk appetite to the board for approval, and to monitor the actual risk taken on against the board-approved appetite on a quarterly basis;
- to monitor the Bank's emerging risk profiles and report its findings to the board;
- to monitor the level of available capital, both current and projected, and to report to the board on the adequacy of available capital relative to the emerging risk profile of the Bank;
- to review, within the framework of the board-approved principal risks policy, the completeness of the principal risks coverage and the ongoing effectiveness of the framework as implemented in the Bank;
- to review the adequacy and effectiveness of the principal risks' control frameworks and policies and annually review the effectiveness of the implementation of the frameworks;
- to liaise with the GACC to ensure appropriate oversight of key controls relating to risk management issues; and
- to ensure Absa makes appropriate disclosure of its risk management and capital management status and activities.

## GROUP RISK AND CAPITAL MANAGEMENT COMMITTEE (GRCMC) – MEETING ATTENDANCE (2007)

| Director | Appointment | Resignation/ retirement | Mar | Jun | Sept | Nov |
|---|---|---|---|---|---|---|
| D C Arnold | | | ✔ | ✔ | ✔ | ✔ |
| D C Cronjé | | 31 Jul '07 | ✔ | ✔ | – | – |
| A S du Plessis | | 31 Dec '07 | ✔ | ✔ | A | ✔ |
| G Griffin (Chairperson) | | | ✔ | ✔ | ✔ | ✔ |
| M W Hlahla | | | ✔ | A | ✔ | ✔ |
| N Kheraj | | 30 Apr '07 | A | – | – | – |
| P du P Kruger | | 23 Apr '07 | ✔ | – | – | – |
| R Le Blanc | 4 Jun '07 | | – | ✔ | ✔ | ✔ |
| G Marcus | 1 Jul '07 | | – | – | ✔ | ✔ |
| P E I Swartz | | | ✔ | ✔ | ✔ | ✔ |

Legend: ✔ *Attendance* A *Apologies*

# Corporate governance statement

**Directors' Affairs Committee (DAC)**

**Members:** D C Brink, L N Jonker, G Marcus (Chairperson), F F Seegers, T M G Sexwale and F A Sonn. T M G Sexwale resigned from the committee on 9 January 2008. D C Cronjé served as the Chairperson of the committee until June 2007.

**Composition and meeting procedures:** The DAC is chaired by Absa's Chairperson and the majority of its members are independent directors. Four meetings are scheduled per year.

**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 annual report to shareholders and consideration of the requirements of Regulation 38 (5) of the Banks Act;
- considering current and emerging trends in corporate governance and Absa's governance systems, as well as benchmarking Absa's governance systems against local and international best practice;
- reviewing the size, diversity, demographics, skills and experience of the board, perceived gaps in the board's composition, potential board appointees and succession planning;
- conducting an effectiveness evaluation of the Absa board to review its performance in meeting its key responsibilities; and
- annually evaluating the individual performance of directors, including that of Absa's Chairperson.

**DIRECTORS' AFFAIRS COMMITTEE (DAC) – MEETING ATTENDANCE (2007)**

| Director | Appointment | Resignation/ retirement | Feb | Mar* | Apr | Jul | Aug* | Oct* | Oct* | Oct* | Nov |
|---|---|---|---|---|---|---|---|---|---|---|---|
| D C Brink | | | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |
| D C Cronjé | | 31 Jul '07 | ✔ | ✔ | ✔ | ✔ | – | – | – | – | – |
| L N Jonker | | | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |
| G Marcus (Chairperson) | 1 Jul '07 | | – | – | – | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |
| F F Seegers | | | ✔ | ✔ | ✔ | A | A | ✔ | ✔ | A | ✔ |
| T M G Sexwale | | | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | A |
| F A Sonn | | | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |

Legend: * *Special meeting* ✔ *Attendance* A *Apologies*

**Group Remuneration and Human Resource Committee (GRHRC)**

**Members:** D C Brink (Chairperson), B P Connellan, G Marcus, F F Seegers and F A Sonn. D C Cronjé served as the GRHRC Chairperson until his retirement in July 2007.

**Composition and meeting procedures:** The GRHRC is chaired by an independent director and comprises mainly independent directors of Absa. The Chief Executive, the executive responsible for human resources and Absa's Finance Director attend the meetings by invitation, but do not participate in discussions and decisions regarding their remuneration and benefits. Meetings are held at least five times a year. The GRHRC's remit was extended in September 2007, to cover human resource-related black empowerment issues, FSC scoring and other relevant black economic empowerment scoring.

**Role, purpose and principal functions:** The GRHRC's responsibilities include:

- approving Absa's remuneration philosophy, principles and policy;
- approving the remuneration of the Chief Executive and Exco 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;
- mandating Exco to negotiate conditions of service with relevant trade unions;
- reviewing the operation of Absa's various incentive plans, including the approval of new incentive plans and the approval of individual incentive plan awards to executive directors and other Exco members;
- succession planning for executive directors and top management, including the Chief Executive, other executive directors and other strategic positions/roles, together with the DAC; and
- evaluating the performance of the Chief Executive and reviewing the evaluation of the performance of Exco members.

In executing its responsibilities, the GRHRC has access to independent external consultants to make sure it receives independent advice.

Non-executive directors receive fees for their contribution to the boards and committees on which they serve. In 2007, the GRHRC's remit included the governance of non-executive directors' remuneration. With respect to remuneration from 1 May 2008 onwards, in line with international best practice, proposals on non-executive directors' remuneration will be made by Absa's Chairperson and Chief Executive for review by the Absa board. The remuneration of non-executive directors is submitted to shareholders for sanction at Absa Group Limited's annual general meeting held prior to implementation and payment.

## GROUP REMUNERATION AND HUMAN RESOURCE COMMITTEE (GRHRC) – MEETING ATTENDANCE (2007)

| Director | Appointment | Resignation/ retirement | Jan | Feb* | Mar | Jul | Sept | Oct | Nov* |
|---|---|---|---|---|---|---|---|---|---|
| D E Baloyi | | 20 Mar '07 | ✔ | ✔ | A | – | – | – | – |
| D C Brink (Chairperson) | | | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |
| B P Connellan | | | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |
| D C Cronjé | | 31 Jul '07 | ✔ | ✔ | ✔ | ✔ | – | – | – |
| G Marcus | 1 Jul '07 | | – | – | – | ✔ | ✔ | ✔ | ✔ |
| F F Seegers | | | ✔ | ✔ | ✔ | A | A | ✔ | ✔ |
| F A Sonn | 1 Jul '07 | | – | – | – | ✔ | A | ✔ | ✔ |

Legend: * *Special meeting* ✔ *Attendance* A *Apologies*

### Group Credit Committee

**Members, composition and meeting procedures:** The committee consists of a panel of five independent directors (D C Brink, B P Connellan, A S du Plessis, G Marcus and T S Munday), 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. A S du Plessis resigned on 31 December 2007.

**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.

# Corporate governance statement

### Credit Committee: Large Exposures

**Members:** S F Booysen, D C Brink, B P Connellan, A S du Plessis, G Marcus (Chairperson), T S Munday and J H Schindehütte. A S du Plessis resigned on 31 December 2007.

**Composition and meeting procedures:** The committee comprises four independent directors and the Chief Executive and Finance Director. Specific members of management, such as the Group Executive: Credit and the Group Executive: Risk, 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's capital and reserves). The committee approves credit exposures that exceed the mandated approval limits of the Group Credit Committee.

**CREDIT COMMITTEE: LARGE EXPOSURES – MEETING ATTENDANCE (2007)**

| Director | Appointment | Resignation/ retirement | Apr | Jul | Sept | Nov |
|---|---|---|---|---|---|---|
| S F Booysen | | | ✔ | ✔ | ✔ | ✔ |
| D C Brink | | | ✔ | ✔ | ✔ | ✔ |
| B P Connellan | | | ✔ | ✔ | ✔ | A |
| D C Cronjé | | 31 Jul '07 | ✔ | ✔ | – | – |
| A S du Plessis | | 31 Dec '07 | ✔ | ✔ | ✔ | ✔ |
| G Marcus (Chairperson) | 1 Jul '07 | | – | ✔ | ✔ | ✔ |
| T S Munday | 26 Oct '07 | | – | – | – | A |
| J H Schindehütte | | | ✔ | ✔ | ✔ | ✔ |

Legend: ✔ *Attendance* A *Apologies*

### Board Finance Committee

**Members:** D C Brink, A S du Plessis, R A Jenkins, G Marcus (Chairperson). A S du Plessis resigned from the committee on 31 December 2007.

**Composition and meeting procedures:** The Board Finance Committee is chaired by Absa's Chairperson, who is an independent director, and the majority of its members are independent directors. This committee was formed in 2006 and has a mandate from the board to review and approve investments and divestments and certain defined large transactions, subject to specific limits. Additional non-executive directors may be co-opted as members for meetings where particular expertise is required. Meetings are held on an ad hoc basis. Ten meetings were held during 2007.

**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. The committee reviews the Bank's annual budget prior to submission to the board for approval, as well as finalises the interim and year-end results announcements. It is also responsible for reviewing the proposed replacement of infrastructure for strategic systems.

## BOARD FINANCE COMMITTEE – MEETING ATTENDANCE (2007)

| Director | Appoint-ment | Resignation/ retirement | Jan | Feb | Mar | Jun | Jun | Jul | Aug | Aug | Oct | Nov |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| D C Arnold (co-opted) | | | – | – | – | – | – | – | ✔ | ✔ | – | ✔ |
| D C Brink | | | A | ✔ | ✔ | ✔ | A | ✔ | ✔ | A | ✔ | ✔ |
| B P Connellan (co-opted) | | | – | – | – | – | – | – | – | – | – | ✔ |
| D C Cronjé | | 31 Jul '07 | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | – | – | – | – |
| Y Z Cuba (co-opted) | | | – | – | – | – | – | – | – | – | – | ✔ |
| A S du Plessis | | 31 Dec '07 | ✔ | ✔ | ✔ | ✔ | ✔ | A | ✔ | ✔ | ✔ | ✔ |
| G Griffin (co-opted) | | | – | – | – | – | – | ✔ | – | – | – | – |
| R A Jenkins | 4 Jun '07 | | – | – | – | ✔ | A | ✔ | ✔ | A | ✔ | A |
| P du P Kruger | | 23 Apr '07 | A | ✔ | ✔ | – | – | – | – | – | – | – |
| G Marcus (Chairperson) | 1 Jul '07 | | – | – | – | – | – | ✔ | ✔ | ✔ | ✔ | ✔ |
| T S Munday (co-opted) | | | – | – | – | – | – | – | – | ✔ | – | ✔ |
| F F Seegers | | 4 Jun '07 | ✔ | ✔ | ✔ | – | – | – | – | – | – | – |

Legend: ✔ *Attendance* A *Apologies*

**Implementation Committee**

**Members:** B P Connellan, G Griffin (Chairperson), G Marcus 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. Four meetings were held during 2007.

**Role, purpose and principal functions:** This committee was established to provide governance oversight and to assist the board with regard to integration and implementation risks and opportunities flowing from the acquisition by Barclays of a controlling stake in the Absa Group.

At its last meeting, which took place on 28 November 2007, the Implementation Committee agreed that the programme has achieved its objectives and met the market's financial expectations at the end of 2007. The Absa board, at its 30 November 2007 meeting, agreed to dissolve the Implementation Committee.

## IMPLEMENTATION COMMITTEE – MEETING ATTENDANCE (2007)

| Director | Appointment | Resignation/ retirement | Feb | Apr | Jul | Nov |
|---|---|---|---|---|---|---|
| B P Connellan | | | ✔ | ✔ | ✔ | A |
| D C Cronjé | | 31 Jul '07 | ✔ | ✔ | ✔ | – |
| G Griffin (Chairperson) | | | ✔ | ✔ | ✔ | ✔ |
| G Marcus | 1 Jul '07 | | – | – | ✔ | ✔ |
| F F Seegers | | | ✔ | ✔ | ✔ | A |

Legend: ✔ *Attendance* A *Apologies*

# Corporate governance statement

## EXECUTIVE DIRECTORS AND THE EXECUTIVE COMMITTEE (EXCO)

There are four executive directors on the board of Absa. There are no service contracts exceeding six months relating to the position of any executive director. Executive directors are required to retire from the board (as executive directors) on reaching the age of 60.

The board appoints executive management, taking into account the recommendations of the Chief Executive and the GRHRC. In addition, the GRHRC determines the remuneration and benefits of executive directors.

Exco, chaired by the Chief Executive, comprises executive directors and other members of the executive management. It meets, as a general rule, once a week, and deals with all material matters relating to the implementation of the agreed strategy, the monitoring of performance and the consideration of policies. The board has delegated specific authorities to the Chief Executive. These delegated authorities, which are encompassed in a board-approved signing authority resolution and the Absa/Barclays governance framework, are reviewed annually or as circumstances dictate.

As a general rule, members of Exco are not permitted to hold any significant external directorships, unless the external appointment is taken up at Absa's request.

## COMPANY SECRETARY

All directors have access to the advice and services of the Company Secretary, who provides guidance to the board as a whole and to individual directors with regard to how their responsibilities should be properly discharged in the best interests of the Bank.

The Company Secretary also oversees the induction of new directors and assists Absa's Chairperson and the Chief Executive in determining the annual board plan and board agendas, as well as formulating governance and board-related issues.

## GOING CONCERN

The board has considered and recorded the facts and assumptions on which it relies to conclude that the business will continue as a going concern in the financial year ahead. The board considers this aspect at both the interim reporting stage and financial year-end. The directors are of the opinion that the business will be a going concern in the year ahead and their statement in this regard is also contained in the statement on the responsibility of directors for the consolidated financial statements on page 47 of this report.

## ORGANISATIONAL INTEGRITY AND THE CODE OF ETHICS

Unethical behaviour in the broader South African community is reported regularly in the media. It is therefore crucial for management to ensure that there is an appropriate focus on preventing losses owing to unethical behaviour. In Absa, through various risk control procedures, the effects of unethical behaviour are limited. Absa has appointed the executive responsible for human resources as the ethics officer, ex officio. Compliance with Absa's code of ethics is monitored by means of annual attestations submitted by every Absa employee confirming their adherence to the code. This process is managed by Absa's Compliance function.

Absa's code of ethics is periodically refined, applying input from various interested parties and stakeholders in the organisation.

Management demonstrates its commitment to the code of ethics by entrenching various principles. These include rewards and incentives for ethical behaviour, and disciplinary procedures, including criminal and civil charges, for unethical or dishonest behaviour. In addition, employees found guilty of dishonesty during internal procedures are reported to the Banking Council for listing in the industry's register. Absa has an independently operated helpline known as "Tip-offs Anonymous" to facilitate the reporting of possible fraudulent, corrupt or unethical behaviour in the Bank. The line is available 24 hours per day, seven days a week.

Furthermore, newly appointed employees and employees in sensitive positions are assessed for ethical risks. Appropriate training in procedures and laws relating to the prevention of crime is provided and awareness of ethical behaviour is stimulated by regular communication with employees in the Bank.

All incidents involving potentially fraudulent activities are formally investigated and corrective actions taken. Procedures are adapted when deemed prudent to prevent further incidence of unethical behaviour.

Absa's code of ethics has been provided to all directors under cover of a letter from the Chairperson, in terms of which directors undertake to adhere to the code.

The board is satisfied that there are processes in place to monitor how Absa's code of ethics is being adhered to, and to act upon any transgressions.

### ABSA'S REPUTATION

Absa has a Brand and Reputation Committee to protect and enhance the brand and reputation of Absa in line with its belief that its reputation as a good corporate citizen is a key driver of economic value. The committee plays an important role in fulfilling the board's objective for Absa to be a leading company in the field of corporate responsibility and with regard to ensuring that all stakeholders are treated fairly and appropriately. The committee considers and provides advice to the Chief Executive and the board on matters that impact Absa's reputation and will advise on the appropriate actions that should be taken to maintain robust ethical business practice, for example with regard to stakeholder relationship management. In addition, Absa has formulated a reputation risk policy as an element of the brand risk control framework, which provides a mechanism for business to refer concerns regarding potential reputation risk issues to designated individuals for attention.

### RISK MANAGEMENT

Absa's risk management approach is set out in the board-approved principal risks policy, which identifies 18 principal risks currently facing the Bank. A five-step process for managing the risks is set out in the policy. Each risk type is managed in terms of a risk control framework and policies applicable to that risk area.

### FINANCIAL CRIME

Financial crime continues to plague South Africa. Absa focuses on financial crime prevention/detection in three separate ways:

- Physical security/violent crime prevention measures.
- Money laundering and terrorism financing prevention and detection.
- Fraud/forensic investigations and monitoring.

# Corporate governance statement

Absa is required to take into account international and local sanctions requirements and prohibitions when establishing new customer relationships or maintaining existing relationships, and when making payments abroad. This could result in Absa refusing to establish particular relationships or exiting existing ones. Similarly, certain transactions may be rejected.

Financial crime incidents and losses, meeting set criteria, are reported to authorities and to Barclays either on a regular basis or when the incidents occur, depending on the reporting requirements and nature of the incidents.

## REGULATORY COMPLIANCE

The board, through the Chief Executive, delegates the authority to Absa's Compliance Officer to ensure that the compliance process operates effectively and that laws, regulations and supervisory requirements are adhered to. As part of the compliance process, Group Compliance independently monitors the adequacy and effectiveness of the internal controls implemented to ensure compliance with the applicable laws, regulations and supervisory requirements.

The reporting structures in Absa ensure that the Compliance Officer has unrestricted access to the GACC, the Chief Executive and the Chairperson of the board, while functionally reporting to the Risk Director. This ensures that Group Compliance remains independent and has the necessary support to perform its duties.

## INTERNAL CONTROL

The directors are responsible for ensuring that Absa maintains adequate records which disclose, with reasonable accuracy, the financial performance and position of the Bank. In the case of a banking group in particular, great reliance is placed on information contained in its financial statements, not least by the investing community, depositors, other banks and the regulatory authorities.

To enable the directors to meet these responsibilities, the board sets standards and management implements systems of internal control, comprising policies, standards, procedures, systems and information, to assist in:

- safeguarding assets and reducing the risk of loss, error, fraud and other irregularities;
- ensuring the accuracy and completeness of accounting records; and
- the timely preparation of reliable financial statements and information in compliance with the relevant legislation and generally accepted accounting policies and practices.

Absa's internal audit function and the external auditors independently appraise the adequacy and effectiveness of the internal controls. The GACC, with extensive input from the internal and external auditors, plays a major role in assisting the directors in satisfying themselves regarding the adequacy and effectiveness of the accounting systems, records and internal controls. The directors' report on this aspect is contained in the statement on the responsibility of directors for the annual financial statements on page 47 of this report.

The board of directors reports annually on the Bank's controls in terms of Regulation 39 (4) of the Banks Act. The view of the directors in this regard is contained in the statement on the responsibility of directors for the annual financial statements on page 47 of this report.

Absa's joint external auditors are Ernst & Young Inc. and PricewaterhouseCoopers Inc. The report of the independent auditors for the year under review is contained on page 48 of this report.

## INTEGRATED SUSTAINABILITY REPORTING

### Overall reporting approach

Absa has adopted the Global Reporting Initiative (GRI) guidelines on economic, environmental and social performance (collectively referred to as the triple bottom line) as a benchmark for Absa's sustainability reporting. The GRI guidelines represent the most advanced international standards for sustainability reporting and Absa seeks to align its reporting to these standards. However, it is recognised that enhanced sustainability reporting is an ongoing journey requiring an incremental approach.

According to the GRI, the goal of sustainable development is to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Absa is firmly committed to advancing the principles and practice of sustainable development and takes its role as a leading and concerned corporate citizen seriously. The urgency and magnitude of risks and threats to sustainability and the increasing choice and opportunities to enhance the need to be transparent regarding the disclosure of Absa's impacts on global sustainability is imperative.

A number of core themes underpin Absa's sustainability endeavours, namely:

- delivering sustainable earnings growth;
- empowering customers by enhancing access to financial services, increasing choice and fostering their financial education;
- encouraging an ethical trading environment;
- ensuring that employees are highly capable, empowered and motivated;
- helping to empower and uplift the communities in which Absa operates;
- developing and sustaining fair, equitable and sustainable business relationships with suppliers;
- supporting governmental and regulatory policies in the economic and financial dimensions in proactive and positive ways;
- contributing meaningfully to the transformation in South African society, including through the BEE process; and
- helping to conserve the environment to ensure a better life for future generations. One such initiative includes the "greening" initiative which to date has specifically targeted building upgrades and new building developments, sourcing policies, power usage and recycling opportunities.

### Financial Sector Charter (FSC)

The FSC is a private sector initiative to address the imperatives of BEE legislation in the financial services industry. It provides a framework for implementing the principles outlined in the BEE Act. It is a voluntary agreement within the financial industry (not legally binding) with the aim of being gazetted as a sector code. Absa is a signatory to the FSC and is committed to the process of aligning the FSC with the BEE Codes of Good Practice, where appropriate. The FSC provides an interim measuring tool of the progress made by the sector when engaging with other stakeholders, particularly the government.

Absa's overall BEE strategy focuses on playing a meaningful role in the transformation objectives of the country. The strategic intent is to achieve and/or exceed (where applicable) the requirements of the FSC which is supported by the implementation of Absa's FSC policy. The ultimate objective of Absa's BEE strategy is to embed the requirements of the FSC into the normal operations of Absa throughout the entire organisation.

# Corporate governance statement

The FSC targets are supported through transformation initiatives which are owned and driven by business units contributing to a particular indicator. Progress of the initiatives is measured through individual business unit scorecards which are consolidated into an Absa Group Limited FSC scorecard and ultimately submitted annually to the Financial Sector Charter Council (FSCC).

Absa's 2006 FSC submission was accepted and confirmed by the FSCC. Absa Group Limited was awarded an "A" rating which is the highest category awarded to financial institutions that achieve more than 55 overall points on the FSC scorecard. Absa Group Limited scored over 85 points.

### Treating customers fairly (TCF)

During 2007, Barclays introduced the 10 "treating customers fairly" (TCF) principles in response to a requirement from the UK's Financial Services Authority (FSA) for firms to implement actions to ensure the consistently fair treatment of customers. These actions must be substantiated by evidence, both qualitative and quantitative in nature. Absa has begun to implement the principles across all business units and has submitted a number of reports to this effect to Barclays.

Activities to date include:

- formulation of a communication plan to create awareness of the 10 principles;
- TCF inclusion in internal audits as a high-level "check of observations" against TCF principles;
- inclusion of TCF in the Employee Compliance Conduct Guide, which requires annual attestation by all employees (last completed in October 2007);
- the customer charter, which was launched towards the end of 2006 – an external service promise to our customers;
- the culture campaigns "winning the hearts and minds of our people" and "what have you done today", which strongly support putting the customer at the centre of our business (the "winning the hearts and minds of people" programme also identified specific leadership behaviours to support a customer-centric culture and the setting up of teams to ensure performance excellence); and
- a Customer Experience Forum, which was established to act as the custodian, not only for TCF, but for all matters pertaining to the customer experience.

Activities in progress are:

- the inclusion of TCF in induction, socialisation and all customer service-related training;
- TCF management assurance reviews commencing in February 2008; and
- audit findings and management reviews to be discussed at the Customer Experience Forum, and escalated to business unit heads and the Customer Experience and Delivery Council for focused attention, if necessary.

Challenges:

- Not all activities supporting TCF have measures or management information (MI) in place for validation purposes. Current feedback is mostly based on self-assessments by business units, however, current monitoring of activities through compliance, internal audits and future management assurance reviews will confirm the self-assessment status. Further work in this regard will be undertaken in 2008.

## INDUSTRY INITIATIVES

### Code of Banking Practice

Absa endorses the Code of Banking Practice and applies the underlying values embodied in the code. Absa is committed to providing its customers with professional and friendly service, in a manner that is fast, easy, accessible, transparent, approachable and in line with what is fair and just. For this reason, Absa regards the code as a living document.

To ensure adherence to the code, training is constantly provided to employees. Customers are made aware of Absa's commitment to the code and the code is made available through the branch network and on the internet. In collaboration with the Banking Sector Education and Training Authority (known as Bankseta) and other banks, training material for the industry has been designed and delivered to ensure consistency in training and knowledge-sharing in the industry and therefore ensure awareness and consumer protection. Furthermore, Absa's Compliance function monitors procedures and practices against the code.

The ultimate customer experience forms the basis of the code, which also links with the relevant Absa values: to demonstrate integrity, to treat customers consistently fairly and, as a customer-driven organisation, to be transparent in all dealings with customers.

Absa is a subscribing member of the Office of the Ombudsman for Banking Services. The mission of the ombudsman is to provide banks and their customers with a quick and efficient dispute resolution service in a fair, impartial and confidential way and to strive to improve general banking practice. Of all the customer complaints lodged through Absa's Action Line central help desk during the year under review, few required the further intervention of the Office of the Ombudsman for Banking Services. Absa Customer Care has an internal mediation panel (ombudsman functionality) available to internal and external customers, providing additional dispute resolution options.

Absa has implemented a customer charter, which sets out Absa's commitment to providing the highest standard of customer service. Areas covered by the charter are service, affordability, choice, convenience and security.

### National Credit Act (NCA)

The requirements of the NCA were met by Absa's implementation of various system changes, process enhancements and employee training. Since 1 June 2007, Absa has been conducting all of its credit transactions as required by the NCA. Furthermore, ownership of all the systems, processes and reporting components has been handed over to business for ongoing management and maintenance.

Owing to the successful implementation of the requirements of the NCA, the project was deemed successful as having met all of its objectives and has subsequently been closed.

# The Bank board

## Introduction

The Absa Bank board has an appropriate balance. The majority of the directors are independent. The Chairperson of the Absa Bank board is also an independent director. As at 31 December 2007, there were 22 directors, of which four were executive, seven were non-executive and 11 were considered to be independent.

### THE YEAR UNDER REVIEW

The Absa Bank board's composition changed during the year under review. The changes that took place were as follows:

- The resignation of R R Emslie and N P Mageza as alternative directors on 22 January 2007.
- The termination of D E Baloyi's services, effective 20 March 2007.
- The appointment of T S Munday on 16 April 2007.
- The retirement of P du P Kruger on 23 April 2007.
- The resignation of N Kheraj on 30 April 2007.
- The appointment of R A Jenkins and R Le Blanc on 4 June 2007.
- The retirement of D C Cronjé as Chairperson of Absa on 30 June 2007 and as a director on 31 July 2007.
- The appointment of G Marcus as Chairperson on 1 July 2007.
- The resignation of D Bruynseels on 21 August 2007.
- The appointment of N P Mageza as an executive director on 10 September 2007.
- The appointment of E C Mondlane, Jr. on 26 September 2007.
- The resignation of A S du Plessis on 31 December 2007.

### BOARD MEMBERSHIP

The Absa Bank board comprised the following directors as at 31 December 2007:

| | |
|---|---|
| Independent directors → | D C Arnold, D C Brink (Deputy Chairperson), B P Connellan, A S du Plessis[4], G Griffin, M W Hlahla, L N Jonker, G Marcus (Chairperson), T S Munday, F A Sonn and P E I Swartz[6] |
| Non-executive directors → | L N Angel, Y Z Cuba, R A Jenkins[1], R Le Blanc[1], F F Seegers[2], T M G Sexwale[5] and E C Mondlane, Jr.[3] |
| Executive directors → | S F Booysen (Chief Executive), N P Mageza, J H Schindehütte and L L von Zeuner |

### BOARD COMMITTEE MEMBERSHIP AS AT 31 DECEMBER 2007

| Committee | Members |
|---|---|
| Group Audit and Compliance Committee → | D C Arnold (Chairperson), Y Z Cuba, A S du Plessis[4], R Le Blanc[1], G Griffin and T S Munday |
| Group Risk and Capital Management Committee → | D C Arnold, A S du Plessis[4], G Griffin (Chairperson), M W Hlahla, R Le Blanc[1], G Marcus and P E I Swartz[6] |
| Directors' Affairs Committee → | D C Brink, L N Jonker, G Marcus (Chairperson), F F Seegers[2], T M G Sexwale[5] and F A Sonn |
| Group Remuneration and Human Resource Committee → | D C Brink (Chairperson), B P Connellan, G Marcus, F F Seegers[2] and F A Sonn |
| Group Credit Committee → | D C Brink, B P Connellan, A S du Plessis[4], G Marcus and T S Munday |
| Credit Committee: Large Exposures → | S F Booysen, D C Brink, B P Connellan, A S du Plessis[4], G Marcus (Chairperson), T S Munday and J H Schindehütte |
| Board Finance Committee → | D C Brink, A S du Plessis[4], R A Jenkins[1] and G Marcus (Chairperson) |
| Implementation Committee[7] → | B P Connellan, G Griffin (Chairperson), G Marcus and F F Seegers[2] |

[1]*British.* [2]*Dutch.* [3]*Mozambican.* [4]*Resigned on 31 December 2007.* [5]*Resigned on 9 January 2008.* [6]*Resigned on 11 March 2008.*
[7]*Dissolved at the end of 2007.*

## ABSA BANK BOARD BIOGRAPHICAL DETAILS AS AT 31 DECEMBER 2007

### L N (NTHOBI) ANGEL

**Age:** 53
**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 (Proprietary) Limited and Absa Group Limited. She is active in nature conservation and is a director of the Open Africa Initiative and the Peace Parks Foundation. She is also a trustee of the Kagiso Trust and a board member of Deloitte Chartered Accountants (SA).

**Skills, expertise and experience**

From 1994 to 1995, Ms Angel was the Public Affairs Manager at Rhone-Poulenc Rorer SA (Proprietary) Limited. Thereafter she was appointed as General Manager: Corporate Affairs at Engen Petroleum Limited, a position she held until early 2000, when she was appointed as Executive Director: Strategic Affairs at Engen. From 2001 to 2003, Ms Angel was seconded to the Presidency as Chief Operations Officer: Strategic Planning and Communications.

From 2004 to 2005 she was the Chief Executive Officer of Mvelaphanda Resources Limited. She was then appointed as the Managing Director: External Relations at Eskom. She resigned from this position in June 2006 to focus on her role as Chairperson of TsaRona Investments.

### D C (DES) ARNOLD

**Absa board committee memberships**

- Group Audit and Compliance Committee (Chairperson)
- Group Risk and Capital Management Committee

**Other directorships/trusteeships**

Mr Arnold is a director of the Wits Health Consortium (Proprietary) Limited and Chairperson of its audit committee. He is Chairperson of the Barlows Pension Fund, a trustee of the Absa Group Retirement Fund and is also Project Manager of the South African Institute of Chartered Accountants/Gauteng Government Municipalities Project. He is a director of Absa Group Limited.

**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 there, which culminated in his appointment to the board in 1993. He retired from Barloworld at the end of March 2003.

Mr Arnold is a former 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 former President of the South African Institute of Chartered Accountants (SAICA) and an honorary life member of SAICA. He has represented SAICA on the Financial and Management Accounting Committee of IFAC.

**Age:** 67
**Qualifications:** CA(SA), FCMA, AMP
**Year appointed:** 2003
**Independence:** Independent director

### S F (STEVE) BOOYSEN

**Age:** 45
**Qualifications:** DCom (Acc), CA(SA)
**Title:** Chief Executive
**Year appointed:** 2004
**Independence:** Executive director

**Absa board committee memberships**

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

**Other directorships/trusteeships**

Dr Booysen is a director of various companies in Absa Group Limited and a council member at the University of Pretoria.

**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). He joined Absa in 1988 and held various positions in the Company until he was appointed as Chief Executive of Absa in August 2004.

He is an honorary professor in the School of Accounting at the University of Pretoria.

# The Bank board

## D C (DAVE) BRINK

**Age:** 68
**Qualifications:** MSc Eng (Mining)
Diploma in Business Administration
Graduate Diploma in Company Direction
**Title:** Deputy Chairperson
**Year appointed:** 1992
**Independence:** Independent director

**Absa board committee memberships**
- Directors' Affairs Committee
- Group Remuneration and Human Resource Committee (Chairperson)
- Group Credit Committee
- Credit Committee: Large Exposures
- Board Finance Committee

**Other directorships/trusteeships**

Mr Brink is a director of Sappi Limited. He is the Deputy Chairperson of Absa Group Limited. He is a trustee of the Absa Foundation and Chairperson of the Absa Group Retirement Fund. He is Co-Chairperson 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**

He joined Murray & Roberts Limited in 1970 after eight years in the gold industry with Anglo American Corporation of South Africa Limited. He was appointed Chief Executive Officer of Murray & Roberts Holdings Limited in 1986 and Chairperson in 1994. Mr Brink was the Chief Executive Officer of Sankorp Limited from 1994 to 1997.

## B P (BRIAN) CONNELLAN

**Absa board committee memberships**
- Group Remuneration and Human Resource Committee
- Group Credit Committee
- Credit Committee: Large Exposures
- Implementation Committee

**Other directorships/trusteeships**

Mr Connellan is a director of Absa Group Limited, Illovo Sugar Limited, Tiger Brands Limited, Reunert Limited and Sasol Limited.

**Skills, expertise and experience**

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

**Age:** 67
**Qualifications:** CA(SA)
**Year appointed:** 1994
**Independence:** Independent director

## Y Z (YOLANDA) CUBA

**Age:** 30
**Qualifications:** BCom (Stats), BCom (Hons) (Acc), CA(SA)
**Year appointed:** 2006
**Independence:** Non-executive director

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

**Other directorships/trusteeships**

Yolanda is a director of Absa Group Limited, Mvelaphanda Group 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 joined Mvelaphanda in January 2003 in its corporate finance division. She was appointed as Deputy Chief Executive Officer prior to being appointed as the Chief Executive Officer of Mvelaphanda Group Limited in July 2007.

## A S (ATTIE) DU PLESSIS

**Age:** 63
**Qualifications:** BCom, CA(SA), HDip Tax, AMP
**Year appointed:** 1992
**Independence:** Independent director

**Absa board committee memberships**

- Group Audit and Compliance Committee
- Group Risk and Capital Management Committee
- Group Credit Committee
- Credit Committee: Large Exposures
- Board Finance Committee

**Other directorships/trusteeships**

Mr du Plessis is a director of Absa Group Limited, Sanlam Limited, KWV Group Limited and various companies in the Sanlam Group.

**Skills, expertise and experience**

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

## G (GARTH) GRIFFIN

**Absa board committee memberships**

- Group Risk and Capital Management Committee (Chairperson)
- Implementation Committee (Chairperson)
- Group Audit and Compliance Committee

Also serves on the boards of Absa Financial Services and its insurance subsidiaries and is the Chairperson of the Absa Life Actuarial Committee.

**Other directorships/trusteeships**

He is Chairperson of two privately held companies based in Cape Town and is a trustee of the University of Cape Town Foundation. He is also a director of Absa Group Limited.

**Skills, expertise and experience**

An actuary, Mr Griffin has wide experience in the financial services industry, both locally and internationally. He worked for Old Mutual from 1970 to 1999, during 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.

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 in the financial services sector, including Sage Group plc, 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 President of the Actuarial Society of South Africa.

**Age:** 58
**Qualifications:** BSc, FIA, FASSA
**Year appointed:** 2001
**Independence:** Independent director

## M W (MONHLA) HLAHLA

**Age:** 44
**Qualifications:** BA (Hons) (Economics), MA (Urban and regional planning)
**Year appointed:** 2005
**Independence:** Independent director

**Absa board committee memberships**

- Group Risk and Capital Management Committee

**Other directorships/trusteeships**

Ms Hlahla is a director of Absa Group Limited, a 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, a provider of micro-loans to woman entrepreneurs in the greater Los Angeles area.

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.

# The Bank board

## R A (ROGER) JENKINS

Age: 52
**Qualifications:** BA (Economics)
Member of the Institute of Bankers (ACIB, DipFS)
**Year appointed:** 2007
**Independence:** Non-executive director

**Absa board committee memberships**

- Board Finance Committee

**Skills, expertise and experience**

Roger is a director of Absa Group Limited. He is also the Managing Director and head of Barclays Private Equity, Principal Investments and Structured Capital Markets at Barclays Capital in London. He is a member of the Barclays Executive Committee and Management Committee and was Chairperson of the Barclays Recruitment Committee from 2002 to 2007.

Roger started his career with BP in Paris. He joined Barclays International in 1978 and went to New York in 1980 as Senior Vice-President and head of Private Placements until 1984. He then moved to Barclays Treasurers Group (1985 – 1986) where he was involved in establishing Barclays Futures and was the manager of the Overseas Investment Group. In 1987, Roger joined Kleinwort Benson, New York, as head of Global Private Placements and Bank Syndications. He moved to London in 1990 to become the co-head of the Global Financial Markets division. In 1994, Roger rejoined Barclays to head up Structured Capital Markets.

## L N (LOURENS) JONKER

**Absa board committee memberships**

- Directors' Affairs Committee

**Other directorships/trusteeships**

He is Chairperson of Weltevrede Wine Estates (Proprietary) Limited and a director of Naspers Limited, Toekoms Investments No 1 (Proprietary) Limited, Weltevrede Cellar (Proprietary) Limited, Naspers Investments Limited and Absa Group Limited.

**Skills, expertise and experience**

Mr Jonker is the owner of Weltevrede Wine Estate. He joined the board of KWV Co-operative in 1981 and became Chairperson 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.

**Age:** 68
**Qualifications:** BSc (Agric)
**Year appointed:** 1996
**Independence:** Independent director

## R (ROBERT) LE BLANC

**Age:** 51
**Qualifications:** MSc, MBA
**Year appointed:** 2007
**Independence:** Non-executive director

**Absa board committee memberships**

- Absa Group Audit and Compliance Committee
- Group Risk and Capital Management Committee

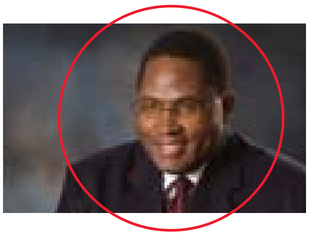
**Other directorships/trusteeships**

Mr Le Blanc is a member of the board of directors of Barclays Global Investors and Absa Group Limited.

**Skills, expertise and experience**

Mr Le Blanc has been the Risk Director for Barclays Group, based in London, since 2004. He joined Barclays in 2002 as the head of Risk Management at Barclays Capital. Prior to joining Barclays, Robert spent most of his career at JP Morgan in the capital market, fixed income, emerging market, and credit areas, and ultimately in the risk management function.

## N P (PETER) MAGEZA



**Age:** 53
**Qualifications:** ACCA
**Year appointed:** 2007
**Independence:** Executive director

### Absa board committee memberships

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

### Other directorships/trusteeships

Mr Mageza is a fellow of the Association of Chartered Certified Accountants (ACCA). He is a director of Absa Group Limited.

### Skills, expertise and experience

He started his career in the audit environment in 1988 with Coopers & Lybrand Chartered Accountants (SA) where he was an audit senior, supervisor and manager. He was then appointed as a manager at Transnet Limited Group Internal Audit Services. In 1993, he moved into general management at Autonet, the road passenger and freight logistics division of Transnet Limited. There, he held various executive management positions, including General Manager: Passenger Businesses. He became Chief Executive Officer: Autonet in 1995.

In 1998, Peter moved to the financial services sector, joining Nedcor Bank Limited's Technology and Operations Process Management division.

He joined Absa in January 2000, taking responsibility for a number of executive functions in Bankfin (rebranded Absa Vehicle and Asset Finance). He became Managing Executive of that division in 2001. He was appointed to the Executive Committee in 2003.

From 2004, he was responsible for Absa's African operations as well as Absa Vehicle and Asset Finance. He relinquished operational responsibility of these portfolios from July 2006 owing to his appointment as Chief Operating Officer. He was appointed as an executive director of Absa in September 2007.

## G (GILL) MARCUS

### Absa board committee memberships

- Group Risk and Capital Management Committee
- Group Remuneration and Human Resource Committee
- Directors' Affairs Committee (Chairperson)
- Group Credit Committee
- Credit Committee: Large Exposures (Chairperson)
- Implementation Committee
- Board Finance Committee (Chairperson)

### Other directorships/trusteeships

Professor Marcus is a non-executive director of Gold Fields Limited and a non-executive member of the Auditor General's Advisory Board, the International Marketing Council of SA (IMC) and the Independent Board for the Regulation of Auditors. She is the Chairperson of Absa Group Limited.

### Skills, expertise and experience

Professor Marcus is the former Deputy Minister of Finance, the former Deputy Governor of the South African Reserve Bank and was also Professor of Policy, Leadership and Gender Studies at the Gordon Institute of Business Science (GIBS). She has chaired numerous regulatory and policy committees, including the Financial Services Board and the Standing Committee for the Revision of the Banks Act.

Professor Marcus is a patron of the Pretoria Sun Gardens Hospice and the Working on Fire Programme, as well as a supporter of the Johannesburg Children's Home.

**Age:** 58
**Qualifications:** BCom
**Title:** Chairperson
**Year appointed:** 2007
**Independence:** Independent director

# The Bank board

## E C (EDUARDO) MONDLANE, JR.

**Age:** 50
**Qualifications:** Political Science Extension Student UCLA
**Year appointed:** 2007
**Independence:** Non-executive director

**Other directorships/trusteeships**

Mr Mondlane is the Managing Director of Ninham Shand Mozambique Lda. He is also a director of Absa Group Limited.

**Skills, expertise and experience**

Mr Mondlane left university to pursue a passion for African development, which led him to establish and operate an African trading company based in New York and set up the Mozambique Business Council in Washington DC.

Mr Mondlane also worked with a number of Italian companies, helping them to identify and develop strategically important infrastructure projects in Mozambique.

In 1994, he returned to the infrastructure development industry. He is currently an adviser in the infrastructure, logistics, engineering and mining industries to various South African and multinational companies operating in sub-Saharan Africa.

## T S (TREVOR) MUNDAY

**Absa board committee memberships**

- Group Audit and Compliance Committee
- Credit Committee: Large Exposures
- Group Credit Committee

**Other directorships/trusteeships**

Mr Munday is a director of Absa Group Limited, Barloworld Limited and a member of the boards of Sasol Petroleum International (Proprietary) Limited, Sasol Synfuels International (Proprietary) Limited, Sasol Nitro and Sasol Polymers. The latter two companies are divisions of Sasol Chemical Industries Limited. He is also a non-executive member of certain Sasol subsidiary companies and divisions.

**Skills, expertise and experience**

Mr Munday's career began in 1971 and was spent in a large number of different roles. These included financial and commercial management positions, both in southern Africa and in Europe. In the late 1980s, he was the Finance and Commercial Director of AECI Explosives Chemicals Limited. In the early 1990s, he was appointed as the Managing Director of Dulux Paints.

From 1996 to 2000, Mr Munday was the Managing Director of Polifin Limited, and in 2001, he was appointed as an executive director of Sasol Limited with the global responsibility for finance and accounting, risk management, internal audit, corporate affairs (including communications, brand management, corporate social investment and sport sponsorships) and planning. In 2003, he also assumed responsibility for the group's global chemical businesses, with operations in South Africa, Europe, the United States of America, the Middle East, South East Asia and China.

He was appointed as Deputy Chief Executive of Sasol Petroleum International (Proprietary) Limited on 1 July 2005. He retired from his executive responsibilities at Sasol on 31 December 2006.

**Age:** 58
**Qualifications:** BCom
**Year appointed:** 2007
**Independence:** Independent director

## J H (JACQUES) SCHINDEHÜTTE

**Age:** 48
**Qualifications:** BCom (Hons), CA(SA), HDip Tax
**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**

Jacques is a director of Absa Group Limited and various companies in Absa.

**Skills, expertise and experience**

Jacques commenced his career with accounting firm Ernst & Young en route to qualifying as a chartered accountant. He served in various senior managerial positions at Transnet Limited until 1999. Jacques joined Absa as Group Executive: Group Finance during 1999. He was appointed as an executive director in January 2005.

## F F (FRITS) SEEGERS

**Absa board committee memberships**

- Group Remuneration and Human Resource Committee
- Directors' Affairs Committee
- Implementation Committee

**Other directorships/trusteeships**

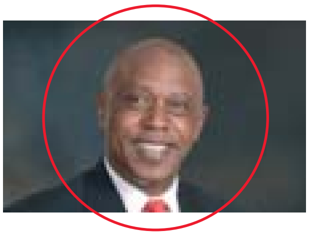
Mr Seegers is a director on the boards of Absa Group Limited, Barclays PLC and Barclays Bank PLC.

**Skills, expertise and experience**

Mr Seegers is Chief Executive Officer of Barclays Global Retail and Commercial Banking. He joined Barclays in July 2006 after 17 years at Citigroup, where he was Chief Executive Officer of Global Consumer Group with a remit covering all retail operations in Europe, the Middle East and Africa. Prior to this he was Chief Executive Officer of Consumer Banking for Asia Pacific, covering 11 consumer markets. Under his leadership, this region was the fastest growing business of Citigroup.

**Age:** 49
**Qualifications:** Master's degrees in engineering and finance
**Year appointed:** 2006
**Independence:** Non-executive director

## T M G (TOKYO) SEXWALE



**Age:** 54
**Qualifications:** Certificate in Business Studies
**Year appointed:** 2001
**Independence:** Non-executive director

**Absa board committee memberships**

- Directors' Affairs Committee

**Other directorships/trusteeships**

Mr Sexwale is the Executive Chairperson of Mvelaphanda Holdings (Proprietary) Limited and Mvelaphanda Group Limited and a director of Absa Group Limited, Mvelaphanda Resources Limited and of Gold Fields Limited. He 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**

He is a former member of the national executive committee of the African National Congress and the former Premier of Gauteng.

# The Bank board

## F A (FRANKLIN) SONN

**Age:** 68
**Qualifications:** BA (Hons), PTD, FIAC
**Year appointed:** 1999
**Independence:** Independent director

**Absa board committee memberships**

- Directors' Affairs Committee
- Group Remuneration and Human Resource Committee

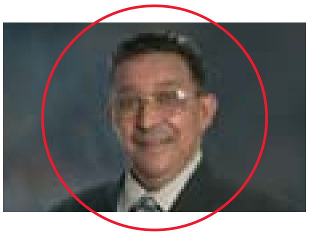
**Other directorships/trusteeships**

Dr Sonn is Chairperson of the Airports Company South Africa Limited (ACSA), African Star Ventures (Proprietary) Limited, Imalivest (Proprietary) Limited, Xinergistix Limited, Kwezi V3 Engineers (Proprietary) Limited and Ekapa Mining (Proprietary) Limited. He is a director of Absa Group Limited, Sappi Limited, Safmarine (Proprietary) Limited, Steinhoff International Holdings Limited, Macsteel Service Centres SA (Proprietary) Limited, Metropolitan Holdings Limited, RGA Reinsurance Company of South Africa Limited, RGA SA Holdings (Proprietary) Limited, Esor Limited, Pioneer Food Group (Proprietary) Limited, and Piazza Park (Proprietary) Limited, the holding company for the Airport Sun Inter-Continental Hotel at O R Tambo International Airport. He serves as a member of the Nelson Mandela Foundation Advisory Board and the Legal Resources Trust. He is also the Chancellor of the University of the Free State and Executive in Residence at the University of Cape Town Graduate School of Business.

**Skills, expertise and experience**

Dr Sonn was the Rector of the Peninsula Technikon from 1978 to 1994. He served as democratic South Africa's first ambassador to the United States of America from 1995 to 1998. He is a former President of the Afrikaanse Handelsinstituut, and was the President of the Union of Teachers Associations of South Africa for 16 years.

## P E I (PETER) SWARTZ



**Absa board committee memberships**

- Group Risk and Capital Management Committee

**Other directorships/trusteeships**

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

**Skills, expertise and experience**

Mr Swartz was a school music teacher for 10 years. He became the first Chancellor of the Cape Technikon (Cape Peninsula University of Technology). He has, over the past 35 years, held personal interests in various industries, including cinemas, hotels, supermarkets, fast foods outlets, centrifugal pump manufacturing and property development. He is a former Chairperson of the South African Tourism Board and also served as a dIrector of Sanlam Limited, Ellerines Holdings Limited and New Clicks Holdings Limited for many years.

**Age:** 66
**Qualifications:** Advanced Primary Teacher's Diploma
**Year appointed:** 1994
**Independence:** Independent director

## L L (LOUIS) VON ZEUNER

**Age:** 46
**Qualifications:** BEcon
**Year appointed:** 2004
**Independence:** Executive director

**Absa board committee memberships**

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

**Other directorships/trusteeships**

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

**Skills, expertise and experience**

Louis' first position was that of a clerk in the Goodwood branch of Volkskas in 1981. He worked in the branch system until 1995, by which time he had been branch manager of four branches, namely Wynberg (1989 – 1990), Cape Town (1990 – 1991), Old Paarl Road (1991 – 1992) and Stellenbosch (1992 – 1995).

His appointment as Regional Manager for the Northern Cape in Kimberley (1995 – 1996) elevated him to Absa's general management. He then became Provincial General Manager of the Northern Province (1996 – 1998) and the Free State (1998 – 1999).

In 2000, he moved to Absa's head office, where he became the Operating Executive of Absa Commercial Bank. He was appointed as an executive director in September 2004.

# FINANCIAL STATEMENTS

CONTENTS

# Directors' approval

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the auditors' statement on their responsibilities set out in their report on page 48, is made with a view to distinguish for shareholders the respective responsibilities of the directors and auditors in relation to the financial statements.

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

To enable the directors to meet these responsibilities:

- the board and management set standards and management implements systems of internal control and accounting and information systems aimed at providing reasonable assurance that assets are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties;
- the Bank's internal audit function, which operates unimpeded and independently from operational management, and has unrestricted access to the Group Audit and Compliance Committee (GACC), 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 GACC, together with the external and internal auditors, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure. The GACC is satisfied that the external auditors are independent.

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

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

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

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

It is the responsibility of the independent auditors to report on the consolidated financial statements. Their report to the members of the Bank and Company is set out on page 48 of this report.

## APPROVAL OF FINANCIAL STATEMENTS

The directors' report and the financial statements of the Bank and the Company, which appear on pages 49 to 218, were approved by the board of directors on 19 February 2008 and are signed by:

**G Marcus**
*Chairperson*

**S F Booysen**
*Chief Executive*

Johannesburg
19 February 2008

# Company Secretary's certificate to the members of Absa Bank Limited

In accordance with the provisions of the Companies Act, No 61 of 1973 (as amended), of South Africa, I certify that, in respect of the year ended 31 December 2007, 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.

**S Martin**

*Company Secretary*

Johannesburg
19 February 2008

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# Independent auditors' report to the members of Absa Bank Limited

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the annual financial statements of the Company and the consolidated annual financial statements of Absa Bank Limited, which comprise the directors' report, the balance sheet and the consolidated balance sheet as at 31 December 2007, 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 49 to 218.

## 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 (as amended), 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

## OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank and of the Company as at 31 December 2007, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), and in the manner required by the Companies Act, No 61 of 1973 (as amended), of South Africa.

Ernst & Young Inc.

**PricewaterhouseCoopers Inc.**
*Director: T Winterboer*
*Registered Auditor*

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

Johannesburg
19 February 2008

# Directors' report

## GENERAL AND NATURE OF ACTIVITIES

Absa Bank Limited and its subsidiaries (the Bank), which has preference shares listed on the JSE Limited, is incorporated and domiciled in South Africa and provides retail, commercial, corporate and investment banking services. The Bank operates primarily in South Africa and employs over 32 000 people. The address of the Bank's registered office is 170 Main Street, Johannesburg, 2001.

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

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

The Bank is one of South Africa's largest banks, serving personal, commercial and corporate customers in South Africa.

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

The consolidated financial statements were approved for issue by the board of directors on 19 February 2008.

## BANK RESULTS

### Main business and operations

Headline earnings for the year amounted to R7 476 million (2006: R5 861 million) and headline earnings per share of 2 216,4 cents (2006: 1 742,5 cents). Earnings (net income attributable to ordinary shareholders) for the year amounted to R7 620 million (2006: R6 051 million) and earnings per share of 2 259,4 cents (2006: 1 799,0 cents).

Headline earnings were derived from the following activities:

| | Year ended 31 December | |
|---|---|---|
| | **2007**<br>**Rm** | 2006<br>Rm |
| Retail banking | **4 989** | 4 095 |
| • Absa Private Bank | **237** | 178 |
| • Retail Bank | **2 144** | 1 400 |
| • Absa Home Loans and Repossessed Properties | **1 279** | 1 086 |
| • Absa Card | **706** | 700 |
| • Absa Vehicle and Asset Finance | **623** | 731 |
| Absa Corporate and Business Bank | **1 922** | 1 384 |
| Absa Capital | **1 533** | 929 |
| African operations | **(31)** | (44) |
| Corporate centre | **(95)** | 83 |
| Capital and funding centre | **94** | 131 |
| **Total earnings from business areas** | **8 412** | 6 578 |
| Synergy costs (after tax)[1] | **(479)** | (454) |
| Profit attributable to preference equity holders | **(313)** | (73) |
| **Profit attributable to ordinary equity holder** | **7 620** | 6 051 |
| Headline earnings adjustment | **(144)** | (190) |
| **Total headline earnings** | **7 476** | 5 861 |

[1]*One-off costs incurred relating to the integration of Absa with Barclays.*

# Directors' report

A general review of the business and operations of major subsidiaries is given in the section titled "Operational highlights" of this report.

## SUBSIDIARIES, ASSOCIATED UNDERTAKINGS AND JOINT VENTURE COMPANIES

The interests in subsidiaries, associated undertakings and joint venture companies are set out in note 43 to the financial statements.

## DIRECTORS

The directors of the Company during the year and to the date of this report are as follows:
G Marcus (Chairperson) (appointed as Chairperson on 1 July 2007)
D C Cronjé[5] (Retired Chairperson) (retired on 30 June 2007 as Chairperson and as a director on 31 July 2007)
D C Brink[5] (Deputy Chairperson
S F Booysen[1] (Chief Executive)
L N Angel
D C Arnold
D E Baloyi (directorship terminated on 20 March 2007)
D Bruynseels[1, 2] (resigned on 21 August 2007)
B P Connellan[5]
Y Z Cuba
A S du Plessis[5] (resigned on 31 December 2007)
G Griffin
S A Fakie (appointed on 1 January 2008)
M W Hlahla
L N Jonker[5]
R A Jenkins[2] (appointed on 4 June 2007)
N Kheraj[2] (resigned on 30 April 2007)
P du P Kruger[5] (retired on 23 April 2007)
R Le Blanc[2] (appointed on 4 June 2007)
N P Mageza[1] (appointed on 10 September 2007)
E C Mondlane, Jr.[4] (appointed on 26 September 2007)
T S Munday (appointed on 16 April 2007)
J H Schindehütte[1]
F F Seegers[3]
T M G Sexwale (resigned on 9 January 2008)
F A Sonn
P E I Swartz[5] (resigned on 11 March 2008)
B J Willemse (appointed on 1 January 2008)
L L von Zeuner[1]

[1]*Executive director.*
[2]*British.*
[3]*Dutch.*
[4]*Mozambican.*
[5]*Has been on the board for more than nine years.*

### Re-election of retiring directors

In line with Absa Group Limited's annual general meeting the following must be noted:

In line with international best practice, Absa Group Limited 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 (AGM). The directors who retire in terms of the above arrangements at the 2008 annual general meeting are D C Brink and B P Connellan. Both directors are eligible for re-election and have made themselves available for re-election.

Furthermore, one-third of the directors are required to retire at each AGM in terms of Absa Group Limited's articles of association. These directors may offer themselves for re-election. The following directors, who retire by rotation and who are elegible for re-election, have offered themselves for re-election: D C Arnold, J H Schindehütte, F A Sonn and L L von Zeuner.

L N Jonker and L N Angel also retire in terms of Absa Group Limited's articles, however, they have not sought re-election. The aforementioned directors standing down at the AGM and will accordingly resign from the board at the conclusion of the 2008 AGM.

## DIRECTORS' INTEREST IN ABSA BANK LIMITED PREFERENCE SHARES

As at the balance sheet date, the direct and indirect preference shareholding of directors in Absa Bank Limited was as follows:

| | Number of shares | |
|---|---|---|
| | **2007** | 2006 |
| **Present directors** | | |
| S F Booysen[1] (Chief Executive) | **11 000** | 11 000 |
| D C Arnold | **400** | 400 |
| B P Connellan | **300** | 300 |
| A S du Plessis[2] | **300** | 300 |
| L N Jonker | **300** | 400 |
| T M G Sexwale | **1 000** | 1 000 |
| P E I Swartz | **—** | 200 |
| L L von Zeuner[1] | **562** | — |
| **Past directors** | | |
| D C Cronjé[2] (Retired Chairperson) | **n/a** | 7 500 |
| | **13 862** | 21 100 |

[1]*Executive director.*

[2]*Resigned as a director on 31 December 2007.*

[3]*Retired as a director on 31 July 2007.*

There has been no change in the interest of directors between the balance sheet date and 19 February 2008.

## ACQUISITIONS

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

- The Company acquired a further 50% shareholding in Ambit Management Services (Proprietary) Limited, increasing its shareholding to 100%, at a cost of R15,4 million.

## DISPOSALS

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

- Conbros Limited was wound down and is in the process of deregistration.
- Absa Bank (Asia) Limited was liquidated.

Refer to note 13 of the financial statements for the acquisitions and disposals of associated undertakings and joint venture companies.

## SECRETARY

W R Somerville resigned as Company Secretary on 5 October 2007. S Martin was appointed as Company Secretary on 8 January 2008. Her contact details are as follows:

# Directors' report

## Business address

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

*Telephone:* 011 350 4828
*Telefax*: 011 350 4009
*e-mail:* sarita.martin@absa.co.za

## DIRECTORS' AND OFFICERS' INTEREST IN CONTRACTS

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

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

## AUTHORISED AND ISSUED SHARE CAPITAL

### Authorised

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

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

### Issued

The following non-cumulative, non-redeemable preference shares were issued during the year by way of private placement on the JSE to raise cost-effective permanent share capital as part of a general capital management programme to provide the Company with funding for strategic initiatives:

- On 4 April 2007, 1 681 184 shares at R847,34 per share, being R0,01 par value and R847,33 share premium.
- On 8 May 2007, 74 381 shares at R878,87 per share, being R0,01 par value and R878,86 share premium.
- On 12 June 2007, 31 223 shares at R894,19 per share, being R0,01 par value and R894,18 share premium.
- On 10 July 2007, 105 520 shares at R895,11 per share, being R0,01 par value and R895,10 share premium.
- On 7 August 2007, 23 994 shares at R887,90 per share, being R0,01 par value and R887,89 share premium.
- On 11 September 2007, 28 537 shares at R842,33 per share, being R0,01 par value and R842,32 share premium.

Following the above share issues, the total issued share capital at the balance sheet date was R303 115 568, made up as follows:

- 302 609 359 ordinary shares of R1,00 each.
- 34 676 057 "A" ordinary shares of R0,01 each.
- 4 944 839 non-cumulative, non-redeemable preference shares of R0,01 each.

## DIRECTORS' EMOLUMENTS

Directors' emoluments in respect of the Company's executive directors are disclosed in note 43 of the consolidated financial statements.

## DIVIDENDS

- On 20 February 2007, a dividend of 208,2 cents per ordinary share was declared to the ordinary shareholder registered on 16 March 2007.
- On 20 February 2007, a dividend of 3 784,3 cents per preference share was declared to preference shareholders registered on 16 March 2007.
- On 19 February 2008, a dividend of 323,8 cents per ordinary share was declared to the ordinary shareholder registered on 14 March 2008.
- On 19 February 2008, a dividend of 4 453,9 cents per preference share was declared to preference shareholders registered on 14 March 2008.

## EVENTS SUBSEQUENT TO BALANCE SHEET DATE

- T M G Sexwale has resigned as a director of the Absa Bank Limited board with effect from 9 January 2008.
- S A Fakie and B J Willemse were appointed as directors of the Absa Bank Limited board with effect from 1 January 2008.
- P E I Swartz has resigned as a director of the Absa Bank Limited board with effect from 11 March 2008.

## AUDITORS

PricewaterhouseCoopers Incorporated and Ernst & Young Incorporated will continue in office in accordance with section 270(2) of the Companies Act, No 61 of 1973 (as amended), of 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

As at 31 December

| | Note | BANK 2007 Rm | BANK 2006 Rm |
|---|---|---|---|
| **Assets** | | | |
| Cash, cash balances and balances with central banks | 2 | **15 069** | 12 022 |
| Statutory liquid asset portfolio | 3 | **22 957** | 20 829 |
| Loans and advances to banks | 4 | **52 691** | 20 833 |
| Trading assets | 5 | **25 876** | 17 742 |
| Hedging assets | 5 | **725** | 641 |
| Other assets | 6 | **5 002** | 3 151 |
| Current tax assets | 7 | **168** | — |
| Loans and advances to customers | 8 | **443 120** | 367 199 |
| Loans to Absa Group companies | 10 | **9 438** | 3 029 |
| Deferred tax assets | 11 | **48** | 63 |
| Investments | 12 | **6 109** | 3 960 |
| Investments in associated undertakings and joint venture companies | 13 | **1 370** | 601 |
| Intangible assets | 14 | **228** | 147 |
| Property and equipment | 15 | **4 258** | 3 509 |
| **Total assets** | | **587 059** | 453 726 |
| **Liabilities** | | | |
| Deposits from banks | 16 | **65 167** | 28 897 |
| Trading liabilities | 17 | **22 947** | 16 140 |
| Hedging liabilities | 17 | **2 226** | 1 257 |
| Other liabilities and sundry provisions | 18 | **10 113** | 8 015 |
| Current tax liabilities | 7 | **56** | 941 |
| Deposits due to customers | 19 | **304 877** | 275 407 |
| Debt securities in issue | 20 | **134 023** | 83 866 |
| Deferred tax liabilities | 11 | **2 259** | 2 133 |
| Policyholder liabilities under insurance contracts | 21 | **67** | 76 |
| Borrowed funds | 22 | **9 796** | 8 268 |
| **Total liabilities** | | **551 531** | 425 000 |
| **Equity** | | | |
| **Capital and reserves** | | | |
| Attributable to equity holders of the Bank: | | | |
| Ordinary share capital | 24 | **303** | 303 |
| Ordinary share premium | 24 | **5 415** | 5 415 |
| Preference share capital | 24 | **1** | 1 |
| Preference share premium | 24 | **4 643** | 2 991 |
| Other reserves | 25 | **1 605** | 1 682 |
| Retained earnings | | **23 535** | 18 334 |
| | | **35 502** | 28 726 |
| Minority interest | | **26** | — |
| **Total equity** | | **35 528** | 28 726 |
| **Total equity and liabilities** | | **587 059** | 453 726 |

# Consolidated income statement

Year ended 31 December

| | | BANK | |
|---|---|---|---|
| | Note | **2007 Rm** | 2006 Rm |
| Net interest income | | **17 915** | 14 174 |
| Interest and similar income | 26 | **52 213** | 36 518 |
| Interest expense and similar charges | 27 | **(34 298)** | (22 344) |
| Impairment losses on loans and advances | 9 | **(2 207)** | (1 515) |
| **Net interest income after impairment losses on loans and advances** | | **15 708** | 12 659 |
| Net fee and commission income | | **10 046** | 8 973 |
| Fee and commission income | 28 | **10 620** | 9 486 |
| Fee and commission expense | 28 | **(574)** | (513) |
| Gains and losses from banking and trading activities | 29 | **1 536** | 1 234 |
| Gains and losses from investment activities | 30 | **108** | 169 |
| Other operating income | 31 | **1 006** | 879 |
| **Operating income before operating expenses** | | **28 404** | 23 914 |
| Operating expenditure | | **(17 286)** | (15 414) |
| Operating expenses | 32 | **(16 584)** | (14 547) |
| Non-credit related impairments | 34 | **(58)** | (71) |
| Indirect taxation | 35 | **(644)** | (796) |
| Share of retained earnings from associated undertakings and joint venture companies | 13 | **85** | 48 |
| **Operating profit before income tax** | | **11 203** | 8 548 |
| Taxation expense | 36 | **(3 267)** | (2 424) |
| **Profit for the year** | | **7 936** | 6 124 |
| **Attributable to:** | | | |
| Ordinary equity holder of the Bank | | **7 620** | 6 051 |
| Preference equity holders of the Bank | | **313** | 73 |
| Minority interest | | **3** | — |
| | | **7 936** | 6 124 |
| • basic earnings per share (cents) | 37 | **2 259,4** | 1 799,0 |
| • diluted earnings per share (cents) | 37 | **2 259,4** | 1 799,0 |

# Consolidated statement of changes in equity

Year ended 31 December

| | Number of ordinary shares '000 | Ordinary share capital Rm | Ordinary share premium Rm | Preference share capital Rm | Preference share premium Rm |
|---|---|---|---|---|---|
| Balance at 1 January 2006 | 332 891 | 303 | 4 665 | — | — |
| Shares issued | 4 395 | 0 | 750 | 1 | 2 999 |
| *Less:* Costs incurred | — | — | — | — | (8) |
| Movement in regulatory general credit risk reserve | — | — | — | — | — |
| Movement in available-for-sale reserve and/or cash flow hedges reserve | — | — | — | — | — |
| Fair value gains and losses | — | — | — | — | — |
| Amount removed from equity and recognised in the income statement | — | — | — | — | — |
| Movement in share-based payment reserve | — | — | — | — | — |
| Value of employee services | — | — | — | — | — |
| Transfer from share-based payment reserve | — | — | — | — | — |
| Net acquisitions/(disposals) | — | — | — | — | — |
| Dividends declared – ordinary shares | — | — | — | — | — |
| Dividends declared – preference shares | — | — | — | — | — |
| Foreign currency translation effects | — | — | — | — | — |
| Share of associated undertakings and joint venture companies' retained earnings | — | — | — | — | — |
| Profit attributable to ordinary equity holder | — | — | — | — | — |
| Profit attributable to preference equity holders | — | — | — | — | — |
| Balance at 31 December 2006 | 337 286 | 303 | 5 415 | 1 | 2 991 |

| | **Number of ordinary shares '000** | **Ordinary share capital Rm** | **Ordinary share premium Rm** | **Preference share capital Rm** | **Preference share premium Rm** |
|---|---|---|---|---|---|
| **Balance at 1 January 2007** | **337 286** | **303** | **5 415** | **1** | **2 991** |
| Shares issued | **—** | **—** | **—** | **0** | **1 658** |
| *Less:* Costs incurred | **—** | **—** | **—** | **—** | **(6)** |
| Movement in regulatory general credit risk reserve | **—** | **—** | **—** | **—** | **—** |
| Movement in available-for-sale reserve and/or cash flow hedges reserve | **—** | **—** | **—** | **—** | **—** |
| Fair value gains and losses | **—** | **—** | **—** | **—** | **—** |
| Amount removed from equity and recognised in the income statement | **—** | **—** | **—** | **—** | **—** |
| Movement in share-based payment reserve | **—** | **—** | **—** | **—** | **—** |
| Value of employee services | **—** | **—** | **—** | **—** | **—** |
| Transfer from share-based payment reserve | **—** | **—** | **—** | **—** | **—** |
| Net acquisitions | **—** | **—** | **—** | **—** | **—** |
| Share of net income attributable to minorities | **—** | **—** | **—** | **—** | **—** |
| Dividends declared | **—** | **—** | **—** | **—** | **—** |
| Other reserve movements | **—** | **—** | **—** | **—** | **—** |
| Foreign currency translation effects | **—** | **—** | **—** | **—** | **—** |
| Share of associated undertakings and joint venture companies' retained earnings | **—** | **—** | **—** | **—** | **—** |
| Profit attributable to ordinary equity holder | **—** | **—** | **—** | **—** | **—** |
| Profit attributable to preference equity holders | **—** | **—** | **—** | **—** | **—** |
| **Balance at 31 December 2007** | **337 286** | **303** | **5 415** | **1** | **4 643** |
| **Note** | **24** | **24** | **24** | **24** | **24** |

*Note: All movements are reflected net of taxation.*

**BANK**

2006

| Regulatory general credit risk reserve Rm | Available-for-sale reserve Rm | Cash flow hedges reserve Rm | Foreign currency translation reserve Rm | Capital reserve Rm | Share-based payment reserve Rm | Associated undertakings and joint venture companies Rm | Retained earnings Rm | Minority interest Rm | Total Rm |
|---|---|---|---|---|---|---|---|---|---|
| — | (70) | 132 | 25 | 1 425 | 112 | 193 | 14 224 | 40 | 21 049 |
| — | — | — | — | — | — | — | — | — | 3 750 |
| — | — | — | — | — | — | — | — | — | (8) |
| 50 | — | — | — | — | — | — | (50) | — | — |
| — | 67 | (485) | — | — | — | — | — | — | (418) |
| — | 36 | (559) | — | — | — | — | — | — | (523) |
| — | 31 | 74 | — | — | — | — | — | — | 105 |
| — | — | — | — | — | 55 | — | 23 | — | 78 |
| — | — | — | — | — | 78 | — | — | — | 78 |
| — | — | — | — | — | (23) | — | 23 | — | — |
| — | — | — | — | — | — | (48) | 48 | (40) | (40) |
| — | — | — | — | — | — | — | (1 914) | — | (1 914) |
| — | — | — | — | — | — | — | (73) | — | (73) |
| — | — | — | 178 | — | — | — | — | — | 178 |
| — | — | — | — | — | — | 48 | (48) | — | — |
| — | — | — | — | — | — | — | 6 051 | — | 6 051 |
| — | — | — | — | — | — | — | 73 | — | 73 |
| 50 | (3) | (353) | 203 | 1 425 | 167 | 193 | 18 334 | — | 28 726 |

**2007**

| Regulatory general credit risk reserve Rm | Available-for-sale reserve Rm | Cash flow hedges reserve Rm | Foreign currency translation reserve Rm | Capital reserve Rm | Share-based payment reserve Rm | Associated undertakings and joint venture companies Rm | Retained earnings Rm | Minority interest Rm | Total Rm |
|---|---|---|---|---|---|---|---|---|---|
| 50 | (3) | (353) | 203 | 1 425 | 167 | 193 | 18 334 | — | 28 726 |
| — | — | — | — | — | — | — | — | — | 1 658 |
| — | — | — | — | — | — | — | — | — | (6) |
| 381 | — | — | — | — | — | — | (381) | — | — |
| — | 61 | (540) | — | — | — | — | — | — | (479) |
| — | 18 | (1 295) | — | — | — | — | — | — | (1 277) |
| — | 43 | 755 | — | — | — | — | — | — | 798 |
| — | — | — | — | — | (11) | — | 86 | — | 75 |
| — | — | — | — | — | 75 | — | — | — | 75 |
| — | — | — | — | — | (86) | — | 86 | — | — |
| — | — | — | — | — | — | — | — | 25 | 25 |
| — | — | — | — | — | — | — | — | 3 | 3 |
| — | — | — | — | — | — | — | (2 352) | — | (2 352) |
| — | — | — | — | — | — | — | — | (2) | (2) |
| — | — | — | (53) | — | — | — | — | — | (53) |
| — | — | — | — | — | — | 85 | (85) | — | — |
| — | — | — | — | — | — | — | 7 620 | — | 7 620 |
| — | — | — | — | — | — | — | 313 | — | 313 |
| 431 | 58 | (893) | 150 | 1 425 | 156 | 278 | 23 535 | 26 | 35 528 |
| 25 | 25 | 25 | 25 | 25 | 25 | 13 & 25 | | | |

# Consolidated cash flow statement

Year ended 31 December

| | Note | BANK 2007 Rm | BANK 2006 Rm |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Net interest and commission received | | **27 782** | 23 459 |
| Net trading and other income | | **2 028** | 1 722 |
| Cash payments to employees and suppliers | | **(16 094)** | (14 148) |
| Income taxes paid | | **(3 930)** | (2 679) |
| Cash flow from operating profit before changes in operating assets and liabilities | | **9 786** | 8 354 |
| Net (increase)/decrease in trading securities | | **(8 563)** | 5 480 |
| Net increase in loans and advances to customers | | **(78 172)** | (76 880) |
| Net increase in other assets | | **(44 142)** | (9 920) |
| Net decrease in insurance and investment contracts | | **(8)** | (6) |
| Net increase/(decrease) in trading liabilities | | **7 776** | (3 979) |
| Net increase in amounts due to customers and banks | | **115 854** | 70 657 |
| Net increase in other liabilities | | **2 201** | 240 |
| Net cash generated/(utilised) from operating activities | | **4 732** | (6 054) |
| **Cash flow from investing activities** | | | |
| Purchase of property and equipment | 15 | **(1 683)** | (1 071) |
| Proceeds from sale of property and equipment | | **104** | 115 |
| Purchase of intangible assets | 14 | **(165)** | (119) |
| Proceeds from disposal of intangible assets | | **—** | 8 |
| Acquisition of subsidiaries, net of cash | 50.1 | **17** | — |
| Disposal of subsidiaries, net of cash | 50.2, 50.3 | **36** | (133) |
| Disposal of associated undertakings and joint venture companies, net of cash | 13.6 | **—** | 360 |
| Acquisition of associated undertakings and joint venture companies, net of cash | 13.5 | **(378)** | (174) |
| Net increase in loans to associated undertakings and joint venture companies | | **(17)** | — |
| Net increase in securities | | **(2 148)** | (646) |
| Net cash utilised from investing activities | | **(4 234)** | (1 660) |
| **Cash flow from financing activities** | | | |
| Issue of ordinary shares | | **—** | 750 |
| Issue of preference shares | | **1 652** | 2 992 |
| Proceeds from borrowed funds | | **1 725** | 2 000 |
| Dividends paid | | **(2 352)** | (1 987) |
| Net cash generated from financing activities | | **1 025** | 3 755 |
| Net increase/(decrease) in cash and cash equivalents | | **1 523** | (3 959) |
| Cash and cash equivalents at the beginning of the year | | **3 498** | 7 462 |
| Effect of exchange rate movement on cash and cash equivalents | | **2** | (5) |
| **Cash and cash equivalents at the end of the year** | 48 | **5 023** | 3 498 |

# Accounting policies

Year ended 31 December 2007

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies comply with IFRS, interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and the requirements of the Companies Act, No 61 of 1973 (as amended), of South Africa.

### (a) New standards, interpretations and amendments to published standards and interpretations effective in 2007.

**IFRS 7 – Financial instruments: Disclosures (new) and IAS 1: Presentation of financial statements: Capital disclosures (amended) and IFRS 4 – Insurance contracts (amended)**

The adoption of IFRS 7 and the amendment to IAS 1 and IFRS 4 impacted the disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Bank. In accordance with the transitional requirements of the standards, the Bank has provided full comparative information.

**IFRIC 7 – Applying the restatement approach under IAS 29: Financial reporting in hyperinflationary economies (amended)**

This interpretation contains guidance on how an entity should restate its financial statements in the first year it identifies the existence of hyperinflation in the economy of its functional currency. The impact of this amendment to IAS 29 on the Bank is not considered to be significant.

**IFRIC 8 – Scope of IFRS 2**

The interpretation confirms that IFRS 2 also applies to transactions in which the entity cannot identify specifically some or all of the goods or services received. If the identifiable consideration received is less than the fair value of the equity instruments granted or the liability incurred, this indicates that additional, although unidentified, goods or services have been received. In this case the unidentifiable goods or services will be measured as the difference between the fair value of the share-based payment and the fair value of the identifiable goods or services. The impact of this interpretation on the Bank is not considered to be significant.

**IFRIC 9 – Reassessment of embedded derivatives**

This interpretation concludes that an entity only assesses whether an embedded derivative is required to be separated from the host contract when the entity first becomes a party to the contract. Subsequent reassessment of the embedded derivative is prohibited, unless there is a change in the contract that significantly modifies the cash flows. The impact of this interpretation on the Bank is not considered to be significant.

**IFRIC 10 – Interim reporting and impairment**

This interpretation co  ncludes that an entity may not reverse impairment losses recognised in previous reporting periods in respect of goodwill, equity investments or financial assets carried at amortised cost. The impact of this interpretation on the Bank is not considered to be significant.

**AC 503 – Accounting for BEE transactions**

This interpretation applies to accounting for BEE transactions where the fair value of cash and other assets received is less than the fair value of equity instruments granted to the BEE partner, ie to the BEE equity credentials. This standard had no impact on the reported profits or financial position of the Bank.

## 1.1 Basis of presentation

The consolidated and Company financial statements have been prepared in accordance with IFRS and interpretations issued by the IFRIC, the going-concern principle, and using the historical-cost basis, except where specifically indicated otherwise in the accounting policies.

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

## 1.2 Use of estimates and assumptions

The preparation of financial information requires the use of estimates and assumptions about future conditions. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future may differ from those current estimates reported. In this regard, management believes that critical accounting policies where judgement is necessarily applied are those which relate to loan impairment, goodwill impairment and the valuation of financial instruments.

Further information about key assumptions concerning the future and other key sources of estimation uncertainties are set out in the notes to the financial statements.

## 1.3 Consolidation

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

### 1.3.1 Subsidiaries

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

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

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

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

### 1.3.2 Investments in associated undertakings and joint venture companies

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

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

Investments in entities that form part of venture capital activities of the Bank have been designated at fair value through profit and loss. The designation has been made in accordance with IAS 39 – Financial Instruments:

Recognition and measurement, based on the scope exclusion that is provided in IAS 28 – Investments in associates.

At an entity level, investments in associated undertakings and joint venture companies 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 they are managed by the Bank. These are private equity investments. Private equity is medium- to long-term finance that is provided in return for an equity stake in potentially high-growth unquoted entities. The fair value of these investments is determined in accordance with international private equity and venture capital valuation guidelines.

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

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

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

### 1.3.3 Transactions with minority interests

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

### 1.3.4 Special purpose entities

The Bank may enter into transactions with special purpose entities (SPEs). An SPE is consolidated on the same basis as subsidiaries as set out in 1.3.1 above, if, based on an evaluation of the substance of the relationship with the Bank and the SPE's risk and rewards, the Bank concludes that it controls the SPE. SPEs controlled by the Bank were established under terms that:

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

## 1.4 Segment reporting

### 1.4.1 Business segments

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

The Bank is organised into the following business units:

- Retail banking: Offers a comprehensive range of banking products and services to individuals and small business customers.
- Absa Corporate and Business Bank (ACBB): Provides a comprehensive range of commercial and corporate banking products and services to corporates and medium and large business customers.
- Absa Capital: Provides investment banking services to corporate, government and institutional investor segments.
- African operations: Manages Absa Group Limited's shareholding in African entities.
- Other: Consists of various head office and non-banking activities.

### 1.4.2 Geographical segments

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

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

In presenting information on the basis of geographical segments for credit risk disclosures, reference is made to the location of customers.

## 1.5 Foreign currencies

### 1.5.1 Functional and presentation currency

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

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

### 1.5.2 Foreign currency translations

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

- The assets and liabilities of foreign subsidiary companies are translated at the closing exchange rates ruling at the balance sheet date. 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 year-end closing rate.

### 1.5.3 Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in equity.

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

## 1.6 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. 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.

## 1.7 Financial instruments

Financial instruments are initially measured at fair value and are subsequently measured on the basis 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 includes incremental costs) and transaction income (ie initiation fees) are capitalised to the initial carrying amount.

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

The Bank is required to group financial instruments into classes that are appropriate to the nature of the information disclosed and take into account the characteristics of those financial instruments. Classes of financial instruments have been determined by referring to the nature and extent of risks arising from the financial instruments and how these are managed.

### 1.7.1 Held-to-maturity

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

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

### 1.7.2 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.

### 1.7.3 Financial instruments designated at fair value

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

- eliminates or significantly reduces valuation or recognition inconsistencies that would arise from measuring financial assets or financial liabilities, or recognising gains and losses on them, on different bases. Under this criterion, the main classes of financial instruments designated by the Bank are financial assets, loans to customers, financial liabilities and structured notes, where doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost;
- applies to groups of financial assets, financial liabilities or combinations thereof that are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and where information about the groups of financial instruments is reported to management on that basis. Under this criterion, certain private equity and other investments are the main class of financial instruments so designated. The Bank has documented risk management and investment strategies designed to manage such assets at fair value, taking into consideration the relationship of assets to liabilities in a way that mitigates market risks; and
- relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments, which includes certain financial assets, loans to customers, financial liabilities and structured notes issued by the Bank.

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 are recognised in "Gains and losses from banking and trading activities" and "Gains and losses from investment activities", depending on their nature, unless disclosing such fair value movements in another income statement line would eliminate an accounting mismatch.

### 1.7.4 Available-for-sale assets

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

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

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

### 1.7.5 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses. 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.

### 1.7.6 Impairment of assets at amortised cost

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

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

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

Advances are stated net of identified and unidentified impairments.

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

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

- Significant financial difficulty of the issuer or obligor.
- A breach of contract, such as a default or delinquency in interest or principal payments.
- The Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider.
- It becoming probable that the borrower will enter insolvency or other financial reorganisation.
- The disappearance of an active market for that financial asset because of financial difficulties.
- 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 Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. 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.

The amount of 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) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of the provision account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of collateralised financial assets reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (ie, on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). These characteristics are relevant to the estimation of the cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experienced for assets with credit risk characteristics similar to those in the group. 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 the historical loss experience is based, and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (ie, changes in unemployment rates, property prices, payments status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the losses has been determined.

Details on the significant estimates made by the Bank in relation to identified and unidentified impairment are as follows:

*Identified impairment*

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

Upon impairment, the accrual of interest income on the original terms of the claim is based on the impaired carrying value, 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 Bank sets out to prove that a risk condition has taken place that will result in an impairment of assets (based on historic experience), but the losses will only be identifiable at an individual obligor level at a future date.

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

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

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

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

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

To the extent that the unidentified impairments 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.

**1.7.7 Renegotiated loans**

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would otherwise not consider. These loans are not considered to be past due but are treated as new loans after the loan has performed for a specified period.

Restructuring activities include extended payment arrangements, approved external management plans, and deferral of payments.

Following restructuring, a previously overdue customer is reset to normal status and managed together with other similar accounts. Restructuring policies and procedures are based on indicators or criteria which, in the judgement of local management, indicate that payment will most likely continue. The policies are kept under constant review. Restructuring is most commonly applied to residential mortgages and credit card receivables.

**1.7.8 Derecognition of financial assets**

A financial asset (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; or
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; and

- the Bank has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all of the risks and rewards of the asset; or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

### 1.7.9 Derecognition of financial liabilities

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

### 1.7.10 Fair value

Where the classification of a financial instrument requires it to be stated at fair value, this is determined by reference to the quoted bid price or asking price (as appropriate) in an active market wherever possible. Where no such active market exists for the particular asset or liability, the Bank uses a valuation technique to arrive at the fair value, including the use of prices obtained in recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Profits or losses are only recognised on initial recognition when such profits can be measured solely by reference to observable current market transactions or valuation techniques based solely on observable market inputs.

### 1.7.11 Scrip lending

Where the Bank acts as an agent (ie, facilitates lending transactions on behalf of clients), the associated transactions are not accounted for on the Bank's balance sheet, as the risks and rewards of ownership of these related assets and liabilities never transfer to the Bank.

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

Where the Bank borrows securities but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not included in the balance sheet. The Bank's obligation to deliver securities that it has sold as a short seller is classified as held for trading.

Securities lent are retained on the balance sheet when substantially all the risks and rewards of ownership remain with the Bank, and a counterparty liability is included separately on the balance sheet as appropriate.

### 1.7.12 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 the income statement when incurred). Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow and option pricing models. All derivatives are carried as assets when fair value is positive and liabilities when fair value is negative.

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

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

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

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 hedges*

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 the income statement. The amount recognised in equity is removed and included in the income statement on disposal of the foreign operation.

#### *Fair value hedges*

For qualifying interest rate 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 "Net interest income" in the income statement.

Any ineffectiveness is recognised immediately in "Gains and losses from banking and trading activities" in the income statement. If the derivative expires or 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 hedged item for which the effective interest rate method is used, is amortised to the income statement as part of the recalculated effective interest rate of the items over the remaining life.

#### *Cash flow hedges*

Gains or 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 in "Gains and losses from banking and trading activities". 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 no longer be effective, or the hedging 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***

Certain financial instruments contain both a derivative and non-derivative component. In such cases the derivative component is termed an embedded derivative. An embedded derivative is bifurcated and reported at fair value with gains and losses being recognised in the income statement when the following requirements are met:

- where the economic characteristics and risks are not clearly and closely related to those of the host contract;
- the terms of the embedded derivative are the same as those of a stand-alone derivative; and
- the combined contract is not held for trading or designated at fair value.

### 1.7.13 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.

### 1.7.14 Repurchase agreements

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

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

Repurchase and reverse agreements may either be designated at fair value through profit and loss or classified as loans and receivables.

### 1.7.15 Compound financial instruments

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.

## 1.8 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 the income statement.

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

## 1.9 Revenue recognition

### 1.9.1 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 financial instruments used to economically hedge the Bank's interest rate risk), are recognised in "Net interest income" in the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate.

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

In calculating effective interest, the Bank estimates cash flows using projections based on its experience of customer behaviour considering all contractual terms of the financial instrument but excluding future credit losses. Cash flows arising from the direct and incremental costs of issuing financial instruments are also taken into account in the calculation.

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.

### 1.9.2 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, unless moving the fair value adjustment would offset a mismatch in "Gains and losses from banking and trading activities". Net income from advances which are designated at fair value, are recognised in "Net interest income" in the income statement.

### 1.9.3 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.

### 1.9.4 Net fee and commission income

*Fee and commission income*

The Bank earns fee income from a diverse range of services to its customers.

Fee income is accounted for as follows:

- Income earned on the execution of a significant act is recognised as revenue when the act is completed (ie, loan syndication fees). Loan syndication fees are recognised as revenue when the syndication has been completed or the syndication is probable and the Bank has retained no part of the loan package for itself or has retained a part of the same effective interest rate as other participants.
- Income earned from the provision of services is recognised as revenue as the services are provided (ie, asset management, portfolio and other management advisory and service fees).
- Income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (ie, certain loan commitment fees) and recorded in "Net interest income". Commitment fees, together with their related direct costs, for loan facilities where drawdown is probable are deferred and recognised as an adjustment to the effective interest rate on the loan once drawn. Commitment fees in relation to facilities where drawdown is not probable are recognised over the term of the commitment.

*Fee and commission expense*

Fee and commission expense relate to expenses that are directly linked to a financial asset or liability that produces fee income or expenses that are directly linked to the production of a fee income, similar to cost of sales.

Fees and commissions payable to introducers in respect of obtaining certain lending businesses, where this is the primary form of distribution, are charged to the income statement as "Fee and commission expense". The cost of mortgage incentives, which comprises cash-backs and interest discounts, is charged to the income statement as part of the effective interest rate.

*Trust and other fiduciary activities*

Income from trust and fiduciary activities arise as a result of holding or investing assets on behalf of individuals, trusts, retirement benefit plans, and other institutions. This income specifically relates to the activities of stewardship and custody and does not include assets that are on the Bank's balance sheet.

### 1.9.5 Gains and losses from derivative and trading instruments

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 under "Gains and losses from banking and trading activities", together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

### 1.9.6 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 they relate to trading assets or banking activities. Dividends related to investment activities are disclosed under "Gains and losses from investment activities".

### 1.9.7 Sale of assets under construction

Revenue from the sale of assets under construction is recognised when the legal title of the asset is transferred, provided that the Bank has no further significant acts to complete under the contract, and is disclosed in the income statement under "Other operating income".

### 1.9.8 Short-term insurance contracts

Premiums on insurance contracts are recognised as revenue earned premiums proportionally over the risk period. The portion of premiums received on in-force contracts that relate to unexpected risks at the balance sheet date is 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 deduction of commission. The change in the provision is taken to the income statement in order that revenue is recognised over the period of risk.

## 1.10 Intangible assets

### 1.10.1 Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Bank'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 Bank's share of net assets of the entity acquired, on the acquisition date, over the cost of acquisition.

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

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

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

Goodwill on acquisition of associated undertakings and joint venture companies is included in the amount of investments. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

### 1.10.2 Computer software

Acquired computer licences are capitalised on the basis of the costs incurred to bring into use the specific software. These costs are amortised over the estimated useful lives.

Costs associated with the developing and maintaining of computer software programmes are recognised as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives.

## 1.11 Property and equipment

### 1.11.1 Property not subject to lease agreements

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

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

The Bank uses the following annual rates in calculating depreciation:

| Item | Annual depreciation rate % |
|---|---|
| Computer equipment | 20 |
| Freehold property | 2 |
| Furniture and other equipment | 10 – 15 |
| Motor vehicles | 25 |

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 equipment is based on the quoted market prices for similar items.

### 1.11.2 Property subject to lease agreements

***Finance leases***

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

### *Operating leases*

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

## 1.12 Repossessed properties

Repossessed properties are disclosed as other assets and measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less certain estimated selling expenses.

## 1.13 Constructed assets held for resale

Constructed assets held for resale are stated at cost and disclosed as "Other assets". Cost includes the cost of the land, construction costs to date and certain estimated future development expenditure.

## 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 Bank'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 reduce goodwill and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, employee and benefit assets, which continue to be measured in accordance with the Bank's accounting policies.

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss until finally sold.

## 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 costs 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.

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.

Impairment losses recognised in prior years 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.

### 1.16 Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits. 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 Bank has a present constructive or legal obligation as a result of past events and it is probable that an outflow of resources, embodying economic benefits, will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

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

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

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

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

### 1.18 Employee benefits

#### 1.18.1 Post-retirement benefits

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

***Defined benefit structures***

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

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

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

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

Employees who retired prior to 1 April 1996 are eligible for the post-retirement medical aid benefits which are provided for under the Absa Group Pension Fund.

### *Defined contribution structures*

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

Contributions to any defined contribution plan are expensed as incurred.

### *Short-term benefits*

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

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

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

## 1.18.2 Share-based compensation

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

### *Employee services settled in equity instruments*

The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options determined at the grant date, excluding the impact of any non-market vesting conditions (ie, 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 of the number of options that are expected to become exercisable is revised at each balance sheet date and the difference is charged or credited to the income statement, with a corresponding adjustment to equity. Amounts recognised for services received if the options granted do not vest because of failure to satisfy a vesting condition, are reversed through the income statement. If options are forfeited after the vesting date, an amount equal to the value of the options forfeited is debited against the share-based payment reserve and credited against retained earnings.

The proceeds received net of any attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

### *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 are recognised as a personnel expense in the income statement. No amount is recognised for services received if the options granted do not vest because of a failure to satisfy a vesting condition.

### *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 optionholder 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

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

#### 1.19.1 Current taxation

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

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

#### 1.19.2 Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principle temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward; and in relation to acquisitions, on the difference between the fair values of net assets acquired and their tax bases. The rates enacted or substantially enacted at the balance sheet date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carry-forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

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

#### 1.19.3 Secondary tax on companies

Secondary tax on companies (STC) is provided for at 10,0% on the net of dividends declared less dividends received (unless exempt from STC) by the Bank at the same time as the liability to pay the related dividend is recognised. STC credits that arise from dividends received and receivable that exceed dividends paid are accounted for as a deferred tax asset. In respect of dividends declared before 1 October 2007, STC is provided for at a rate of 12,5%.

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

## 1.22 Reclassifications

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

## 1.23 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 2007 and have not been applied in preparing these consolidated financial statements:

**IFRS 8 – Operating segments (new)**

This IFRS specifies how an entity should report on its operating segments. The information is required to be reported on the same basis used for internal evaluation of the operating segment's performance and allocation of resources, as reported to the chief operating decision maker. The impact of this standard on the Bank is not considered to be significant.

IFRS 8 is effective for annual periods beginning on or after 1 January 2009.

**IAS 23 – Borrowing costs (amended)**

The amendment to IAS 23 has resulted in the elimination of the option to immediately expense borrowing costs on qualifying assets. An entity is therefore required to capitalise borrowing costs as part of the cost of the asset. The impact of this amendment to IAS 23 on the Bank is not considered to be significant.

IAS 23 is effective for annual periods beginning on or after 1 January 2009.

**IFRIC 11 – IFRS 2: Group and treasury share transactions**

IFRIC 11 clarifies the application of IFRS 2 in respect of certain share-based payments involving the entity's own equity instruments and arrangements involving equity instruments of the entity's parent. The IFRIC concluded that when an entity receives services as consideration for rights to its own equity instruments, the transaction should be accounted for as equity-settled. Where a parent grants rights to its own equity instruments to employees of its subsidiary, assuming the transaction is accounted for as an equity-settled share-based payment in the consolidated financial statements, the subsidiary should measure the services using the requirements for equity-settled transactions in IFRS 2, and should recognise a corresponding increase in equity as a contribution from the parent.

The interpretation is not expected to have any impact on the consolidated financial statements, as the Bank has already applied these principles.

IFRIC 11 is effective for annual periods beginning on or after 1 March 2007.

**IFRIC 12 – Service concession arrangements**

IFRIC 12 addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services, such as schools and roads. The interpretation states that for arrangements falling within its scope, the infrastructure assets are not recognised as property, plant and equipment of the operator.

The impact of this interpretation is not considered relevant to the operations of the Bank and will take effect for annual periods beginning on or after 1 January 2008.

**IFRIC 13 – Customer loyalty programmes**

This interpretation is applicable to entities that grant loyalty award credits, such as points or travel miles, to customers who buy goods or services. The interpretation provides guidance on how entities should be accounting for their obligation to provide free or discounted goods or services to customers who redeem these awards. The impact of this interpretation is not considered to be significant.

IFRIC 13 is effective for annual periods beginning on or after 1 July 2008.

**IFRIC 14 – The limit on a defined benefit asset and minimum funding requirements**

This interpretation addresses the interaction between the minimum funding requirement and the limit on the measurement of the defined asset or liability. To determine the limit, IFRIC 14 requires the Bank to measure any economic benefits available to them through either refunds or reductions in future contributions. The impact of this interpretation on the Bank is not considered to be significant.

IFRIC 14 is effective for annual periods beginning on or after 1 January 2008.

# Notes to the consolidated financial statements

Year ended 31 December

| | | BANK 2007 Rm | 2006 Rm |
|---|---|---|---|
| **2.** | **Cash, cash balances and balances with central banks** | | |
| | Balances with the South African Reserve Bank (SARB) | **10 396** | 8 402 |
| | Coins and bank notes | **4 673** | 3 620 |
| | | **15 069** | 12 022 |
| | *Portfolio analysis* | | |
| | Loans and receivables | | |
| | Balances with the SARB | **10 396** | 8 402 |
| | Coins and bank notes | **4 673** | 3 620 |
| | | **15 069** | 12 022 |
| **3.** | **Statutory liquid asset portfolio** | | |
| | Land Bank bills | **492** | 492 |
| | Republic of South Africa (RSA) government bonds | **13 024** | 13 166 |
| | Treasury bills | **9 441** | 7 171 |
| | | **22 957** | 20 829 |
| | *Portfolio analysis* | | |
| | Available-for-sale | **9 933** | 7 663 |
| | Land Bank bills | **492** | 492 |
| | Treasury bills | **9 441** | 7 171 |
| | Designated at fair value | | |
| | RSA government bonds | **2 683** | 3 744 |
| | Hedged item in fair value hedging relationship | | |
| | RSA government bonds[1] | **10 341** | 9 422 |
| | | **22 957** | 20 829 |
| | Included above are the following assets pledged with the SARB | **2 829** | 3 513 |
| | The related liability for the pledged assets, which is disclosed in "Deposits from banks", bears interest at the SARB repurchase rate. | | |
| **4.** | **Loans and advances to banks** | | |
| | Loans and advances to banks | **51 483** | 20 028 |
| | Remittances in transit | **1 208** | 805 |
| | | **52 691** | 20 833 |
| | *Portfolio analysis* | | |
| | Designated at fair value | **10 992** | — |
| | Loans and receivables | **41 699** | 20 833 |
| | | **52 691** | 20 833 |

Loans with variable rates are R50 312 million (2006: R19 614 million) and fixed rates are R1 171 million (2006: R414 million).

Included above are loans and advances with the Bank's ultimate parent company of R13 209 million (2006: R3 353 million). Refer to note 43 for the full disclosure of related party transactions.

Included above are loans and advances to banks with a carrying value of R68 million (2006: Rnil) that have been pledged as security.

Included above are reverse repurchase agreements of R29 307 million (2006: R8 867 million). Refer to note 41 for further information.

[1] *Previously designated as available-for-sale instruments.*

| | BANK 2007 Rm | BANK 2006 Rm |
|---|---|---|
| **5. Trading and hedging assets** | | |
| Debt instruments | **2 206** | 176 |
| Derivative assets (refer to note 58) | **21 757** | 15 065 |
| Commodity derivatives | **2 172** | 1 497 |
| Credit derivatives | **41** | 27 |
| Equity derivatives | **2 487** | 3 610 |
| Foreign exchange derivatives | **7 245** | 6 431 |
| Interest rate derivatives | **9 812** | 3 500 |
| Equity instruments | **573** | 1 796 |
| Money market assets | **1 340** | 705 |
| Total trading assets | **25 876** | 17 742 |
| Hedging assets (refer to note 58) | **725** | 641 |
| | **26 601** | 18 383 |
| *Portfolio analysis* | | |
| Derivatives designated as cash flow hedging instruments | **5** | 94 |
| Derivatives designated as fair value hedging instruments | **720** | 547 |
| Held for trading | **25 876** | 17 742 |
| Debt instruments | **2 206** | 176 |
| Derivative assets | **21 757** | 15 065 |
| Equity instruments | **573** | 1 796 |
| Money market assets | **1 340** | 705 |
| | **26 601** | 18 383 |

Included above are derivative positions with the Bank's ultimate parent company of R4 707 million (2006: R187 million). Refer to note 43 for the full disclosure of related party transactions.

Trading assets with a carrying value of R3 199 million (2006: R1 491 million) and derivative assets with a carrying value of R9 million (2006: Rnil) have been pledged as security.

*Certain comparatives have been reclassified in terms of Annexure A.*

| | BANK 2007 Rm | BANK 2006 Rm |
|---|---|---|
| **6. Other assets** | | |
| Accounts receivable and prepayments | **4 512** | 2 833 |
| Constructed assets held for resale | **465** | 298 |
| Deferred costs | **25** | 20 |
| | **5 002** | 3 151 |
| *Portfolio analysis* | | |
| Loans and receivables | **4 210** | 2 708 |
| Non-financial assets | **792** | 443 |
| | **5 002** | 3 151 |

Including above are settlement accounts with the Bank's ultimate parent company of R245 million (2006: Rnil). Refer to note 43 for the full disclosure of related party transactions.

Included in accounts receivable and prepayments are assets with a carrying value of R400 million (2006: Rnil), that have been pledged as security.

| | BANK 2007 Rm | 2006 Rm |
|---|---|---|
| **7. Current tax** | | |
| **Current tax assets** | | |
| Amount due from revenue authorities | **168** | — |
| **Current tax liabilities** | | |
| Amount due to revenue authorities | **56** | 941 |
| **8. Loans and advances to customers** | | |
| Cheque accounts | **19 597** | 15 380 |
| Client liabilities under acceptances | **108** | 20 |
| Corporate overdrafts and specialised finance loans | **5 907** | 5 615 |
| Credit cards | **13 827** | 11 244 |
| Foreign currency loans | **11 143** | 4 591 |
| Instalment credit agreements (refer to note 8.1) | **58 089** | 53 782 |
| Gross advances | **74 791** | 67 275 |
| Unearned finance charges | **(16 702)** | (13 493) |
| Loans granted under resale agreements (Carries) (refer to note 41) | **8 233** | 8 561 |
| Loans to associated undertakings and joint venture companies (refer to note 13) | **7 495** | 7 192 |
| Microloans | **2 642** | 1 432 |
| Mortgages | **263 029** | 214 671 |
| Other advances | **2 733** | 1 720 |
| Overnight finance | **12 636** | 7 370 |
| Personal loans | **16 771** | 16 326 |
| Preference shares | **9 877** | 9 301 |
| Wholesale overdrafts | **16 352** | 14 283 |
| Fair value adjustments | **162** | 306 |
| Mortgages | **82** | 258 |
| Wholesale overdrafts | **80** | 48 |
| | **448 601** | 371 794 |
| Impairment losses on loans and advances (refer to note 9) | **(5 481)** | (4 595) |
| | **443 120** | 367 199 |
| *Portfolio analysis* | | |
| Designated at fair value | **13 029** | 12 109 |
| Loans granted under resale agreements (Carries) | **3 040** | — |
| Mortgages | **6 661** | 7 440 |
| Wholesale overdrafts | **3 328** | 4 669 |
| Loans and receivables | **435 572** | 359 685 |
| | **448 601** | 371 794 |

*Certain comparatives have been reclassified in terms of Annexure A.*

# Notes to the consolidated financial statements

Year ended 31 December

| | BANK 2007 Rm | BANK 2006 Rm |
|---|---|---|
| **8. Loans and advances to customers** *(continued)* | | |
| **8.1 Instalment credit agreements** | | |
| *Maturity analysis* | | |
| **Gross investment in finance leases** | | |
| Less than one year | **21 249** | 20 108 |
| Between one and five years | **52 554** | 47 166 |
| More than five years | **988** | 1 |
| | **74 791** | 67 275 |
| **Unearned finance charges** | | |
| Less than one year | **(4 345)** | (3 738) |
| Between one and five years | **(12 132)** | (9 755) |
| More than five years | **(225)** | — |
| | **(16 702)** | (13 493) |
| **Net investment in finance leases** | | |
| Less than one year | **16 904** | 16 370 |
| Between one and five years | **40 422** | 37 411 |
| More than five years | **763** | 1 |
| | **58 089** | 53 782 |

The Bank enters into instalment credit agreements for motor vehicles, equipment and medical equipment.

All leases are denominated in South African rand. The average term of finance leases entered into is five years.

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

Unguaranteed residual values of instalment credit agreements at the balance sheet date are estimated at R6 537 million (2006: R5 775 million).

The accumulated allowance for uncollectable minimum lease payments receivable included in the allowance for impairments at the balance sheet date is R616 million (2006: R354 million).

| | BANK 2007 Rm | BANK 2006 Rm |
|---|---|---|
| **9. Impairment losses on loans and advances** | | |
| **Balance at the beginning of the year as previously reported** | **4 608** | 5 774 |
| Reclassification to investments | **(13)** | (13) |
| **Reclassified balance at the beginning of the year** | **4 595** | 5 761 |
| Interest on impaired assets (refer to note 26) | **(272)** | (119) |
| Disposal of subsidiary | **—** | (92) |
| Identified impairments | **—** | (85) |
| Unidentified impairments | **—** | (7) |
| Amounts written off during the year | **(1 460)** | (2 848) |
| | **2 863** | 2 702 |
| Impairments raised during the year (refer to note 9.1) | **2 618** | 1 893 |
| **Balance at the end of the year (refer to note 8)** | **5 481** | 4 595 |
| *Comprising* | | |
| Identified impairments | **3 175** | 2 558 |
| Identified impairments – net present value adjustment | **343** | 353 |
| Unidentified impairments | **1 963** | 1 684 |
| | **5 481** | 4 595 |

| | BANK 2007 Rm | BANK 2006 Rm |
|---|---|---|
| **9. Impairment losses on loans and advances** *(continued)* | | |
| **9.1 Income statement charge for impairment losses on loans and advances** | | |
| Impairments raised during the year | **2 618** | 1 893 |
| Identified impairments | **2 077** | 936 |
| Identified impairments - net present value adjustment | **262** | 270 |
| Unidentified impairments | **279** | 687 |
| Recoveries of advances previously written off | **(411)** | (378) |
| | **2 207** | 1 515 |
| **10. Loans to Absa Group companies** | | |
| Fellow subsidiaries | **8 308** | 1 728 |
| Holding company | **1 130** | 1 301 |
| | **9 438** | 3 029 |
| *Portfolio analysis* | | |
| Loans and receivables | **9 438** | 3 029 |
| **11. Deferred tax** | | |
| **11.1 Reconciliation of net deferred tax liability** | | |
| **Balance at the beginning of the year** | **2 070** | 2 229 |
| Deferred tax asset released/(raised) on STC credits (refer to note 11.4) | **12** | (22) |
| Disposal of subsidiaries (refer to note 50) | **—** | (31) |
| Deferred tax on amounts charged directly to equity | **(188)** | (188) |
| Available-for-sale investments | **33** | 10 |
| Fair value measurement | **15** | — |
| Transfer to income statement | **18** | 10 |
| Cash flow hedges | **(221)** | (198) |
| Fair value measurement | **(530)** | (228) |
| Transfer to income statement | **309** | 30 |
| Income statement charge (refer to note 36) | **331** | 42 |
| Tax effect of translation and other differences | **(14)** | 40 |
| **Balance at the end of the year** | **2 211** | 2 070 |
| **11.2 Deferred tax liability/(asset)** | | |
| Tax effects of temporary differences between tax and book value for: | | |
| Accruals and provisions | **2 262** | 2 679 |
| Impairment of advances | **(447)** | (348) |
| Property allowances | **52** | 70 |
| Gains on investments | **(161)** | (495) |
| Lease and rental debtor allowances | **559** | 255 |
| Other differences | **(6)** | (28) |
| **Deferred tax liability** | **2 259** | 2 133 |
| Deferred tax asset – normal | **(38)** | (41) |
| Deferred tax asset – STC (refer to note 11.4) | **(10)** | (22) |
| **Deferred tax asset** | **(48)** | (63) |
| **Net deferred tax liability** | **2 211** | 2 070 |

# Notes to the consolidated financial statements

Year ended 31 December

| | BANK 2007 Rm | 2006 Rm |
|---|---|---|
| **11. Deferred tax** *(continued)* | | |
| **11.3 Future tax relief** | | |
| The Bank has estimated tax losses of Rnil (2006: R6 million). | | |
| The above figures exclude tax losses and reversing temporary differences of Rnil (2006: R97 million) for which deferred tax assets have been raised. | | |
| **Balance at the beginning of the year** | **6** | 122 |
| Operating losses utilised | **(6)** | (119) |
| Movement in temporary differences | **—** | 3 |
| **Balance at the end of the year** | **—** | 6 |
| **11.4 Secondary taxation on companies (STC)** | | |
| Accumulated STC credits | **92** | 174 |
| Deferred tax asset raised (refer to note 11.2) | **10** | 22 |
| Raised at 10,0% | **6** | — |
| Raised at 12,5% | **4** | 22 |
| **Movement in deferred tax asset for the year (refer to note 11.1)** | **(12)** | 22 |
| If the total reserves of R25 140 million as at the balance sheet date (2006: R20 016 million) were to be declared as dividends, the secondary tax impact at a rate of 10,0% (2006: 12,5%) would be R2 514 million (2006: R2 502 million). | | |
| **12. Investments** | | |
| Debt instruments | **724** | 1 406 |
| Listed equity instruments | **1 129** | 690 |
| Unlisted equity and hybrid instruments | **4 256** | 1 864 |
| | **6 109** | 3 960 |
| **Directors' valuation and market value** | | |
| Directors' valuation of unlisted equity and hybrid instruments | **4 256** | 1 864 |
| Market value of debt instruments | **724** | 1 406 |
| Market value of listed equity instruments | **1 129** | 690 |
| | **6 109** | 3 960 |
| *Portfolio analysis* | | |
| Available-for-sale (refer to note 12.1) | **494** | 415 |
| Debt instruments | **68** | 167 |
| Listed equity instruments | **1** | 1 |
| Unlisted equity and hybrid instruments | **425** | 247 |
| Designated at fair value | **5 615** | 3 545 |
| Debt instruments | **656** | 1 239 |
| Listed equity instruments | **1 128** | 689 |
| Unlisted equity and hybrid instruments | **3 831** | 1 617 |
| | **6 109** | 3 960 |

| | BANK 2007 Rm | BANK 2006 Rm |
|---|---|---|
| **12. Investments** *(continued)* | | |
| **12.1 Available-for-sale investments** | | |
| Carrying value at the beginning of the year | **415** | 339 |
| Cost plus fair value movements | **458** | 387 |
| *Less:* Impairment[1] | **(43)** | (48) |
| Movement in investments | **79** | 71 |
| Movement in impairments (refer to note 34) | **—** | 5 |
| Carrying value at the end of the year | **494** | 415 |
| Cost plus fair value movements | **537** | 458 |
| *Less*: Impairment[1] | **(43)** | (43) |

*Certain comparatives have been reclassified in terms of Annexure A.*

| | BANK 2007 Rm | BANK 2006 Rm |
|---|---|---|
| **13. Investments in associated undertakings and joint venture companies** | | |
| Listed investments | **594** | 143 |
| Unlisted investments | **776** | 458 |
| | **1 370** | 601 |
| **13.1 Movement in carrying amount** | | |
| **Balance at the beginning of the year** | **601** | 533 |
| Share of current year retained income | **85** | 48 |
| Share of current year income before taxation | **177** | 76 |
| *Less:* Taxation on current income | **(58)** | (22) |
| *Less*: Dividends received | **(34)** | (6) |
| Net acquisition of associated undertakings and joint venture companies at cost (refer to note 13.4) | **649** | 19 |
| Change in loans to associated undertakings and joint venture companies | **18** | 11 |
| Impairment charge (refer to note 34) | **—** | (10) |
| Amount recognised in liabilities for the Bank's share of losses | **17** | — |
| **Balance at the end of the year** | **1 370** | 601 |
| **13.2 Analysis of carrying amount** | | |
| *Listed investments* | | |
| Shares at cost | **555** | 143 |
| Share of post-acquisition reserves | **39** | — |
| | **594** | 143 |
| *Unlisted investments* | | |
| Shares at book value | **513** | 254 |
| Shares at cost | **523** | 264 |
| *Less:* Impairment | **(10)** | (10) |
| Share of post-acquisition reserves | **235** | 193 |
| Share of non-distributable reserves | **218** | 193 |
| Amount recognised in liabilities for the Bank's share of losses | **17** | — |
| Loans to associated undertakings and joint venture companies | **28** | 11 |
| | **776** | 458 |

Other commercial loans to associated undertakings and joint venture companies included in advances amounted to R7 495 million (2006: R7 192 million). Refer to note 8 for further details.

[1]*All impairments relate to equity instruments.*

| | | BANK 2007 Rm | 2006 Rm |
|---|---|---|---|
| **13.** | **Investments in associated undertakings and joint venture companies** *(continued)* | | |
| **13.3** | **Valuation** | | |
| | Market value of listed investments | **568** | 156 |
| | Directors' valuation of unlisted investments | **776** | 459 |
| | | **1 344** | 615 |
| **13.4** | **Acquisitions and disposals** | | |
| | **The following acquisitions were concluded during the current year, at cost:** | | |
| | Somerset West Autopark (Proprietary) Limited | **0** | n/a |
| | On 3 January 2007, the Bank acquired a 33,3% interest in Somerset West Autopark (Proprietary) Limited. | | |
| | Ngwenya River Estate (Proprietary) Limited | **38** | n/a |
| | On 29 January 2007, the Bank acquired a 50,0% interest in Ngwenya River Estate (Proprietary) Limited. | | |
| | Ambit Properties Limited | **412** | n/a |
| | During the year, the Bank acquired an additional 9,3% interest in Ambit Properties Limited. The Bank's shareholding is now 30,6%. | | |
| | African Trading Spirit 309 (Proprietary) Limited | **11** | n/a |
| | During the year, the Bank made an additional contribution in African Trading Spirit 309 (Proprietary) Limited. | | |
| | Maravedi Group (Proprietary) Limited | **7** | n/a |
| | On 20 November 2007, the Bank acquired an additional interest in Maravedi Group (Proprietary) Limited. | | |
| | Persistant Properties (Proprietary) Limited | **8** | n/a |
| | On 29 August 2007, the Bank acquired a 50,0% interest in Persistant Properties (Proprietary) Limited. Thereafter, additional contributions were made to such interest. | | |
| | Agrista (Proprietary) Limited | **0** | n/a |
| | On 1 February 2007, the Bank acquired a 46,5% interest in Agrista (Proprietary) Limited. | | |
| | Northern Lights Trading 197 (Proprietary) Limited | **70** | n/a |
| | During the year, the Bank acquired a 50,0% interest in Northern Lights Trading 197 (Proprietary) Limited. | | |
| | RZT Zelpy 4809 (Proprietary) Limited | **30** | n/a |
| | On 1 November 2007, the Bank acquired a 25,0% interest in RZT Zelpy 4809 (Proprietary) Limited. | | |
| | Barrie Island Property Investments (Proprietary) Limited | **3** | n/a |
| | During December 2007, the Bank acquired a 40,0% interest in Barrie Island Property Investments (Proprietary) Limited. | | |
| | Blue Nightingale 608 (Proprietary) Limited | **32** | n/a |
| | During December 2007, the Bank acquired a 30,0% interest in Blue Nightingale 608 (Proprietary) Limited. | | |
| | Maxcity Properties (Proprietary) Limited | **38** | n/a |
| | On 13 December 2007, the Bank acquired a 40,0% interest in Maxcity Properties (Proprietary) Limited. | | |
| | Balance carried forward | **649** | n/a |

| | BANK 2007 Rm | 2006 Rm |
|---|---|---|
| **13. Investments in associated undertakings and joint venture companies** *(continued)* | | |
| **13.4 Acquisitions and disposals** *(continued)* | | |
| Balance brought forward | **649** | n/a |
| **The following acquisitions were concluded during the previous year, at cost:** | | |
| Paramount Property Fund Limited | **n/a** | 57 |
| On 1 April 2006, the Bank acquired a further interest in Paramount Property Fund Limited. | | |
| Ballito Junction Development (Proprietary) Limited | **n/a** | 35 |
| The investment in Ballito Junction Development (Proprietary) Limited was recognised as an associate from 1 January 2006. | | |
| Ambit Properties Limited | **n/a** | 146 |
| On 1 April 2006, the Bank acquired an additional 3,6% interest in Ambit Properties Limited. This increased the Bank's shareholding to 21,3%. | | |
| Campus on Rigel (Proprietary) Limited | **n/a** | 0 |
| On 21 April 2006, the Bank acquired a 33,3% interest in Campus on Rigel (Proprietary) Limited. | | |
| Abseq Properties (Proprietary) Limited | **n/a** | 133 |
| On 1 April 2006, the Bank acquired a 50,0% interest in Abseq Properties (Proprietary) Limited. | | |
| African Trading Spirit 309 (Proprietary) Limited | **n/a** | 20 |
| On 1 November 2006, the Bank acquired a 50,0% interest in African Trading Spirit 309 (Proprietary) Limited. | | |
| Palm Hill Property Investments (Proprietary) Limited | **n/a** | 0 |
| On 1 November 2006, the Bank acquired a 40,0% interest in Palm Hill Property Investments (Proprietary) Limited. | | |
| **Total acquisitions** | **649** | 391 |
| **The following disposals were concluded during the year:** | | |
| Axial Finance (Proprietary) Limited | **(0)** | n/a |
| On 16 February 2007, the Bank sold its shares in Axial Finance (Proprietary) Limited to a third party. | | |
| Ambit Properties Limited | **(0)** | n/a |
| On 16 July 2007, the Bank sold a share in Ambit Properties Limited to a third party. | | |
| Ambit Management Services (Proprietary) Limited | **(0)** | n/a |
| Ambit Management Services (Proprietary) Limited is now recognised as a subsidiary. | | |
| **The following disposals were concluded during the previous year:** | | |
| Paramount Property Fund Limited | **n/a** | (335) |
| On 17 October 2006, the Bank sold its share in Paramount Property Fund Limited to a third party. | | |
| Conbros Limited | **n/a** | (37) |
| Conbros Limited was recognised as a subsidiary during 2006. | | |
| **Total disposals** | **(0)** | (372) |
| **Net acquisitions (refer to note 13.1)** | **649** | 19 |
| **13.5 Details of the net assets acquired on the aforementioned acquisitions are as follows:** | | |
| Purchase consideration | | |
| Cash paid | **378** | 174 |
| Sale of property and equipment | **303** | — |
| Transfer of investments to associates | **—** | 217 |
| Elimination of profits to the extent of interest in Ambit Properties Limited | **(32)** | — |
| | **649** | 391 |

| | BANK 2007 Rm | 2006 Rm |
|---|---|---|
| **13. Investments in associated undertakings and joint venture companies** *(continued)* | | |
| **13.6 Details of the net assets disposed of on the aforementioned disposals are as follows:** | | |
| Consideration received | | |
| Cash received | — | 360 |
| Consideration in shares | — | 142 |
| Profit on disposal | — | (167) |
| Transferred to subsidiaries | — | 37 |
| | — | 372 |

For further information on the Bank's associated undertakings and joint venture companies, refer to note 43.

## 14. Intangible assets

BANK

| | 2007 Cost Rm | 2007 Accumulated amortisation and impairments Rm | 2007 Carrying value Rm | 2006 Cost Rm | 2006 Accumulated amortisation and impairments Rm | 2006 Carrying value Rm |
|---|---|---|---|---|---|---|
| Computer software development costs | **327** | **(226)** | **101** | 177 | (142) | 35 |
| Goodwill | **131** | **(4)** | **127** | 116 | (4) | 112 |
| | **458** | **(230)** | **228** | 293 | (146) | 147 |

**Reconciliation of intangible assets**

| **2007** | **Opening balance Rm** | **Additions Rm** | **Disposals Rm** | **Amortisation Rm** | **Impairment charge Rm** | **Total Rm** |
|---|---|---|---|---|---|---|
| Computer software development costs | **35** | **150** | **—** | **(63)** | **(21)** | **101** |
| Goodwill | **112** | **15** | **—** | **—** | **—** | **127** |
| | **147** | **165** | **—** | **(63)** | **(21)** | **228** |

| 2006 | Opening balance Rm | Additions Rm | Disposals Rm | Amortisation Rm | Impairment charge Rm | Total Rm |
|---|---|---|---|---|---|---|
| Computer software development costs | 8 | 119 | (8) | (18) | (66) | 35 |
| Goodwill | 112 | — | — | — | — | 112 |
| | 120 | 119 | (8) | (18) | (66) | 147 |

| | BANK 2007 Rm | 2006 Rm |
|---|---|---|
| **Composition of goodwill** | | |
| Absa Vehicle Management (Proprietary) Limited | **112** | 112 |
| Ambit Management Services (Proprietary) Limited | **15** | — |
| | **127** | 112 |

## 15. Property and equipment

BANK

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | **Cost Rm** | **Accumulated depreciation Rm** | **Carrying value Rm** | Cost Rm | Accumulated depreciation Rm | Carrying value Rm |
| Computer equipment | **2 889** | **(1 492)** | **1 397** | 3 082 | (1 885) | 1 197 |
| Freehold property | **1 634** | **(154)** | **1 480** | 1 229 | (129) | 1 100 |
| Furniture and other equipment | **2 942** | **(1 701)** | **1 241** | 2 817 | (1 771) | 1 046 |
| Leasehold property | **491** | **(351)** | **140** | 491 | (325) | 166 |
| Motor vehicles | **3** | **(3)** | **—** | 3 | (3) | — |
| | **7 959** | **(3 701)** | **4 258** | 7 622 | (4 113) | 3 509 |

**Reconciliation of property and equipment**

| **2007** | **Opening balance Rm** | **Additions Rm** | **Disposals Rm** | **Foreign exchange movements Rm** | **Depreciation Rm** | **Total Rm** |
|---|---|---|---|---|---|---|
| Computer equipment | **1 197** | **708** | **(47)** | **—** | **(461)** | **1 397** |
| Freehold property | **1 100** | **466** | **(56)** | **—** | **(30)** | **1 480** |
| Furniture and other equipment | **1 046** | **509** | **(88)** | **—** | **(226)** | **1 241** |
| Leasehold property | **166** | **—** | **—** | **—** | **(26)** | **140** |
| | **3 509** | **1 683** | **(191)** | **—** | **(743)** | **4 258** |

| 2006 | Opening balance Rm | Additions Rm | Disposals Rm | Foreign exchange movements Rm | Depreciation Rm | Total Rm |
|---|---|---|---|---|---|---|
| Computer equipment | 1 104 | 495 | (25) | — | (377) | 1 197 |
| Freehold property | 995 | 141 | (6) | — | (30) | 1 100 |
| Furniture and other equipment | 955 | 435 | (73) | 1 | (272) | 1 046 |
| Leasehold property | 192 | — | — | — | (26) | 166 |
| Motor vehicles | 1 | — | — | — | (1) | — |
| | 3 247 | 1 071 | (104) | 1 | (706) | 3 509 |

Leasehold property and computer equipment with a carrying value of R36 million (2006: R98 million) are encumbered under finance leases (refer to note 23).

In terms of the Companies Act No 61 of 1973 (as amended), of South Africa, details regarding freehold property are kept at each company's registered office, and this information will be made available to shareholders on written request.

| | | BANK 2007 Rm | BANK 2006 Rm |
|---|---|---|---|
| **16.** | **Deposits from banks** | | |
| | Deposits from banks | **65 167** | 28 897 |
| | *Portfolio analysis* | | |
| | Designated at fair value | **28 603** | — |
| | Financial liabilities at amortised cost | **36 564** | 28 897 |
| | | **65 167** | 28 897 |

All deposits from banks have variable interest rates.

Included above are deposits with the Bank's ultimate parent company of R16 254 million (2006: R8 420 million). Refer to note 43 for the full disclosure of related party transactions.

Included in the above balance are repurchase agreements to the value of R28 603 million (2006: R9 423 million). Refer to note 41 for further details.

*Certain comparatives have been reclassified in terms of Annexure A.*

| | | BANK 2007 Rm | BANK 2006 Rm |
|---|---|---|---|
| **17.** | **Trading and hedging liabilities** | | |
| | Derivative liabilities (refer to note 58) | **22 043** | 15 573 |
| | Commodity derivatives | **2 183** | 1 429 |
| | Credit derivatives | **14** | 5 |
| | Equity derivatives | **1 560** | 1 302 |
| | Foreign exchange derivatives | **7 748** | 7 428 |
| | Interest rate derivatives | **10 538** | 5 409 |
| | Trading liabilities | **904** | 567 |
| | Total trading liabilities | **22 947** | 16 140 |
| | Hedging liabilities (refer to note 58) | **2 226** | 1 257 |
| | | **25 173** | 17 397 |
| | *Portfolio analysis* | | |
| | Derivatives designated as cash flow hedging instruments | **1 626** | 661 |
| | Derivatives designated as fair value hedging instruments | **600** | 596 |
| | Held for trading | **22 947** | 16 140 |
| | Derivative liabilities | **22 043** | 15 573 |
| | Trading liabilities | **904** | 567 |
| | | **25 173** | 17 397 |

Included in trading liabilities are derivative liabilities with the Bank's ultimate parent company of R5 496 million (2006: R1 237 million). Refer to note 43 for the full disclosure of related party transactions.

*Certain comparatives have been reclassified in terms of Annexure A.*

| | BANK | |
|---|---|---|
| | **2007** **Rm** | 2006 Rm |
| **18. Other liabilities and sundry provisions** | | |
| Audit fee accrual | **23** | 19 |
| Creditors, other accruals and sundry provisions | **5 692** | 4 460 |
| Deferred income | **112** | 126 |
| Leave pay accrual | **478** | 420 |
| Liabilities under finance leases (refer to note 23) | **884** | 908 |
| Settlement balances | **1 217** | 780 |
| Share-based payment liability (refer to note 49) | **195** | 78 |
| Staff bonus and incentive accrual | **1 512** | 1 224 |
| | **10 113** | 8 015 |
| *Portfolio analysis* | | |
| Designated at fair value | **234** | — |
| Financial liabilities at amortised cost | **8 751** | 6 916 |
| Non-financial liabilities | **1 128** | 1 099 |
| | **10 113** | 8 015 |

Included above are settlement accounts with the Bank's ultimate parent company for R121 million (2006: Rnil). Refer to note 43 for the full disclosure of related party transactions.

| | BANK | |
|---|---|---|
| | **2007** **Rm** | 2006 Rm |
| **19. Deposits due to customers** | | |
| Call deposits | **45 726** | 42 181 |
| Cheque account deposits | **94 776** | 88 774 |
| Credit card deposits | **2 173** | 2 291 |
| Fixed deposits | **101 925** | 91 000 |
| Foreign currency deposits | **8 330** | 12 002 |
| Liabilities to clients under acceptances | **108** | 20 |
| Notice deposits | **6 863** | 6 879 |
| Other deposits | **8 591** | 6 864 |
| Repurchase agreements with non-banks (refer to note 41) | **1 115** | — |
| Saving and transmission deposits | **35 270** | 25 396 |
| | **304 877** | 275 407 |
| *Portfolio analysis* | | |
| Designated at fair value | **11 465** | 265 |
| Financial liabilities at amortised cost | **290 890** | 271 142 |
| Hedged items in fair value hedging relationship | **2 522** | 4 000 |
| | **304 877** | 275 407 |

*Certain comparatives have been reclassified in terms of Annexure A.*

| | BANK | |
|---|---|---|
| | **2007** **Rm** | 2006 Rm |
| **20. Debt securities in issue** | | |
| Customers | **116 934** | 73 526 |
| Floating rate notes | **33 185** | 13 962 |
| Negotiable certificates of deposit | **62 509** | 43 496 |
| Other debt securities in issue | **14 939** | — |
| Promissory notes | **6 301** | 16 068 |
| Banks | **17 089** | 10 340 |
| Floating rate notes | **2 764** | — |
| Negotiable certificates of deposit | **13 416** | 5 829 |
| Promissory notes | **909** | 4 511 |
| | **134 023** | 83 866 |

| | | BANK 2007 Rm | 2006 Rm |
|---|---|---|---|
| **20.** | **Debt securities in issue** *(continued)* | | |
| | *Portfolio analysis* | | |
| | Designated at fair value | | |
| | Other debt securities in issue | **3 764** | — |
| | Financial liabilities at amortised cost | **124 296** | 83 866 |
| | Floating rate notes | **35 949** | 13 962 |
| | Negotiable certificates of deposit | **75 925** | 49 325 |
| | Other debt securities in issue | **5 212** | — |
| | Promissory notes | **7 210** | 20 579 |
| | Hedged item in fair value hedging relationship | | |
| | Other debt securities in issue | **5 963** | — |
| | | **134 023** | 83 866 |
| | *Certain comparatives have been reclassified in terms of Annexure A.* | | |
| **21.** | **Policyholder liabilities under insurance contracts** | | |
| | Maintenance contracts accounted for as insurance contracts | **67** | 76 |

| | | | 2007 Rm | 2006 Rm |
|---|---|---|---|---|
| **22.** | **Borrowed funds** | | | |
| **22.1** | **Subordinated callable notes** | | | |
| | The subordinated debt instruments listed below qualify as secondary capital in terms of the Banks Act, No 94 of 1990 (as amended). | | | |
| | **Interest rate** | **Final maturity date** | | |
| | 14,25% | 22 March 2014 | **3 100** | 3 100 |
| | 10,75% | 26 March 2015 | **1 100** | 1 100 |
| | Three-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** | 2 000 |
| | 8,80% | 7 March 2019 | **1 725** | — |
| | Accrued interest | | **297** | 253 |
| | Fair value adjustment[1] | | **(326)** | (85) |
| | | | **9 796** | 8 268 |

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 each year, on the basis that the last date for payment shall be 22 March 2009. Should the note not be redeemed on 22 March 2009, interest will be paid quarterly in arrear thereafter on 22 March, 22 June, 22 September and 22 December, with the first quarterly payment commencing on 22 June 2009.

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

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

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

[1] *The fair value adjustment relates to subordinated callable notes designated as hedged items in a hedging relationship.*

**22. Borrowed funds** *(continued)*

**22.1 Subordinated callable notes** *(continued)*

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.

The 8,80% notes may be redeemed in full at the option of Absa Bank Limited on 7 March 2019. Interest is paid semi-annually in arrear on 7 March and 7 September of each year, provided that the last date for payment shall be 7 March 2019. If Absa Bank Limited does not exercise the redemption option, interest is payable thereafter at a floating rate of three-month JIBAR plus 0,92% quarterly in arrear on 7 March, 7 June, 7 September and 7 December. These notes were issued on 7 March 2007.

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

| | BANK | |
|---|---|---|
| | **2007 Rm** | 2006 Rm |
| *Portfolio analysis* | | |
| Financial liabilities at amortised cost | **4 951** | 5 900 |
| Hedged item in fair value hedging relationship | **4 845** | 2 368 |
| | **9 796** | 8 268 |

**23. Liabilities under finance leases**

| | BANK | |
|---|---|---|
| | **2007 Rm** | 2006 Rm |
| **Minimum lease payments due** | | |
| Less than one year | **230** | 199 |
| Between one and two years | **252** | 221 |
| Between two and three years | **223** | 243 |
| Between three and four years | **231** | 222 |
| Between four and five years | **257** | 231 |
| More than five years | **240** | 497 |
| | **1 433** | 1 613 |
| **Less interest** | | |
| Less than one year | **(148)** | (156) |
| Between one and two years | **(130)** | (147) |
| Between two and three years | **(108)** | (130) |
| Between three and four years | **(86)** | (108) |
| Between four and five years | **(55)** | (86) |
| More than five years | **(22)** | (78) |
| | **(549)** | (705) |
| **Principal** | | |
| Less than one year | **82** | 43 |
| Between one and two years | **122** | 74 |
| Between two and three years | **115** | 113 |
| Between three and four years | **145** | 114 |
| Between four and five years | **202** | 145 |
| More than five years | **218** | 419 |
| **Present value of minimum lease payments (refer to note 18)** | **884** | 908 |

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

Refer to note 15 for details of property and equipment subject to finance leases.

| | BANK 2007 Rm | 2006 Rm |
|---|---|---|
| **24. Share capital and premium** | | |
| **24.1 Ordinary share capital** | | |
| **Authorised** | | |
| 320 000 000 (2006: 320 000 000) ordinary shares of R1,00 each | **320** | 320 |
| 250 000 000 (2006: 250 000 000) "A" ordinary shares of R0,01 each | **3** | 3 |
| | **323** | 323 |
| **Issued** | | |
| 302 609 359 (2006: 302 609 359) ordinary shares of R1,00 each | **303** | 303 |
| 34 676 057 (2006: 34 676 057) "A" ordinary shares of R0,01 each | **0** | 0 |
| | **303** | 303 |
| **Total issued capital** | | |
| Share capital | **303** | 303 |
| Share premium | **5 415** | 5 415 |
| | **5 718** | 5 718 |

*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 the balance sheet date, 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 Absa Group Limited annual general meeting.

*Shares issued during the previous year*

On 10 March 2006, 4 394 961 "A" ordinary shares were issued at a par value of R0,01 and R170,64 share premium, on payment of a R750 million special dividend to Absa Group Limited (refer to note 40).

All shares issued by the Bank are paid in full.

| | BANK 2007 Rm | 2006 Rm |
|---|---|---|
| **24.2 Preference share capital – listed** | | |
| **Authorised** | | |
| 30 000 000 (2006: 30 000 000) non-cumulative non-redeemable preference shares of R0,01 each | **1** | 1 |
| **Issued** | | |
| 4 944 839 (2006: 3 000 000) non-cumulative non-redeemable preference shares of R0,01 each | **1** | 1 |
| **Total issued capital** | | |
| Share capital | **1** | 1 |
| Share premium | **4 643** | 2 991 |
| | **4 644** | 2 992 |

## 24. Share capital and premium *(continued)*

### 24.2 Preference share capital – listed *(continued)*

The holders of such shares shall not be entitled to voting rights unless a declared preference dividend remains in arrear 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*

The following non-cumulative, non-redeemable preference shares were issued by Absa Bank Limited during the year by way of a private placement on the JSE to raise cost-effective permanent share capital as part of a general capital management programme to provide the Bank with funding for strategic initiatives:

- On 4 April 2007, 1 681 184 shares at R847,34 per share, being R0,01 par value and R847,33 share premium.
- On 8 May 2007, 74 381 shares at R878,87 per share, being R0,01 par value and R878,86 share premium.
- On 12 June 2007, 31 223 shares at R894,19 per share, being R0,01 par value and R894,18 share premium.
- On 10 July 2007, 105 520 shares at R895,11 per share, being R0,01 par value and R895,10 share premium.
- On 7 August 2007, 23 994 shares at R887,90 per share, being R0,01 par value and R887,89 share premium.
- On 11 September 2007, 28 537 shares at R842,33 per share, being R0,01 par value and R842,32 share premium.

*Shares issued during the previous year*

On 25 April 2006, 3 000 000 non-cumulative non-redeemable preference shares were issued by the Company at R1 000,00 per share, being R0,01 par value and R999,99 share premium, by way of a private placement on the JSE to raise cost-effective permanent share capital as part of a general capital management programme to provide the Bank with funding for strategic initiatives.

## 25. Other reserves

**Foreign currency translation reserve**

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

**Available-for-sale reserve**

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

**Cash flow hedge reserve**

The cash flow hedge 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 venture companies' distributable reserves**

The associated undertakings' and joint ventures' distributable reserves comprise the Bank's share of its associates' and/or joint venture companies' distributable reserves.

**Regulatory general credit risk reserve**

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

**Share-based payment reserve**

The reserve comprises the credit to equity for equity-settled share-based payment arrangements in terms of IFRS 2 – Share-based payment. The standard requires that the expense be charged to the income statement, while a credit needs to be raised against equity over the vesting period (ie, the period between the allocation date and the date on which employees will become entitled to their options). When options are exercised or if options lapse after vesting, the related reserve is transferred to retained earnings.

| | BANK 2007 Rm | BANK 2006 Rm |
|---|---|---|
| **26. Interest and similar income** | | |
| Interest and similar income is earned from: | | |
| Cash, cash balances and balances with central banks | **110** | 69 |
| Fair value adjustments on hedging instruments | **(547)** | (31) |
| Loans and advances to banks (refer to note 26.1) | **2 323** | 617 |
| Loans and advances to customers (refer to note 26.2) | **48 490** | 34 273 |
| Other interest | **181** | 103 |
| Statutory liquid asset portfolio | **1 656** | 1 487 |
| | **52 213** | 36 518 |
| *Portfolio analysis* | | |
| Fair value adjustments on hedged items | | |
| Statutory liquid asset portfolio (refer to note 58) | **(343)** | (39) |
| Fair value adjustments on hedging instruments | **(547)** | (31) |
| Cash flow hedges | **(1 004)** | (99) |
| Fair value hedges (refer to note 58) | **457** | 68 |
| Interest on financial assets held at amortised cost | **51 827** | 35 134 |
| Interest on financial assets designated at fair value | | |
| Statutory liquid asset portfolio | **1 276** | 1 452 |
| Other fair value adjustments | | |
| Loans and advances | **—** | 2 |
| | **52 213** | 36 518 |
| **26.1 Loans and advances to banks** | | |
| Other | **2 229** | 575 |
| Ultimate parent company (refer to note 43) | **94** | 42 |
| | **2 323** | 617 |
| **26.2 Loans and advances to customers** | | |
| Cheque accounts | **2 475** | 1 799 |
| Corporate overdrafts and specialised finance loans | **650** | 532 |
| Credit cards | **2 134** | 1 340 |
| Foreign currency loans | **653** | 757 |
| Instalment credit agreements | **7 288** | 5 610 |
| Interest on impaired assets (refer to note 9) | **272** | 119 |
| Microloans | **317** | 258 |
| Mortgages | **27 683** | 18 402 |
| Other advances[1] | **1 036** | 1 206 |
| Overnight finance | **1 147** | 539 |
| Personal loans | **2 649** | 1 811 |
| Preference shares | **1 056** | 1 023 |
| Wholesale overdrafts | **1 130** | 877 |
| | **48 490** | 34 273 |

*Certain comparatives have been reclassified in terms of Annexure A.*

[1]*Includes items such as interest on factored debtors' books and interest on loans to associates.*

| | BANK 2007 Rm | 2006 Rm |
|---|---|---|
| **27. Interest expense and similar charges** | | |
| Interest expense and similar charges are paid on: | | |
| Borrowed funds | **796** | 746 |
| Debt securities in issue | **10 905** | 5 402 |
| Deposits from banks (refer to note 27.1) | **1 235** | 1 021 |
| Deposits due to customers (refer to note 27.2) | **20 646** | 14 864 |
| Fair value adjustments on hedging instruments | **560** | 150 |
| Interest incurred on finance leases | **156** | 161 |
| | **34 298** | 22 344 |
| *Portfolio analysis* | | |
| Fair value adjustment on hedged items (refer to note 58) | **(417)** | (121) |
| Borrowed funds | **(241)** | (97) |
| Debt securities in issue | **(176)** | (24) |
| Fair value adjustment on hedging instruments (refer to note 58) | | |
| Fair value hedges | **560** | 150 |
| Interest paid on financial liabilities held at amortised cost | **34 155** | 22 315 |
| | **34 298** | 22 344 |
| **27.1 Deposits from banks** | | |
| Other | **985** | 878 |
| Ultimate parent company (refer to note 43) | **250** | 143 |
| | **1 235** | 1 021 |
| **27.2 Deposits due to customers** | | |
| Call deposits | **4 075** | 3 331 |
| Cheque accounts deposits | **4 580** | 3 550 |
| Credit card deposits | **63** | 61 |
| Fixed deposits | **8 675** | 5 569 |
| Foreign currency deposits | **1 266** | 677 |
| Notice deposits | **470** | 337 |
| Other deposits | **384** | 813 |
| Saving and transmission deposits | **1 133** | 526 |
| | **20 646** | 14 864 |

*Certain comparatives have been reclassified in terms of Annexure A.*

| | | BANK 2007 Rm | BANK 2006 Rm |
|---|---|---|---|
| **28.** | **Net fee and commission income** | | |
| | **Fee and commission income** | | |
| | Credit-related fees and commissions | **9 765** | 8 706 |
| | Credit cards | **1 543** | 1 383 |
| | Cheque accounts | **2 536** | 2 384 |
| | Electronic banking | **2 657** | 2 248 |
| | Other | **1 234** | 1 180 |
| | Saving accounts | **1 795** | 1 511 |
| | Corporate finance fees | **289** | 136 |
| | External administration fees | **192** | 157 |
| | Insurance commission received | **346** | 453 |
| | Portfolio and other management fees | **16** | 16 |
| | Unit and property trust income | **12** | 18 |
| | | **10 620** | 9 486 |
| | **Fee and commission expense** | | |
| | Fees and commissions paid | **(574)** | (513) |
| | | **10 046** | 8 973 |
| **28.1** | **Net fee and commission linked to financial instruments not at fair value** | | |
| | **Fee and commission income** | | |
| | Credit cards | **740** | 703 |
| | Cheque accounts | **2 536** | 2 384 |
| | Electronic banking | **2 657** | 2 248 |
| | Other | **492** | 842 |
| | Saving accounts | **1 795** | 1 400 |
| | | **8 220** | 7 577 |
| | **Fee and commission expense** | | |
| | Fees and commissions paid | **(147)** | (136) |
| | | **8 073** | 7 441 |
| **28.2** | **Trust and other fiduciary activities** | | |
| | Portfolio and other management fees | **16** | 16 |
| | Unit and property trust income | **12** | 18 |
| | | **28** | 34 |

The Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involves the Bank making allocation, purchase and sale decisions in relation to a wide range of financial instruments. Some of these arrangements involve the Bank accepting targets for benchmark levels of returns for the assets under the Bank's care.

*Certain comparatives have been reclassified in terms of Annexure A.*

| | BANK 2007 Rm | BANK 2006 Rm |
|---|---|---|
| **29. Gains and losses from banking and trading activities** | | |
| Designated at fair value | **948** | (105) |
| Debt instruments | **2** | — |
| Debt securities in issue | **(112)** | 1 |
| Equity instruments | **851** | 430 |
| Loans and advances and deposits to customers | **261** | (381) |
| Statutory liquid assets | **(54)** | (155) |
| Associated undertakings and joint venture companies | **2** | 167 |
| Dividends received | **8** | — |
| (Loss)/profit realised on disposal | **(6)** | 167 |
| Held for trading | | |
| Derivatives and trading instruments | **507** | 1 173 |
| Ineffective hedges | **79** | (1) |
| Cash flow hedges (refer to note 58) | **(60)** | (5) |
| Fair value hedges (refer to note 58) | **139** | 4 |
| | **1 536** | 1 234 |

*Certain comparatives have been reclassified in terms of Annexure A.*

| | BANK 2007 Rm | BANK 2006 Rm |
|---|---|---|
| **30. Gains and losses from investment activities** | | |
| Associated undertakings and joint venture companies | | |
| Dividends received | **3** | — |
| Designated at fair value | | |
| Equity instruments | **69** | 119 |
| Subsidiaries | | |
| Profit realised on disposal | **36** | 50 |
| | **108** | 169 |
| **31. Other operating income** | | |
| Exchange differences on operational activities | **100** | 72 |
| Income from maintenance contracts | **34** | 30 |
| Internal banking income[1] | **283** | 222 |
| Profit on disposal of internally generated intangibles | **68** | — |
| Profit on disposal of property and equipment | **80** | 11 |
| Property development profit (refer to note 31.1) | **191** | 148 |
| Property rental | **93** | 90 |
| Sundry income[2] | **157** | 306 |
| | **1 006** | 879 |
| **31.1 Property development profit** | | |
| Gross sales | **308** | 243 |
| Cost of sales | **(117)** | (95) |
| | **191** | 148 |

*Certain comparatives have been reclassified in terms of Annexure A.*

[1]*Internal banking income includes fees and commission income earned from transactions with Absa Group Limited, fellow subsidiaries and the Bank's ultimate parent company of R3 million (2006: R25 million). Refer to note 43 for the full disclosure of related party transactions.*

[2]*Sundry income includes service fees levied on sundry non-core business activities.*

| | BANK 2007 Rm | BANK 2006 Rm |
|---|---|---|
| **32. Operating expenses** | | |
| Amortisation on intangible assets (refer to note 14) | **63** | 18 |
| Auditors' remuneration | **53** | 52 |
| Audit fees | **49** | 43 |
| Other fees | **4** | 9 |
| Cash transportation | **268** | 227 |
| Depreciation (refer to note 15) | **743** | 706 |
| Computer equipment | **461** | 377 |
| Furniture and other equipment | **226** | 272 |
| Freehold property | **30** | 30 |
| Leasehold property | **26** | 26 |
| Motor vehicles | **—** | 1 |
| Equipment rental and maintenance | **258** | 221 |
| Information technology | **1 079** | 1 064 |
| Marketing costs | **889** | 728 |
| Operating lease expense | **762** | 699 |
| Other operating costs | **1 278** | 1 117 |
| Other professional fees | **1 207** | 1 097 |
| Printing and stationery | **276** | 232 |
| Staff costs (refer to note 33) | **9 096** | 7 850 |
| Telephone and postage | **612** | 536 |
| | **16 584** | 14 547 |

*Certain comparatives have been reclassified in terms of Annexure A.*

| | BANK 2007 Rm | BANK 2006 Rm |
|---|---|---|
| **33. Staff costs (refer to note 32)** | | |
| Bonuses | **1 422** | 1 361 |
| Employer contributions to post-retirement funds | **525** | 427 |
| Other staff costs | **342** | 283 |
| Salaries | **6 472** | 5 504 |
| Share-based payments (refer to note 49) | **186** | 150 |
| Training costs | **149** | 125 |
| | **9 096** | 7 850 |
| Average number of employees employed by the Bank | **32 167** | 30 876 |
| Number of employees employed by the Bank at year-end | **32 843** | 31 490 |
| **34. Non-credit related impairments** | | |
| Financial instruments | | |
| Available-for-sale instruments (refer to note 12.1) | **—** | (5) |
| Other | **58** | 76 |
| Computer software development costs (refer to note 14) | **21** | 66 |
| Investments in associated undertakings and joint venture companies (refer to note 13.1) | **—** | 10 |
| Repossessed properties | **37** | — |
| | **58** | 71 |

During the year under review and the prior year, indications existed that the carrying amount of certain computer software capitalised may neither be recoverable through future economic benefits to the Bank nor through sale. These assets have consequently been impaired.

During the year under review an assessment was performed on the net realisable value of repossessed properties. It was concluded that the costs of the properties exceed their net realisable value and consequently these properties were impaired.

The current year's impairment losses are reported in the following segments:

- Repossessed properties are reported in the retail banking segment.
- Impairments on computer software development costs are reported in the other segment.

Impairment losses in the 2006 financial year were reported in the following segments:

- Investments in associated undertakings and joint venture companies were reported in the ACBB segment.
- Available-for-sale instruments and computer software development costs were reported in the other segment.

| | | BANK | |
|---|---|---|---|
| | | **2007 Rm** | 2006 Rm |
| **35.** | **Indirect taxation** | | |
| | Payments to third parties | **36** | 86 |
| | Regional Services Council Levies[1] | **—** | 46 |
| | Training levy | **66** | 49 |
| | Value-added tax net of input credits | **542** | 615 |
| | | **644** | 796 |
| | *Certain comparatives have been reclassified in terms of Annexure A.* | | |
| **36.** | **Taxation expense** | | |
| | **Current** | | |
| | South African current taxation | **2 581** | 2 133 |
| | South African current taxation – prior year | **(16)** | 50 |
| | Secondary taxation on companies | **182** | 135 |
| | Foreign taxation | **189** | 64 |
| | | **2 936** | 2 382 |
| | **Deferred** | | |
| | Deferred taxation (refer to notes 11.1 and 36.1) | **331** | 42 |
| | | **3 267** | 2 424 |
| | **Reconciliation between accounting profit and the tax expense is as follows:** | | |
| | Operating profit before income tax | **11 203** | 8 548 |
| | *Less:* Share of retained earnings of associated undertakings and joint venture companies | **(85)** | (48) |
| | | **11 118** | 8 500 |
| | Tax calculated at a tax rate of 29% | **3 224** | 2 465 |
| | Effect of different tax rates in other countries | **(23)** | 58 |
| | Income not subject to tax | **(413)** | (413) |
| | Expenses not deductible for tax purposes | **292** | 192 |
| | Secondary taxation on companies | **182** | 135 |
| | Other | **5** | (13) |
| | | **3 267** | 2 424 |
| **36.1** | **The deferred tax charge in the income statement comprises the following temporary differences:** | | |
| | Allowances for loan losses | **(75)** | (81) |
| | Accelerated tax depreciation | **151** | 25 |
| | Other provisions | **(21)** | (181) |
| | Other temporary differences | **276** | 279 |
| | | **331** | 42 |

[1]*Regional Services Council Levies were abolished from 1 July 2006.*

| | BANK 2007 Rm | 2006 Rm |
|---|---|---|
| **37. Earnings per share** | | |
| **Basic earnings per share** | | |
| Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. | | |
| Profit attributable to ordinary equity holder of the Bank | **7 620** | 6 051 |
| Weighted average number of ordinary shares in issue (millions) | **337,3** | 336,3 |
| Issued shares at the beginning of the year (millions) | **337,3** | 332,9 |
| Effect of shares issued during the year (weighted millions) | **—** | 3,4 |
| **Basic earnings per share (cents)** | **2 259,4** | 1 799,0 |
| **Diluted earnings per share (cents)** | **2 259,4** | 1 799,0 |

## 38. Headline earnings

| | BANK 2007 Gross Rm | 2007 Net[1] Rm | 2006 Gross Rm | 2006 Net[1] Rm |
|---|---|---|---|---|
| **Headline earnings is determined as follows:** | | | | |
| Net profit attributable to ordinary equity holder of the Company | | **7 620** | | 6 051 |
| **Adjustments for:** | | | | |
| IAS 16 – Net profit on disposal of property and equipment (refer to note 31) | **(80)** | **(57)** | (11) | (8) |
| IAS 21 – Recycled foreign currency translation reserve disposal of investment in foreign operations | **(33)** | **(38)** | — | — |
| IAS 27 – Net profit on disposal of subsidiaries (refer to note 30) | **(36)** | **(26)** | (50) | (36) |
| IAS 28 and 31 – Net loss/(profit) on disposal of associated undertakings and joint venture companies (refer to note 29) | **6** | **6** | (167) | (113) |
| IAS 28 – Impairment of associated undertakings and joint venture companies (refer to note 34) | **—** | **—** | 10 | 7 |
| IAS 28 – Underlying associated undertakings and joint venture companies' earnings | **(45)** | **(45)** | (54) | (54) |
| IAS 38 – Net (profit)/loss on disposal and impairment of intangible assets (refer to notes 31 and 34) | **(47)** | **(43)** | 66 | 47 |
| IAS 39 – Release of available-for-sale reserves | **83** | **59** | (41) | (29) |
| IAS 39 – Impairment of available-for-sale assets (refer to note 34) | **—** | **—** | (5) | (4) |
| **Headline earnings** | | **7 476** | | 5 861 |
| **Diluted headline earnings** | | **7 476** | | 5 861 |
| **Headline earnings per share (cents)** | | **2 216,4** | | 1 742,5 |
| **Diluted headline earnings per share (cents)** | | **2 216,4** | | 1 742,5 |

[1] *The net amount is reflected after taxation and minority interest.*

| | | BANK | |
|---|---|---|---|
| | | **2007 Rm** | 2006 Rm |
| **39.** | **Retirement benefit obligations** | | |
| | **Balance sheet obligation disclosed in other liabilities** (refer to note 18) | | |
| | Other post-retirement benefits | **1** | 1 |
| | **Income statement charge included in staff costs** | | |
| | Pension benefits – Absa Group Pension Fund (refer to note 39.1) | **1** | 1 |
| **39.1** | **Defined benefit plan** | | |
| | **Funded status** | | |
| | Present value of funded obligations | **(4 497)** | (3 928) |
| | Fair value of plan assets | **5 765** | 5 511 |
| | Net assets before contingency and investment reserves | **1 268** | 1 583 |
| | *Less:* Contingency reserves as per the rules of the fund | **(234)** | (100) |
| | *Less:* Investment reserve account | **(864)** | (1 377) |
| | Net unrecognised surplus | **170** | 106 |
| | The Absa Group Pension Fund's assets belong to the fund's members. Absa has no intention to utilise the surplus fund assets to reduce future contributions. Consequently, these assets are not recognised in the Bank's financial statements. | | |
| | **Reconciliation of movement in obligation** | | |
| | Balance at the beginning of the year | **3 928** | 3 641 |
| | Current service costs | **1** | 1 |
| | Interest expense | **293** | 349 |
| | Actuarial losses | **630** | 239 |
| | Benefits paid | **(355)** | (302) |
| | **Balance at the end of the year** | **4 497** | 3 928 |
| | **Reconciliation of movement in plan assets** | | |
| | Balance at the beginning of the year | **5 511** | 4 618 |
| | Expected return on plan assets | **429** | 447 |
| | Actuarial gains | **179** | 747 |
| | Employer contributions | **1** | 1 |
| | Benefits paid | **(355)** | (302) |
| | **Balance at the end of the year** | **5 765** | 5 511 |
| | **Pension fund plan assets** | | |
| | Debt instruments | **2 294** | 2 270 |
| | Equity instruments | **3 257** | 2 331 |
| | Other assets | **214** | 910 |
| | | **5 765** | 5 511 |
| | Pension fund assets include ordinary shares and interest bearing instruments issued by the Bank with a fair value of R251 million (2006: R220 million). Refer to note 43 for the full disclosure of related party transactions. | | |
| | The actual return earned on assets was R1 458 million (2006: R955 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. | | |
| | **Total cost comprise:** | | |
| | Current service costs | **1** | 1 |
| | Interest expense | **293** | 349 |
| | Expected return on plan assets | **(429)** | (447) |
| | **Total (income)/costs** | **(135)** | (97) |

| | BANK 2007 Rm | 2006 Rm | 2005 Rm |
|---|---|---|---|
| **39. Retirement benefit obligations** *(continued)* | | | |
| **39.1 Defined benefit plan** *(continued)* | | | |
| **Historical information as at the balance sheet date** | | | |
| Present value of defined benefit obligation | **(4 497)** | (3 928) | (3 641) |
| Fair value of plan assets | **5 765** | 5 511 | 4 618 |
| Surplus in the plan | **1 268** | 1 583 | 977 |
| *Less:* Contingency reserves as per the rules of the fund | **(234)** | (100) | (119) |
| *Less:* Investment reserve account | **(864)** | (1 377) | (831) |
| | **170** | 106 | 27 |
| Experience adjustments on plan assets | **179** | 747 | 319 |
| Experience adjustments on plan liabilities | **630** | 239 | 131 |

| | BANK 2007 | 2006 |
|---|---|---|
| **Principal actuarial assumption used for defined benefit plan** | | |
| Discount rate | **8,50%** | 7,75% |
| Expected return on plan assets | **8,00%** | 8,00% |
| Future salary increases | **6% + merit** | 6% + 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 | **20,40** | 20,30 |
| Female | **25,30** | 25,20 |

*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 rates of 4,5%, 6,0% or 7,0% per annum (threshold rates). If in any year the investment return is less than the threshold rates, the difference is recouped at the next date of pension increase.

**39.2 Post-retirement benefits**

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, 99,9% (2006: 99,8%) were members of the defined contribution structure, while 0,1% (2006: 0,2%) were members of the defined benefit structure. As at the balance sheet date, the defined benefit structure had 53 (2006: 58) 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 Bank's policy to ensure that the fund is adequately funded to provide for the benefits of members, and particularly to ensure that any shortfall with regard to the defined benefit structure is being met by way of additional contributions.

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

## 39. Retirement benefit obligations *(continued)*

### 39.2 Post-retirement benefits *(continued)*

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). This 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 unit benefit method in respect of the defined benefit structure, which is consistent with the prior year.

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.

### 39.3 Post-retirement medical aid contributions

The Bank has no commitments in respect of medical aid contributions of pensioners who retired after 31 March 1996. Future liabilities in respect of pensioners who retired prior to 1 April 1996 have been provided for in the Absa Group Pension Fund. The pension fund is adequately funded to meet these obligations.

| | BANK 2007 Rm | BANK 2006 Rm |
|---|---|---|
| **40. Dividends per share** | | |
| **Dividends paid to ordinary equity holder during the year** | | |
| February 2007 final dividend number 41 of 208,2 cents per ordinary share (February 2006: 248,8 cents) | **630** | 753 |
| September 2007 interim dividend number 42 of 465,9 cents per ordinary share (September 2006: 383,7 cents) | **1 409** | 1 161 |
| | **2 039** | 1 914 |
| **Dividends paid to ordinary equity holder relating to income for the year** | | |
| September 2007 interim dividend number 42 of 465,9 cents per ordinary share (September 2006: 383,7 cents) | **1 409** | 1 161 |
| February 2008 final dividend number 43 of 323,8 cents per ordinary share (February 2007: 208,2 cents) | **980** | 630 |
| | **2 389** | 1 791 |
| A final dividend of 323,8 cents per ordinary share was approved by the board on 19 February 2008. The total dividend amounts to R980 million and the STC payable by the Bank in respect of the dividend approved and declared subsequent to the balance sheet date, amounts to R98 million. | | |
| No provision has been made for this dividend and the related STC in the financial statements for the year ended 31 December 2007. | | |
| **Dividends paid to preference equity holders during the year** | | |
| February 2007 final dividend number 2 of 3 784,3 cents per preference share (February 2006: nil) | **114** | — |
| September 2007 interim dividend number 3 of 4 056,0 cents per preference share (September 2006: 2 435,42 cents) | **199** | 73 |
| | **313** | 73 |

A final dividend of 4 453,9 cents per preference share was approved by the board on 19 February 2008. The total dividend amounts to R219 million and the STC payable by the Bank in respect of the dividend approved and declared subsequent to the balance sheet date amounts to R22 million. No provision has been made for this dividend and the related STC in the financial statements for the year ended 31 December 2007.

## 41. Securities borrowed/lent and repurchase/reverse repurchase agreements

**Reverse repurchase agreements and cash collateral on securities borrowed**

Reverse repurchase agreements are accounted for as collateralised loans under loans and advances. No cash collateral on securities borrowed was held during the year (2006: Rnil).

| | BANK | |
|---|---|---|
| | **Reverse repurchase agreements 2007 Rm** | Reverse repurchase agreements 2006 Rm |
| **Assets** | | |
| Banks | **29 307** | 8 867 |
| Other | **8 233** | 8 561 |
| | **37 540** | 17 428 |

As part of the reverse repurchase agreements, the Bank has received securities as collateral that are allowed to be sold or repledged. The fair value of these securities at the balance sheet date amounts to R27 504 million (2006: R11 063 million) of which R18 205 million (2006: R9 423 million) have been sold or repledged.

**Repurchase agreements**

Securities lent or sold subject to a commitment to repurchase them are retained on the balance sheet where substantially all the risks and rewards remain with the Bank. Amounts received from the counterparty are treated as deposits.

| | BANK | |
|---|---|---|
| | **Repurchase agreements 2007 Rm** | Repurchase agreements 2006 Rm |
| **Liabilities** | | |
| Banks (refer to note 16) | **28 603** | 9 423 |
| Other (refer to note 19) | **1 115** | — |
| | **29 718** | 9 423 |

The assets transferred and not derecognised in the above repurchase agreements are valued at R2 206 million (2006: Rnil). They are pledged as security for the term of the underlying repurchase agreement. The remainder of the repurchase agreements are secured by securities obtained from loans and advances on-pledged, as well as by the securities on-pledged as described in the reverse repurchase section above.

| | BANK | |
|---|---|---|
| | **2007** **Rm** | 2006 Rm |
| **42. Securitisations** | | |
| In the ordinary course of business, the Bank enters into transactions that result in the transfer of assets to third parties or special purpose entities. The information below sets out the extent of such transfers. | | |
| **Transferred assets** | | |
| Cars securitisation | **5 754** | 3 145 |
| Homes securitisation | **1 566** | — |
| | **7 320** | 3 145 |

**Cars securitisation**

The Bank has transferred instalment credit agreements to Collateralised Auto Receivables Securitisation 1 (Proprietary) Limited and Collateralised Auto Receivables Securitisation Programme (Proprietary) Limited, which are, in substance, controlled by Absa Group Limited. Accordingly, the entities are consolidated into Absa Group Limited.

**Homes securitisation**

The Bank has transferred retail mortgages to Home Obligors Mortgage Enhanced Securities (Proprietary) Limited, which are, in substance, controlled by Absa Group Limited. Accordingly, the entities are consolidated into Absa Group Limited.

## 43. Related parties

The Bank's ultimate parent company is Barclays PLC (incorporated in the United Kingdom), which owns 58,8% (2006: 56,45%) of the ordinary shares of Absa Group Limited. The remaining 41,2% (2006: 43,55%) of the shares are widely held on the JSE.

The following are defined as related parties of the Bank:

- Key management personnel (refer to notes 43.1 and 43.2).
- The ultimate parent, Barclays Bank PLC (refer to note 43.3).
- The parent company, Absa Group Limited.
- Subsidiaries (refer to note 43.4).
- Associated undertakings and joint venture companies (refer to note 43.5).
- Post-retirement benefit funds (refer to note 43.5).

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

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

**43. Related parties** *(continued)*

**43.1 Transactions with key management personnel**

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 with related parties for the year are as follows:

| | BANK | | | |
|---|---|---|---|---|
| | **Transactions with key management 2007 Rm** | **Transactions with entities controlled by key management 2007 Rm** | Transactions with key management 2006 Rm | Transactions with entities controlled by key management 2006 Rm |
| **Loans** | | | | |
| Loans outstanding at the beginning of the year | **17** | **35** | 9 | 13 |
| Loans issued | **43** | **92** | 22 | 31 |
| Loans repaid | **(42)** | **(80)** | (14) | (9) |
| Inception of related party relationships and other | **1** | **—** | — | — |
| **Loans outstanding at the end of the year** | **19** | **47** | 17 | 35 |
| Interest income earned | **1** | **4** | 1 | 3 |

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 mortgages, asset finance transactions and overdraft facilities. Interest rates on loans to management are at the fringe benefit tax rate that all employees of the Bank are entitled to.

| | BANK | | | |
|---|---|---|---|---|
| | **Transactions with key management 2007 Rm** | **Transactions with entities controlled by key management 2007 Rm** | Transactions with key management 2006 Rm | Transactions with entities controlled by key management 2006 Rm |
| **Deposits** | | | | |
| Deposits at the beginning of the year | **24** | **10** | 16 | 77 |
| Deposits received | **270** | **83** | 75 | 21 |
| Deposits repaid | **(266)** | **(82)** | (67) | (88) |
| Discontinuance/(inception) of related party relationships and other | **(1)** | **0** | — | — |
| **Deposits at the end of the year** | **27** | **11** | 24 | 10 |
| Interest expense on deposits | **2** | **1** | 2 | 1 |
| Guarantees issued by the Bank | **—** | **—** | — | 4 |

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 the balance sheet date, Absa Group Limited managed on behalf of key management personnel certain investments. These management agreements are entered into in the normal course of business under terms 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 (2006: R0,3 million). Key management personnel received claims which in total were R6 million (2006: R0,3 million). These transactions are entered into in the normal course of business, under terms that are no more favourable than those arranged with third parties.

| | BANK | |
|---|---|---|
| | **2007 Rm** | 2006 Rm |
| **43. Related parties** *(continued)* | | |
| **43.2 Key management personnel compensation** | | |
| **Directors** | | |
| Salaries and other short-term benefits | **55** | 70 |
| Post-employment benefits | **1** | 1 |
| Share-based payments | **18** | 25 |
| | **74** | 96 |
| **Other key management personnel** | | |
| Salaries and other short-term benefits | **28** | 20 |
| Post-employment benefits | **1** | 1 |
| Share-based payments | **6** | 10 |
| | **35** | 31 |
| **43.3 Transactions with ultimate parent company** | | |
| The following are balances with, and transactions entered into with the ultimate parent company: | | |
| **Balances** | | |
| Loans and advances | **13 209** | 3 353 |
| Derivative assets | **4 707** | 187 |
| Nominal value of derivative assets | **361 881** | 161 331 |
| Other assets | **245** | — |
| Deposits | **16 254** | 8 420 |
| Derivative liabilities | **5 496** | 1 237 |
| Nominal value of derivative liabilities | **204 120** | 52 458 |
| Other liabilities | **121** | — |
| **Transactions** | | |
| Dividends paid | **1 949** | 1 289 |
| Interest paid | **250** | 143 |
| Interest received | **94** | 42 |
| Non-interest income received | **3** | 25 |
| All transactions entered into are on the same commercial terms and conditions as in the normal course of business. | | |
| **43.4 Transactions with parent company** | | |
| The following are balances with and transactions entered into with the parent company: | | |
| **Balances** | | |
| Loans and advances | **53** | 18 |
| Other liabilities | **981** | 1 412 |
| **Transactions** | | |
| Interest received | **18** | 13 |

# Notes to the consolidated financial statements

Year ended 31 December

**43. Related parties** *(continued)*

**43.5 Subsidiaries**

Details of the principal subsidiaries are as follows:

| | | | BANK | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | **Issued capital** | **Direct/ indirect holding** | Issued capital | Direct/ indirect holding | Shares at book value | |
| **Name** | **Nature of business** | **Country of incorporation** | **2007 Rm** | **2007 %** | 2006 Rm | 2006 % | **2007 Rm** | 2006 Rm |
| Absa Bank (Asia) Limited | Offered a range of niche corporate and merchant banking and treasury products and services to selected customer bases (liquidated). | Hong Kong | **n/a** | **n/a** | 140 | 100 | **n/a** | 100 |
| Absa Bank London (offshore branch) | Offers a range of niche corporate and London merchant banking and treasury products and services to selected customer bases. | United Kingdom | **n/a** | **n/a** | n/a | n/a | **n/a** | n/a |
| Absa Debtor Finance Company (Proprietary) Limited | Provides debtor financing to business customers. | South Africa | **1** | **100** | 1 | 100 | **0** | 0 |
| Absa Development Company Holdings (Proprietary) Limited | Specialises in township development and sale of residential, commercial and industrial land. | South Africa | **0** | **100** | 0 | 100 | **14** | 14 |
| Ambit Management Services (Proprietary) Limited | Property management company. | South Africa | **0** | **0** | n/a | n/a | **15** | n/a |
| Conbros Limited | Used to provide offshore loan facilities (currently winding down). | Isle of Man | **n/a** | **n/a** | 2 | 100 | **n/a** | 21 |

| *Subsidiaries' aggregate profits and losses after taxation* | **2007 Rm** | 2006 Rm |
|---|---|---|
| Aggregate profits after taxation | **7 703** | 5 885 |

## 43. Related parties *(continued)*

### 43.6 Associated undertakings, joint venture companies and retirement benefit funds

At the balance sheet date, the Absa Group Pension Fund held shares to the value of R238 million (2006: R39 million) and other securities to the value of R13 million (2006: R181 million) in Absa Group Limited.

The Group provides certain banking and financial services to associated undertakings and joint venture companies. The Bank also provides a number of current and interest-bearing cash accounts to the Absa Group Limited Pension Fund. These transactions are conducted on similar terms to third-party transactions and are not individually material.

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

**For the year ended 31 December 2007**

| | **BANK** | | |
|---|---|---|---|
| | **Associated undertakings and joint venture companies Rm** | **Retirement benefit funds Rm** | **Total Rm** |
| Deposits | **(350)** | **(41)** | **(391)** |
| Interest and similar income | **(824)** | **—** | **(824)** |
| Interest expense and similar charges | **20** | **3** | **23** |
| Fees received | **(123)** | **(14)** | **(137)** |
| Fees paid | **60** | **525** | **585** |
| Loans and advances | **7 495** | **—** | **7 495** |
| Other liabilities | **(92)** | **—** | **(92)** |
| Value of investments managed by the Bank | **—** | **4 029** | **4 029** |

| For the year ended 31 December 2006 | Associated undertakings and joint venture companies Rm | Retirement benefit funds Rm | Total Rm |
|---|---|---|---|
| Deposits | — | (63) | (63) |
| Interest and similar income | (561) | — | (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 | 7 192 | — | 7 192 |
| Other liabilities | (150) | — | (150) |
| Value of investments managed by the Bank | — | 4 483 | 4 483 |

**43. Related parties** *(continued)*

**43.6 Associated undertakings, joint venture companies and retirement benefit funds** *(continued)*

Details on investments in associated undertakings and joint venture companies are as follows:

| Name | Nature of business |
|---|---|
| Absa Corob Trust Joint Venture | Acquires immovable property for investment. |
| Abseq Properties (Proprietary) Limited | Property development and investment company. |
| African Trading Spirit 309 (Proprietary) Limited | Property development. |
| Agrista (Proprietary) Limited | Agricultural consultants. |
| Alamo Trading Company (Proprietary) Limited | Property development. |
| Ambit Management Services (Proprietary) Limited | Property management company (became a subsidiary in 2006). |
| Ambit Properties Limited | Property loan stock company. |
| Axial Finance (Proprietary) Limited | Provides vehicle financing (sold during the year). |
| Ballito Junction Development (Proprietary) Limited | Retail property development of shopping centre complex in Ballito Bay. |
| Barrie Island Property Investments (Proprietary) Limited | Investment in mixed use property. |
| Blue Nightingale 608 (Proprietary) Limited | Investment in commercial property. |
| Campus on Rigel (Proprietary) Limited | Property investment company. |
| FFS Finance South Africa (Proprietary) Limited | Provides financing solutions to Ford Motor Company customers. |
| MAN Financial Services (S.A.) (Proprietary) Limited | Joint venture between Absa Bank Limited and MAN Financial Services GmbH for financing of trucks and buses. |
| Maravedi Group (Proprietary) Limited | Provides debtor management. |
| Maxcity Properties (Proprietary) Limited | Investment in mixed use property. |
| Ngwenya River Estate (Proprietary) Limited | Investment in residential property. |
| Northern Lights Trading 197 (Proprietary) Limited | Investment in commercial property. |
| Palm Hill Property Investments (Proprietary) Limited | Property development. |
| Persistent Properties (Proprietary) Limited | Investment in residential property. |
| RZT Zelpy 4809 (Proprietary) Limited | Investment in residential property. |
| Sanlam Home Loans (Proprietary) Limited | Manages and administers the granting of loans as well as secure funding for these loans. |
| Somerset West Autopark (Proprietary) Limited | Investment in auto dealers and fitment centres. |
| The Racing Investment Trust | Property development. |
| Unitrans Finance (Proprietary) Limited | Strategic alliance between Absa Bank Limited and Unitrans Motors (Proprietary) Limited. |
| Virgin Money South Africa (Proprietary) Limited | Joint venture between Absa Bank Limited and Virgin Money Group Limited to provide retail financial service products under the Virgin brand. |

## 43. Related parties *(continued)*
## 43.6 Associated undertakings, joint venture companies and retirement benefit funds *(continued)*

| | BANK | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2007 | | | | | | |
| Name | Country of incorporation | Carrying value Rm | Total assets[3] Rm | Total liabilities[3] Rm | Equity accounted earnings Rm | Loans (from)/to entities Rm | Ownership % |
| Absa Corob Trust Joint Venture[1] | South Africa | 2 | 44 | 24 | 1 | 18 | 50 |
| Abseq Properties (Proprietary) Limited[1] | South Africa | 150 | 813 | 545 | 18 | 387 | 50 |
| African Trading Spirit 309 (Proprietary) Limited[1] | South Africa | 30 | 62 | 2 | 0 | — | 50 |
| Alamo Trading Company (Proprietary) Limited[1] | South Africa | 0 | 0 | 0 | 0 | — | 50 |
| Ambit Properties Limited[1] | South Africa | 594 | 1 386 | 1 013 | 38 | 152 | 31 |
| Ballito Junction Development (Proprietary) Limited[1] | South Africa | 25 | 178 | 106 | (1) | 102 | 50 |
| Campus on Rigel (Proprietary) Limited[1] | South Africa | 0 | 0 | 1 | (0) | — | 33 |
| FFS Finance South Africa (Proprietary) Limited | South Africa | 261 | 9 755 | 9 233 | 49 | 4 676 | 50 |
| MAN Financial Services (S.A.) (Proprietary) Limited | South Africa | 46 | 2 180 | 2 089 | 11 | 1 272 | 50 |
| Maravedi Group (Proprietary) Limited[1] | South Africa | 4 | 233 | 220 | (11) | — | 45 |
| Palm Hill Property Investments (Proprietary) Limited[1] | South Africa | 17 | 54 | 37 | 0 | 52 | 40 |
| Sanlam Home Loans (Proprietary) Limited | South Africa | 0 | 5 887 | 5 555 | 0 | 519 | 50 |
| The Racing Investment Trust[2] | South Africa | 11 | 0 | 0 | 0 | — | 20 |
| Unitrans Finance (Proprietary) Limited[1] | South Africa | 0 | 0 | 0 | (3) | — | 35 |
| Virgin Money South Africa (Proprietary) Limited | South Africa | 0 | 14 | 48 | (17) | — | 50 |
| **New acquisitions** | | | | | | | |
| Agrista (Proprietary) Limited[1] | South Africa | 0 | 3 | 1 | (0) | — | 47 |
| Barrie Island Property Investments (Proprietary) Limited[1] | South Africa | 3 | 0 | 0 | 0 | — | 40 |
| Blue Nightingale 608 (Proprietary) Limited[1] | South Africa | 32 | 0 | 0 | 0 | — | 30 |
| Maxcity Properties (Proprietary) Limited[1] | South Africa | 38 | 0 | 0 | 0 | 200 | 40 |
| Ngwenya River Estate (Proprietary) Limited[1] | South Africa | 49 | 62 | 62 | (0) | 33 | 50 |
| Northern Lights Trading 197 (Proprietary) Limited | South Africa | 70 | 0 | 0 | 0 | — | 50 |
| Persistent Properties (Proprietary) Limited[1] | South Africa | 8 | 26 | 18 | 0 | 18 | 50 |
| RZT Zelpy 4809 (Proprietary) Limited[1] | South Africa | 30 | 0 | 0 | 0 | 94 | 25 |
| Somerset West Auto Park (Proprietary) Limited[1] | South Africa | 0 | 0 | 0 | 0 | — | 33 |
| **Disposals** | | | | | | | |
| Axial Finance (Proprietary) Limited[1] | South Africa | 0 | 0 | 0 | 0 | — | — |
| | | 1 370 | 20 697 | 18 954 | 85 | 7 523 | |

[1] *The financial statements have different reporting dates to that of the Bank, as these were the financial reporting dates established when the entities were incorporated. The impact is not considered to be material.*

[2] *The Racing Investment Trust was previously known as Lynmor Trading Company (Proprietary) Limited.*

[3] *The summary financial information includes 100% of the equity accounted investees' total assets and total liabilities.*

## 43. Related parties *(continued)*
### 43.6 Associated undertakings, joint venture companies and retirement benefit funds *(continued)*

| | | BANK 2006 | | | | | |
|---|---|---|---|---|---|---|---|
| Name | Country of incorporation | Carrying value Rm | Total assets[2] Rm | Total liabilities[2] Rm | Equity accounted earnings Rm | Loans (from)/to entities Rm | Ownership % |
| Absa Corob Trust Joint Venture[1] | South Africa | 1 | 0 | 0 | 1 | 20 | 50 |
| Alamo Trading Company (Proprietary) Limited[1] | South Africa | 0 | 0 | 0 | 0 | — | 50 |
| Ambit Properties Limited[1] | South Africa | 143 | 997 | 355 | (3) | 143 | 21 |
| Axial Finance (Proprietary) Limited[1] | South Africa | 0 | 0 | 0 | 0 | — | 25 |
| FFS Finance South Africa (Proprietary) Limited | South Africa | 211 | 9 153 | 8 625 | 13 | 4 426 | 50 |
| Lynmor Trading Company (Proprietary) Limited | South Africa | 11 | 0 | 0 | (0) | 27 | 20 |
| MAN Financial Services (S.A.) (Proprietary) Limited | South Africa | 35 | 1 785 | 1 714 | 5 | 1 195 | 50 |
| Maravedi Group (Proprietary) Limited[1] | South Africa | 8 | 66 | 63 | 0 | — | 45 |
| Sanlam Home Loans (Proprietary) Limited | South Africa | 0 | 2 851 | 2 855 | (3) | 1 065 | 50 |
| Unitrans Finance (Proprietary) Limited[1] | South Africa | 3 | 9 | 0 | (0) | (8) | 35 |
| Virgin Money South Africa (Proprietary) Limited | South Africa | 0 | 5 | 16 | 0 | — | 50 |
| **New acquisitions** | | | | | | | |
| Abseq Properties (Proprietary) Limited[1] | South Africa | 132 | 676 | 383 | (1) | 384 | 50 |
| African Trading Spirit 309 (Proprietary) Limited[1] | South Africa | 20 | 0 | 0 | 0 | — | 50 |
| Ballito Junction Development (Proprietary) Limited[1] | South Africa | 26 | 156 | 83 | 1 | 84 | 50 |
| Campus on Rigel (Proprietary) Limited[1] | South Africa | 0 | 0 | 1 | (0) | — | 33 |
| Palm Hill Property Investments (Proprietary) Limited[1] | South Africa | 11 | 16 | 1 | (0) | 11 | 40 |
| **Disposals** | | | | | | | |
| Ambit Management Services (Proprietary) Limited[1, 3] | South Africa | 0 | 1 | 0 | 0 | — | 50 |
| Conbros Limited[1, 3] | Isle of Man | — | 0 | 0 | 0 | — | 100 |
| Paramount Management Services (Proprietary) Limited[1] | South Africa | — | 0 | 0 | 0 | — | — |
| Paramount Property Fund Limited[1] | South Africa | — | 2 906 | 1 421 | 35 | 309 | — |
| | | 601 | 18 621 | 15 517 | 48 | 7 656 | |

[1] *The financial statements have different reporting dates to that of the Bank, as these were the financial reporting dates established when the entities were incorporated. The impact is not considered to be material.*
[2] *The summary financial information includes 100% of the equity-accounted investees' total assets and total liabilities.*
[3] *Became a subsidiary.*

| | | BANK | |
|---|---|---|---|
| | | **2007 Rm** | 2006 Rm |
| **44.** | **Managed funds** | | |
| | Other | **2 111** | 2 111 |
| | Portfolio management | **1 420** | 1 340 |
| | Unit trusts | **155** | 145 |
| | | **3 686** | 3 596 |
| **45.** | **Financial guarantee contracts** | | |
| | Financial guarantee contracts | **824** | 560 |

Financial guarantee contracts represent contracts where the Bank undertakes to make specified payments to a counterparty, should the counterparty suffer a loss as a result of a specified debtor failing to make payment when due in accordance with the terms of a debt instrument.

| | | BANK 2007 Rm | 2006 Rm |
|---|---|---|---|
| **46.** | **Commitments** | | |
| | **Authorised capital expenditure** | | |
| | Contracted but not provided for | **83** | 116 |

The Bank has capital commitments in respect of computer equipment and property purchases. Management is confident that future net revenues and funding will be sufficient to cover these commitments.

| | | BANK 2007 Rm | 2006 Rm |
|---|---|---|---|
| **47.** | **Contingent liabilities** | | |
| | Guarantees | **9 787** | 9 871 |
| | Irrevocable facilities | **40 040** | 37 265 |
| | Letters of credit | **2 790** | 1 994 |
| | Other contingencies | **23** | 16 |
| | | **52 640** | 49 146 |

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

Irrevocable facilities are commitments to extend credit where the Bank does not have the right to terminate the facilities by written notice. Commitments generally have fixed expiry dates. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

| | BANK 2007 Rm | BANK 2006 Rm |
|---|---|---|
| **47. Contingent liabilities** *(continued)* | | |
| **Operating lease payments due** | | |
| No later than one year | **857** | 653 |
| Later than one year and no later than five years | **1 780** | 1 401 |
| Later than five years | **274** | 506 |
| | **2 911** | 2 560 |

Operating lease payments represent rentals payable by the Bank for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years.

| | 2007 Rm | 2006 Rm |
|---|---|---|
| **48. Cash and cash equivalents** | | |
| Cash, cash balances and balances with central banks | **4 673** | 3 619 |
| Loans and advances to/(from) banks | **350** | (121) |
| | **5 023** | 3 498 |

## 49. Share-based payments

During 2007, R75 million (2006: R95 million) and R111 million (2006: R55 million) were charged to the income statement in respect of equity-settled and cash-settled share-based payment transactions respectively.

**Staff costs**

The income statement charge for share-based payments is as follows (refer to note 33):

| | 2007 Rm | 2006 Rm |
|---|---|---|
| Equity-settled arrangements: | | |
| Absa Group Limited Share Incentive Trust | **58** | 79 |
| Absa Group Limited Employee Share Ownership Administrative Trust | **16** | 15 |
| Absa Group Limited Executive Share Award Scheme – Voluntary (restricted) method | **1** | 1 |
| Cash-settled arrangements: | | |
| Absa Group Limited Phantom Performance Share Plan | **90** | 54 |
| Absa Group Limited Phantom Joiners Share Award Plan | **18** | 1 |
| Absa Group Limited Phantom Executive Share Award Scheme | **3** | — |
| | **186** | 150 |
| Total carrying amount of liabilities for cash-settled arrangements (refer to note 18) | **195** | 78 |

The total intrinsic value of the liability for vested benefits was Rnil (2006: Rnil) at the balance sheet date.

### 49.1 Absa Group Limited Share Incentive Trust (Share Incentive Trust)

In terms of the rules of the Share Incentive Trust, the maximum number of shares of Absa Group Limited that may be issued or transferred and/or in respect of which options may be granted to the participants, shall be limited to shares representing 10% of the total number of issued shares from time to time. This scheme is an equity-settled share-based payment arrangement and options are allocated to 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 optionholder over the vesting period. The options expire after a period of 10 years from the issuing date. Options issued since August 2005 (issue 193) have 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. Participants need to be in the employment of the Absa Group at the vesting date in order to be entitled to the options.

## 49. Share-based payments *(continued)*

### 49.1 Absa Group Limited Share Incentive Trust (Share Incentive Trust) *(continued)*

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

| | Number of options '000 | Weighted exercise price R |
|---|---|---|
| **2007** | | |
| **Outstanding at the beginning of the year** | **17 391** | **53,19** |
| Granted during the year | **260** | **107,47** |
| Exercised during the year | **(4 337)** | **48,73** |
| Forfeited during the year | **(759)** | **71,88** |
| **Outstanding at the end of the year** | **12 555** | **67,30** |
| **Of which are exercisable** | **5 092** | **42,43** |
| 2006 | | |
| Outstanding at the beginning of the year | 23 809 | 47,76 |
| Granted during the year | 331 | 79,91 |
| Exercised during the year | (5 742) | 35,70 |
| Forfeited during the year | (1 007) | 50,88 |
| Outstanding at the end of the year | 17 391 | 53,19 |
| Of which are exercisable | 4 824 | 34,14 |

Options exercised during the year resulted in 4 337 275 shares (2006: 5 742 175 shares) being allocated at an average exercise price of R48,73 (2006: R35,70) each. The related weighted average share price at the time of exercise was R136,25 (2006: R109,85).

Share options outstanding at the end of the year in terms of the Share Incentive Trust have the following weighted average remaining contractual lives and exercise prices:

**BANK**

| Exercise price ranges (R) | Average option exercise price R | Weighted average contractual remaining life Years | Weighted average fair value[1] R | Number of options outstanding |
|---|---|---|---|---|
| **2007** | | | | |
| **17,85 – 43,92** | **17,85** | **1,64** | **n/a** | **244 720** |
| **21,16 – 36,19** | **26,57** | **2,56** | **n/a** | **312 060** |
| **24,74 – 39,27** | **37,32** | **3,76** | **n/a** | **759 960** |
| **27,05 – 35,97** | **33,67** | **4,55** | **n/a** | **1 224 799** |
| **32,00 – 46,05** | **35,01** | **5,64** | **12,19** | **1 529 928** |
| **44,39 – 73,35** | **48,05** | **6,76** | **20,43** | **4 482 327** |
| **74,97 – 94,63** | **91,70** | **7,79** | **30,00** | **3 435 397** |
| **89,57 – 113,95** | **106,54** | **8,30** | **35,06** | **306 000** |
| **82,97 – 112,92** | **107,00** | **9,00** | **45,00** | **260 000** |
| 2006 | | | | |
| 27,75 – 38,05 | 30,47 | 0,66 | n/a | 138 915 |
| 17,85 – 43,92 | 23,59 | 2,25 | n/a | 340 582 |
| 21,16 – 36,19 | 26,79 | 3,39 | n/a | 421 535 |
| 24,74 – 39,27 | 36,63 | 4,53 | n/a | 1 293 747 |
| 27,05 – 35,97 | 33,57 | 5,55 | 11,71 | 2 617 520 |
| 32,00 – 46,05 | 35,11 | 6,74 | 12,39 | 2 741 848 |
| 44,39 – 73,35 | 49,89 | 7,72 | 19,47 | 5 653 037 |
| 74,97 – 94,63 | 91,47 | 8,78 | 28,60 | 3 880 391 |
| 89,57 – 113,95 | 108,86 | 9,30 | 35,52 | 303 500 |

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

**49. Share-based payments** *(continued)*

**49.1 Absa Group Limited Share Incentive Trust (Share Incentive Trust)** *(continued)*

The following shares and options are available for allocation by Absa Group Limited:

| | Percentage of total issued shares | Number of shares '000 |
|---|---|---|
| **2007** | | |
| Maximum shares and options available | **10,0** | **67 857** |
| Shares and options subject to the trust | **(2,0)** | **(13 618)** |
| **Balance of shares and options available** | **8,0** | **54 239** |
| 2006 | | |
| Maximum shares and options available | 10,0 | 67 196 |
| Shares and options subject to the trust | (2,8) | (18 778) |
| Balance of shares and options available | 7,2 | 48 418 |

*Fair value assumption of share options granted during the year*

Fair values for the Share Incentive Trust options 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:

| | BANK | |
|---|---|---|
| | **2007** | 2006 |
| Weighted average fair value of options at grant date (R) | **44,91** | 33,69 |
| Weighted average share price at grant date (R) | **129,47** | 111,22 |
| Exercise price (R) | **107,47** | 81,90 |
| Expected volatility (%)[1] | **30** | 29 |
| Expected option life (years) | **5** | 5 |
| Expected lapse ratio for executive management (%) | **8,46** | 6,70 |
| Expected lapse ratio for business unit heads (%) | **5,07** | 5,83 |
| Expected lapse ratio for senior management (%) | **16,27** | 16,51 |
| Expected lapse ratio for middle and junior management (%) | **22,16** | 22,44 |
| Dividend yield (%) | **3,5** | 3,3 |
| Risk-free rate of return on South African government zero coupon bonds (%) | **8,0** | 8,5 |

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

**49.2 Absa Group Limited Employee Share Ownership Administrative Trust**

As of the implementation date (1 July 2004), all employees of South African wholly owned subsidiaries of Absa Group Limited (excluding executive directors of Absa Group Limited and Absa Bank Limited) were eligible to participate in this one-off equity-settled share-based payment scheme.

Each employee who elected to participate was issued and allotted 200 compulsory redeemable cumulative option-holding preference shares against a receipt of the R400,00 subscription price. A maximum of 7 315 200 preference shares were available for allocation to the trust.

On 1 July 2004, 6 085 200 preference shares were issued. The preference shares receive a dividend calculated on the par value of the preference shares at a rate of 72% of the prime overdraft rate. These dividends are compounded and paid semi-annually in arrear on 30 September and 31 March each year. Absa Group Limited will redeem the preference shares on exercise of the options by the employee or on lapse of the options on the final option exercise date. Options vest after three years from the date of issue and lapse after five years from the date of issue. Options can be exercised on 1 March, 1 June, 1 September or 1 December each year. Exercise may occur in lots of 100 only and on payment of the option strike price, which will vary between R48,00 and R69,00 dependent on the 30-day volume weighted trading price on the JSE.

*[1]Volatility assumptions vary according to the bipolar distributions observed over five-year rolling periods (and five years for executive management) up to the end of the financial period in which the grant occurs.*

## 49. Share-based payments *(continued)*

### 49.2 Absa Group Limited Employee Share Ownership Administrative Trust *(continued)*

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

| | Weighted average exercise price R | BANK Number of options 2007 '000 | 2006 '000 |
|---|---|---|---|
| **Outstanding at the beginning of the year** | 48 – 69 | **4 445** | 5 002 |
| Forfeited during the year | (48 – 69) | **(291)** | (557) |
| Exercised during the year | (69) | **(3 393)** | — |
| **Outstanding at the end of the year** | 48 – 69 | **761** | 4 445 |
| **Of which are exercisable** | 48 – 69 | **761** | — |

The options outstanding at the balance sheet date have a weighted average contractual life of 1,5 years (2006: 2,5 years).

*Fair value assumptions of share options*

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

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

| | |
|---|---|
| Weighted average fair value of options at grant date (R) | **14,76** |
| Weighted average share price at grant date (R) | **50,25** |
| Expected volatility (%) | **26,0 – 39,6** |
| Expected lapse ratio for Absa Group Limited Employee Share Ownership Administrative Trust (%) | **22,56** |
| Dividend yield (%) | **3,7** |
| Risk-free rate of return on a South African government five-year zero coupon bond (%)[1] | **10,2** |

[1]*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 term equal to the expected life of the option.*

### 49.3 Absa Group Limited Phantom Performance Share Plan (Phantom PSP)

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

## 49. Share-based payments *(continued)*

### 49.3 Absa Group Limited Phantom Performance Share Plan (Phantom PSP) *(continued)*

| | BANK Number of options | |
|---|---|---|
| | **2007 ’000** | 2006 ’000 |
| **Outstanding at the beginning of the year** | **1 060** | — |
| Granted during the year | **1 311** | 1 060 |
| Forfeited during the year | **(143)** | — |
| **Outstanding at the end of the year** | **2 228** | 1 060 |

The options outstanding at the balance sheet date have no exercise price and a weighted average contractual life of 1,9 years (2006: 2,4 years).

As the terms and conditions of this share scheme dictate that options be exercised immediately on vesting, at any given time there are no options which have vested but have not yet been exercised.

*Fair value assumptions of share options*

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

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

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

Certain qualifying participants with “banked bonuses” under any of Absa Group Limited’s existing employee incentive schemes were allowed a one-off opportunity during the prior year to utilise “banked bonuses” to purchase nil-cost options in the ESAS, which is an equity-settled scheme.

In terms of the ESAS, the participant’s notional bonus comprises a number of restricted nil-cost options, based on the allocation price of ordinary shares. Such an initial allocation is held in trust, or in the name of the participant. If the participant is in the employ of Absa Group Limited after the three-year vesting period, the participant will receive 20% matched shares. If the bonus award is retained in the ESAS 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.

| | BANK Number of options | |
|---|---|---|
| | **2007 ’000** | 2006 ’000 |
| **Outstanding at the beginning of the year** | **37** | — |
| Granted during the year | **—** | 37 |
| **Outstanding at the end of the year** | **37** | 37 |

The options outstanding at the balance sheet date have no exercise price and a weighted average contractual life of 2,5 years (2006: 3,7 years). None of these options were exercisable at the balance sheet date.

*Fair value assumptions of share options*

The fair value of the ESAS awards at grant date is based on the share price at grant date. The Bank considers adjustments to reflect expectations for options that might lapse before the shares vest.

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

## 49. Share-based payments *(continued)*

### 49.5 Absa Group Limited Phantom Joiners Share Award Plan (JSAP)

The JSAP is a cash-settled share-based payment arrangement that enables Absa Group Limited 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 by offering the employees Absa Group Limited Phantom shares. There is no consideration payable for the grant of an award and the vesting of the award 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.

| | BANK Number of options 2007 '000 | 2006 '000 |
|---|---|---|
| **Outstanding at the beginning of the year** | **77** | — |
| Granted during the year | **284** | 77 |
| Exercised during the year | **(43)** | — |
| Forfeited during the year | **(10)** | — |
| **Outstanding at the end of the year** | **308** | 77 |

The options outstanding at the balance sheet date have no exercise price and a weighted average contractual life of 1,9 years (2006: 3,0 years).

As the terms and conditions of this share scheme dictate that options be exercised immediately on vesting, at any given time there are no options which have vested but have not yet been exercised.

*Fair value assumptions of share options*

The fair value of the JSAP awards at grant date is based on the share price at grant date. The Bank considers adjustments to reflect expectations for options that might lapse before the shares vest. At each reporting date the Bank adjusts the liability to reflect differences:

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

### 49.6 The Absa Group Limited Phantom Executive Share Award Scheme (Phantom ESAS)

The Phantom ESAS is a cash-settled share-based payment arrangement, where the participant's notional bonus comprises a number of restricted nil-cost options, based on the allocation price of ordinary shares. If the participant is in the employ of Absa Group Limited after the three-year vesting period, the participant will receive 20% bonus phantom shares. If the bonus award remains in the Phantom ESAS scheme for another two years, the participant receives an additional 10% bonus phantom shares. Dividend phantom shares are paid to participants on the ordinary phantom 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% bonus phantom shares, over the five-year period. Employees that receive performance bonuses in excess of a predetermined amount are compelled to place a set percentage of the bonus award into the Phantom ESAS scheme. Employees also have the option of utilising more of their bonus award for voluntary ESAS shares.

| | BANK Number of options 2007 '000 |
|---|---|
| **Outstanding at the beginning of the year** | **—** |
| Granted during the year | **477** |
| Forfeited during the year | **(31)** |
| **Outstanding at the end of the year** | **446** |

The options outstanding have no exercise price and a weighted average contractual life of 2,4 years.

As the terms and conditions of this share scheme dictate that options be exercised immediately on vesting, at any given time there are no options which have vested but have not yet been exercised.

## 49. Share-based payments *(continued)*

### 49.6 The Absa Group Limited Phantom Executive Share Award Scheme (Phantom ESAS) *(continued)*

*Fair value assumptions of share options*

The fair value of the Phantom ESAS awards at grant date is based on the share price at grant date. The Bank considers adjustments to reflect expectations of options that might lapse before the shares vest. At each reporting date the Bank adjusts the liability to reflect differences:

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

## 50. Acquisitions and disposals of subsidiaries

### 50.1 Acquisitions of subsidiaries during the current year

| | BANK 2007 Rm |
|---|---|
| On 14 August 2006, the Bank set up the Absa Property Equity Fund, a traded unit trust. The Bank has an 86,48% interest in the Fund. The Bank is deemed to have control over the investment and the investment has been consolidated. | |
| Cash, cash balances and balances with central banks | 15 |
| Investments | 169 |
| Other liabilities and sundry provisions | (26) |
| Net assets acquired | 158 |
| *Satisfied by:* | |
| Transfer from investments | 143 |
| Cash and cash equivalents acquired | 15 |
| | 158 |
| Absa Bank Limited acquired a further 50% interest in Ambit Management Services (Proprietary) Limited during November 2006 (previously recognised as an associate), increasing its shareholding to 100%. The subsidiary has only been consolidated from the date of SARB approval, being 1 February 2007. | |
| Cash, cash balances and balances with central banks | 2 |
| Other assets | 1 |
| Current tax liabilities | (3) |
| Net assets acquired | 0 |
| *Satisfied by:* | |
| Transfer from investments in associated undertakings and joint venture companies | (2) |
| Cash and cash equivalents acquired | 2 |
| | 0 |
| **Total cash and cash equivalents acquired** | **17** |

### 50.2 Disposal of subsidiary during the current year

An amount of R36 million was received during the current year as a contingency payment relating to the disposal of Bankhaus Wölbern & Co. during the previous year (refer to note 50.3).

## 50. Acquisition and disposals of subsidiaries *(continued)*

### 50.3 Disposal of subsidiary during the previous year

On 1 January 2006, the Bank disposed of Bankhaus Wölbern & Co. As per the terms of the agreement, additional contingency payments were payable in subsequent years if certain predetermined criteria were met. In the current year under review such a payment to the amount of R36 million was received in full and final settlement.

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

| | BANK<br>2006<br>Rm |
|---|---|
| Cash, cash balances and balances with central banks | 579 |
| Deferred tax liabilities (refer to note 11) | (31) |
| Deposits | (5 062) |
| Intangible assets | 7 |
| Investments | 3 |
| Loans and advances | 2 303 |
| Minority interest | (41) |
| Other assets | 482 |
| Other liabilities | (579) |
| Property and equipment | 24 |
| Share capital | (96) |
| Trading assets | 2 628 |
| 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 consideration received | 338 |
| Final dividend | 108 |
| Cash and cash equivalents disposed of | (579) |
| | (133) |

## 51. Financial risks

### 51.1 Introduction

Risk management is fundamental to the Bank's business and plays a crucial role in enabling management to operate more effectively in a changing environment. Over time it has evolved into one of the Bank's core capabilities and is integral to the evaluation of strategic alternatives and the setting of objectives, all within a risk management framework that ensures alignment with the Bank's risk appetite and overall strategy.

Generally speaking, the approach followed by the Bank to manage risk is to ensure that all significant risks are identified and managed. On the highest level, these risks are identified in the principal risks policy (PRP), which is approved by the board. Within that context, and moving progressively down in the cascading organisational levels, a five-step risk management process (direct, assess, control, report, manage/challenge) is adopted throughout the Bank.

The responsibility for risk management resides at all levels, from members of the board to individuals throughout the Bank. 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 Bank and apply to all business units in the various divisions and wholly owned subsidiaries, as well as non-wholly owned subsidiaries and majority equity stakes over which the Bank 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 and Capital Management Committee (GRCMC). The GACC assists the board with regard to financial information, accounting policies, internal control and compliance matters. The GRCMC's function is to assist the board in fulfilling its responsibilities with regard to risk management and to ensure compliance with the requirements of the Banks Act regarding risk and capital management.

### 51.2 Risk appetite

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

Risk appetite is the level of risk that the Bank is willing to accept in fulfilling business objectives. To determine this acceptable level of risk, potential earnings volatility against financial objectives are considered first. As part of the planning process, management estimates the potential earnings volatility from different businesses under various scenarios. The Bank estimates the capacity to absorb unexpected losses in terms of the tolerable level of variance from financial targets, by considering the ability to support business growth, desired dividend payout levels and capital ratio targets. If the projections entail too high a level of risk, management will challenge each area to find new ways to adjust the business mix to incur less risk on a diversified basis.

The Bank remains committed to the objective of increasing shareholder value by developing and growing business that is consistent with the chosen risk appetite, and through building more effective risk management capabilities.

## 52. Credit risk

### 52.1 Introduction

Credit risk is the risk of suffering financial loss should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk may also arise where the downgrading of an entity's credit rating causes the fair value of the Bank's investment in that entity's financial instruments to fall. The credit risk that the Bank faces arises mainly from commercial and consumer loans and advances, including credit card lending. The Bank has policies, procedures and processes dedicated to controlling and monitoring risk from all such activities.

While credit exposures principally arise in loans and advances, the Bank can be exposed to other credit risks. These exposures comprise loan commitments, contingent liabilities, debt securities and other exposures arising in the course of trading activities. The risks are managed in a similar way to those in loans and advances, and are subject to the same or similar approval and governance processes.

The nature of the credit risks among these exposures differ considerably:

- Loan commitments may become funded loans and the risks are thus similar to loans.
- Contingent liabilities (ie, guarantees, assets pledged as security, acceptances and endorsements) may expose the Bank to the potential loss through enhancing the credit of a counterparty without lending. However, these historically experience low loss rates.
- Losses arising from instruments held for trading (ie, derivatives and debt securities) are accounted for as trading losses, rather than impairment charges, even though the fall in value causing the loss may be attributable to credit deterioration.

The most significant other credit risks are in respect of guarantees, irrevocable loan commitments, debt securities, available-for-sale debt instruments, and settlement risk.

**Guarantees and irrevocable loan commitments:** The Bank is exposed to loss through the financial guarantees, acceptances and endorsements, and irrevocable loan commitments it issues to customers and commitments to provide loan finance which cannot be withdrawn once entered into. The credit risks associated with such contracts are managed in a similar way to loans and advances.

**Debt securities:** Debt securities, treasury and other eligible bills are generally unsecured with the exception of asset backed securities and similar instruments which are secured by pools of financial assets. Managing the risks associated with debt securities differs in two important respects from the process for risk management of loans and advances. Firstly, a market price is generally available for a bond or other debt security, which is a good indication of creditworthiness. Secondly, many debt securities are rated by independent rating agencies, which is a further indication of credit quality. However, even with continuous monitoring by the rating agencies, there is often a lag between a credit event and rerating. Therefore, while useful, external ratings can only inform and, as a result, are not a substitute for the credit assessment undertaken for each exposure by the Bank, using its own grading system.

**Settlement risk:** The Bank is also exposed to settlement risk in its dealings with other financial institutions. These risks arise, for example, in foreign exchange transactions when the Bank pays away its side of the transaction to another bank or counterparty before receiving payment from the third party. The risk is that the third party may not meet its obligation. It also arises on derivative contracts where the carrying value of the financial asset is related to the credit condition of the counterparty.

While these exposures are of short duration, they can be significant. In recent years, settlement risk has been reduced by several industry initiatives that have enabled simultaneous and final settlement of transactions to be made (such as payment-versus-payment through continuous linked settlement and delivery-versus-payment in central bank money).

The Bank has worked with its peers in the development of these arrangements. As a result, the majority of high-value transactions are increasingly settled by such mechanisms. Where these mechanisms are not available, the risk is further reduced by dealing predominantly with highly rated counterparties, holding collateral and limiting the size of the exposures according to the rating of the counterparty. Furthermore, credit risk is manifested as country risk where difficulties may arise in the country in which the exposure is domiciled, thus impeding or reducing the value of the asset, or where the counterparty is the country itself.

**52. Credit risk** *(continued)*

**52.2 Credit risk management**

The granting of credit is one of the Bank's major sources of income and is therefore one of its most significant risks, and the Bank dedicates considerable resources to controlling it effectively.

In managing credit risk, the Bank applies the five-step risk management process outlined in the PRP, which is supported by the individual credit risk control frameworks. This policy is approved by the board of directors on recommendation from the GRCMC and defines the roles of key individuals and committees in the risk management process.

In terms of the PRP, Absa's Risk Director appoints a principal risk owner (PRO) for each principal risk, who is responsible for working with the risk owners in the business units to ensure that each principal risk is appropriately managed and controlled.

The credit risk control framework provides a structure within which credit is managed and for which specific operational policies and procedures are drafted as applicable to specific business areas.

The Bank has a centralised database of large corporate, sovereign and bank facilities and is currently constructing a database covering all the Bank's assets. System-based credit application processes for lending are operational throughout the Bank and an electronic corporate credit application system is deployed in all of the Bank's major businesses.

Each business segment has an embedded credit risk management team. These teams assist Group Risk in the formulation of the Bank's risk policy and the implementation of it across the businesses. Examples include ensuring that:

- maximum exposure guidelines are in place relating to the exposures to any individual customer or counterparty;
- there is a specified risk appetite by country which avoids excessive concentration of credit risk by country; and
- policies are in place that limit lending to certain industrial sectors.

Those corporate accounts which are deemed to contain heightened levels of risk are recorded on graded problem loan lists known as either watch lists or early warning lists. These are updated monthly and circulated to the relevant risk control points. Once listing has taken place, exposure is carefully monitored and, where possible, exposure reductions are effected. These lists are graded in line with the perceived severity of the risk attached to the lending. Businesses with exposure to corporate customers all work to three categories of increasing concern. By the time an account becomes impaired it will normally, but not necessarily, have passed through all three categories, which reflect the need for ever-increasing caution and control.

Where an obligor's financial health gives grounds for concern, it is immediately placed into the appropriate category. All obligors are subject to a full review of all facilities on, at least, an annual basis. Interim reviews may be undertaken if circumstances dictate.

Within the retail portfolios, which tend to comprise homogeneous assets, statistical techniques more readily allow impairment to be monitored on a portfolio basis. This applies in retail banking that comprises, among others, Absa Private Bank, Retail Bank, Small Business, Absa Home Loans, Absa Vehicle and Asset Finance, as well as Absa Card. It is consistent with the Bank's policy of raising an impairment allowance as soon as an objective evidence of impairment is identified as a result of one or more loss events that have occurred after initial recognition.

## 52. Credit risk *(continued)*

### 52.2 Credit risk management *(continued)*

Where models are used, they are based upon customers' personal and financial performance information over recent periods as a predictor for future performance. The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

The Bank manages country risk by setting a country risk appetite, which is known as the country guideline and agreed at the Credit Risk Committee (CRC). All cross-border or domestic foreign currency transactions are aggregated to give the current utilisation, in terms of country loss-given default (CLGD), against country appetite. The level of CLGD incurred by a counterparty transaction will largely depend on three main factors: the country severity, the product severity and counterparty grade.

CLGD is incurred in the country of direct risk, defined as where the majority of operating assets are held. This may differ from the country of incorporation. However, where transactions are secured with collateral, the country risk can be transferred from the country of the borrower to the country of the collateral provider. This is only permitted where the collateral definitely covers the borrowing and is not expected to decrease over time.

Country risk grades are assigned to all countries where the Bank has, or is likely to have, exposure and are reviewed every quarter to ensure they remain appropriate. Country grades, which are derived from long-term sovereign foreign currency ratings, range from 1 (lowest probability of default) to 21 (highest probability of default). A ceiling is applied where a country is graded 12 or worse so that the counterparty cannot be graded better than the country, unless some form of protection is available in the event of a cross-border event, such as a significant portion of a counterparty's assets or income being held or generated in hard currency.

The principal committees that review credit risk management, formulate the overall Bank credit policy and resolve all significant credit policy issues, are the CRC and the GRCMC. The GACC also reviews the impairment allowance as part of financial reporting. All these committees receive regular and comprehensive reports on risk issues.

The monthly CRC meetings, chaired by Absa's Risk Director, exercises oversight through review and challenge of the size and constitution of the portfolios when viewed against the Bank's risk appetite for retail as well as wholesale credit risks.

The Executive Committee monitors and manages risk-adjusted performance of businesses and receives a quarterly risk update including a copy of the Bank risk profile report.

The GRCMC reviews the risk profile, approves the control framework and approves minimum control requirements for principal risks. It receives a quarterly report covering all of the principal risks.

The GACC considers the adequacy and effectiveness of the control framework and receives quarterly reports on control issues of significance and half-yearly impairment allowances and regulatory reports. Both GRCMC and GACC also receive reports dealing in more depth with specific issues relevant at the time. The proceedings of both committees are reported to the board of directors, which also receives a concise quarterly risk report. The board approves the overall risk appetite.

**52. Credit risk** *(continued)*

**52.3 Credit risk measurement**

The Bank uses statistical modelling techniques throughout its business in its credit rating systems. These systems assist the Bank 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 credit exposures, retail and wholesale. The key building blocks in the measurement system are the probability of customer default (PD), exposure in the event of default (EAD), and severity of loss-given default (LGD). Using these, the Bank builds the analyses that leads to its decision support systems in the risk appetite context.

These three components 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 that is used by the Bank. Within the Bank this is known as risk tendency (RT) and is a statistical estimate of the average loss for the loan portfolio, for a 12-month period, taking into account a portfolio's size and risk characteristics under current credit conditions. RT provides insight into the credit quality of the portfolio and assists management in tracking risk changes as the Bank's stock of credit exposures evolves in size or risk profile.

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

RT = PD (point in time) x EAD x LGD.

The RT of each individual loan is aggregated to produce the RT of the various subportfolios in the Bank and ultimately for the whole Bank. At this aggregate level, RT is a statistical estimate of the predicted average loss over a 12-month period that is inherent in the Bank's credit exposures.

The Bank also assesses the credit quality of borrowers and other counterparties and assigns them an internal risk rating. There are two different categories of default rating used. The first reflects the statistical probability of a customer in a rating class defaulting within the next 12-month period, and is referred to as a point in time rating (PIT). The second also reflects the statistical probability of a customer in a rating class defaulting, but the period of assessment is different, in this case the period is defined as 12 months of average credit conditions for the customer type. This type of rating therefore provides a measure of risk that is independent of the current credit conditions for a particular customer type and is much more stable over time than a PIT rating. This rating is referred to as a through the cycle (TTC) rating.

Multiple rating methodologies may be used to inform the rating decision on individual large credits, such as internal and external models, rating agency grades and, for wholesale assets, market information such as credit spreads. For smaller credits, a single source may suffice, such as the result from a rating model.

The 21 default grades classification represents the best estimate of credit risk for a counterparty based on current economic conditions. The previous 12-grade internal credit rating scale (mapped to the 21-grade scale) is currently still in use for the retail portfolios. The table on page 136 details how these equate to one another and external ratings.

**52.3.1 Maximum exposure to credit risk**

For financial assets recognised on balance sheet, the exposure to credit risk equals the carrying amount. For financial guarantees, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the guarantee was called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

52. **Credit risk** *(continued)*

52.3 **Credit risk measurement** *(continued)*

52.3.1 **Maximum exposure to credit risk** *(continued)*

The following represents the maximum exposure, at the balance sheet date, to credit risk for on and off balance sheet financial instruments, before taking account any collateral held or other credit enhancements and after the allowance for impairment and netting where appropriate.

**52.3.1 (a) Credit risk exposures relating to on balance sheet assets**

| | BANK | |
|---|---|---|
| | **2007 Rm** | 2006 Rm |
| Balances with the SARB | **10 396** | 8 402 |
| **Cash, cash balances and balances with central banks (refer to note 2)** | **10 396** | 8 402 |
| Land Bank bills | **492** | 492 |
| RSA government bonds | **13 024** | 13 166 |
| Treasury bills | **9 441** | 7 171 |
| **Statutory liquid asset portfolio (refer to note 3)** | **22 957** | 20 829 |
| Loans and advances to banks | **51 483** | 20 028 |
| Remittances in transit | **1 208** | 805 |
| **Loans and advances to banks (refer to note 4)** | **52 691** | 20 833 |
| Debt instruments | **2 206** | 176 |
| Derivative assets | **21 757** | 15 065 |
| Money market assets | **1 340** | 705 |
| **Trading assets (refer to note 5)** | **25 303** | 15 946 |
| Derivatives designated as cash flow hedging instruments | **5** | 94 |
| Derivatives designated as fair value hedging instruments | **720** | 547 |
| **Hedging assets (refer to note 5)** | **725** | 641 |
| Accounts receivable | **2 689** | 2 425 |
| Settlement accounts and collateral received | **1 521** | 283 |
| **Other assets (refer to note 6)** | **4 210** | 2 708 |

# Notes to the consolidated financial statements

Year ended 31 December

**52. Credit risk** *(continued)*
**52.3 Credit risk measurement** *(continued)*
**52.3.1 Maximum exposure to credit risk** *(continued)*
**52.3.1 (a) Credit risk exposures relating to on balance sheet assets** *(continued)*

| | BANK | |
|---|---|---|
| | **2007 Rm** | 2006 Rm |
| Retail banking | **321 275** | 272 080 |
| Cheque accounts | **6 036** | 4 880 |
| Credit cards | **12 941** | 10 834 |
| Instalment credit agreements | **57 407** | 53 293 |
| Loans to associated undertakings and joint venture companies | **6 466** | 6 226 |
| Microloans | **2 458** | 1 191 |
| Mortgages | **225 575** | 185 820 |
| Other advances | **1 182** | 810 |
| Personal loans | **9 210** | 9 026 |
| Absa Corporate and Business Bank | **70 370** | 56 140 |
| Corporate | **10 640** | 6 249 |
| Large and Medium | **56 827** | 47 894 |
| Other | **2 903** | 1 997 |
| Absa Capital | **50 452** | 37 574 |
| Africa and other | **1 023** | 1 405 |
| **Total loans and advances to customers (refer to note 8)** | **443 120** | 367 199 |
| Debt instruments | **724** | 1 406 |
| **Investments (refer to note 12)** | **724** | 1 406 |
| **Total assets subject to credit risk** | **560 126** | 437 964 |
| Assets not subject to credit risk[1] | **26 933** | 15 762 |
| **Total assets per balance sheet** | **587 059** | 453 726 |

[1]*Includes coins and bank notes, prepayments, constructed assets held for resale, repossessed properties, deferred costs, investments in equity instruments, reinsurance assets, deferred tax assets, intangible assets and property and equipment which are not subject to credit risk.*

**52.3.1 (b) Credit risk exposures relating to off balance sheet items**

| | BANK | |
|---|---|---|
| | **2007 Rm** | 2006 Rm |
| Financial guarantees | **824** | 560 |
| Guarantees | **9 787** | 9 871 |
| Irrevocable facilities | **40 040** | 37 265 |
| Letters of credit | **2 790** | 1 994 |
| Other contingencies | **23** | 16 |
| | **53 464** | 49 706 |

## 52. Credit risk *(continued)*

### 52.3 Credit risk measurement *(continued)*

**52.3.1 (c) Financial assets and financial liabilities designated at fair value**

The following represents the maximum exposure at the balance sheet date to credit risk of financial instruments designated at fair value, before taking into account any collateral held or other credit enhancements.

| | BANK | |
|---|---|---|
| | **2007 Rm** | 2006 Rm |
| **Assets** | | |
| Statutory liquid asset portfolio (refer to note 3) | **2 683** | 3 744 |
| Loans and advances to banks (refer to note 4) | **10 992** | — |
| Loans and advances to customers (refer to note 8) | **13 029** | 12 109 |
| Investments (refer to note 12) | **656** | 1 239 |
| **Total assets designated at fair value** | **27 360** | 17 092 |
| **Liabilities** | | |
| Deposits from banks (refer to note 16) | **28 603** | — |
| Other liabilities and sundry provisions (refer to note 18) | **234** | — |
| Deposits due to customers (refer to note 19) | **11 465** | 265 |
| Debt securities in issue (refer to note 20) | **3 764** | — |
| **Total liabilities designated at fair value** | **44 065** | 265 |

At the balance sheet date, the Bank did not use credit derivatives as a mechanism to hedge its exposure to credit risk for financial assets and financial liabilities designated at fair value.

The carrying value of liabilities at fair value and the amount which the Bank is contractually required to pay to the holder of the obligation at maturity, approximate each other.

**52.3.1 (d) Increase in fair value attributable to changes in credit risk**

| | BANK | |
|---|---|---|
| | **2007 Rm** | 2006 Rm |
| **Assets** | | |
| Loans and advances to customers | **21** | 61 |

The cumulative change in fair value due to changes in credit risk for loans and advances to customers designated at fair value is calculated by assigning to each customer an internal risk grading based on the customer's probability of default. The risk grading determines the credit spread incorporated in the valuation curve. Changes in the risk grading will result in a change in fair value of the loan due to changes in credit risk.

For financial liabilities other than loans and advances to customers, the constant credit spread approach was applied from the date that the assets and liabilities were originated. No changes were noted in the credit risk of the assets and liabilities and the applicable credit spreads, after origination.

**52. Credit risk** *(continued)*

**52.3 Credit risk measurement** *(continued)*

**52.3.2 Financial assets subject to credit risk**

For the purposes of the Bank's disclosure regarding credit quality, the maximum exposure to credit risk of financial assets at the balance sheet date have been analysed as follows:

| | Cash, cash balances and balances with central banks[1] Rm | Statutory liquid asset portfolio Rm | Loans and advances to banks Rm |
|---|---|---|---|
| Neither past due nor impaired (refer to note 52.3.3 (a)) | **10 396** | **22 957** | **52 691** |
| Past due but not impaired (refer to note 52.3.5) | — | — | — |
| Impaired (refer to note 52.3.6 (a)) | — | — | — |
| *Less:* Impairment allowance (refer to notes 9 and 52.3.6 (b)) | — | — | — |
| Identified impairments | — | — | — |
| Identified individual | — | — | — |
| Identified collective | — | — | — |
| Unidentified impairments | — | — | — |
| **Carrying value of financial assets (refer to note 52.3.1 (a))** | **10 396** | **22 957** | **52 691** |

| | Cash, cash balances and balances with central banks[1] Rm | Statutory liquid asset portfolio Rm | Loans and advances to banks Rm |
|---|---|---|---|
| Neither past due nor impaired (refer to note 52.3.3 (a)) | 8 402 | 20 829 | 20 833 |
| Past due but not impaired (refer to note 52.3.5) | — | — | — |
| Impaired (refer to note 52.3.6 (a)) | — | — | — |
| *Less:* Impairment allowance (refer to notes 9 and 52.3.6 (b)) | — | — | — |
| Identified impairments | — | — | — |
| Identified individual | — | — | — |
| Identified collective | — | — | — |
| Unidentified impairments | — | — | — |
| **Carrying value of financial assets (refer to note 52.3.1 (a))** | 8 402 | 20 829 | 20 833 |

*[1]Cash, cash balances and balances with central banks exclude coins and bank notes which are not subject to credit risk.*

*[2]Trading assets and investments exclude equity instruments as they are not subject to credit risk.*

*[3]Other assets exclude prepayments, constructed assets held for sale, repossessed properties and deferred costs which are not subject to credit risk.*

**BANK**

**2007**

| | Trading assets[2] Rm | Hedging assets Rm | Other assets[3] Rm | Loans and advances to customers Rm | Investments[2] Rm | Total Rm |
|---|---|---|---|---|---|---|
| | **25 303** | **725** | **4 210** | **421 496** | **724** | **538 502** |
| | **—** | **—** | **—** | **2 769** | **—** | **2 769** |
| | **—** | **—** | **—** | **24 336** | **—** | **24 336** |
| | **—** | **—** | **—** | **(5 481)** | **—** | **(5 481)** |
| | **—** | **—** | **—** | **(3 518)** | **—** | **(3 518)** |
| | **—** | **—** | **—** | **(2 571)** | **—** | **(2 571)** |
| | **—** | **—** | **—** | **(947)** | **—** | **(947)** |
| | **—** | **—** | **—** | **(1 963)** | **—** | **(1 963)** |
| | **25 303** | **725** | **4 210** | **443 120** | **724** | **560 126** |

2006

| | Trading assets[2] Rm | Hedging assets Rm | Other assets[3] Rm | Loans and advances to customers Rm | Investments[2] Rm | Total Rm |
|---|---|---|---|---|---|---|
| | 15 946 | 641 | 2 708 | 354 420 | 1 406 | 425 185 |
| | — | — | — | 1 277 | — | 1 277 |
| | — | — | — | 16 097 | — | 16 097 |
| | — | — | — | (4 595) | — | (4 595) |
| | — | — | — | (2 911) | — | (2 911) |
| | — | — | — | (2 499) | — | (2 499) |
| | — | — | — | (412) | — | (412) |
| | — | — | — | (1 684) | — | (1 684) |
| | 15 946 | 641 | 2 708 | 367 199 | 1 406 | 437 964 |

**52. Credit risk** *(continued)*

**52.3 Credit risk measurement** *(continued)*

**52.3.3 Financial assets neither past due nor impaired**

The Bank categorises its current exposures according to a 21-grade internal rating scale default grades (DG) that corresponds to a statistical probability of customers in that rating class defaulting within a 12-month period. An indicative mapping of the DG buckets to the equivalent international rating agency scales can be performed as illustrated in the table below:

| DG mapping (to risk-rated or credit-scored models) | | | | Rating agency mappings (international rating scales) | | |
|---|---|---|---|---|---|---|
| DG | Min PD (>) | Max PD (≤) | PD (midpoint) | Standard and Poor's | 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% | 99,999% | 30,000% | CCC | Caa2 | CCC |

The grading represents a through-the-cycle view of the distribution of the book.

**Default grades 1 – 11**

These financial assets have a lower probability of default than other assets. Typically these customers will have a probability of default of less than 0,5%.

**Default grades 12 – 19**

Financial assets in these grades typically require more detailed management attention where clear evidence of financial deterioration or weakness exists. Assets in this category, although currently protected, are potentially weaker credits. These assets contain some credit deficiencies but not to the point of justifying a classification of substandard.

**Default grades 20 – 21**

These financial assets are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have well-defined weaknesses that jeopardise the liquidation of the asset. They are characterised by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

## 52. Credit risk *(continued)*

## 52.3 Credit risk measurement *(continued)*

### 52.3.3 Financial assets neither past due nor impaired *(continued)*

Financial assets neither past due nor impaired can be analysed according to the internal rating system used in the Bank's business. The credit quality of financial assets subject to credit risk, that were neither past due nor impaired, based on the Bank's internal ratings, were as follows:

**52.3.3 (a) Credit risk exposures relating to on balance sheet assets**

| | BANK | | | |
|---|---|---|---|---|
| | 2007 | | | |
| | DG 1 – 11 Rm | DG 12 – 19 Rm | DG 20 – 21 Rm | Total Rm |
| Balances with the SARB | 10 396 | — | — | 10 396 |
| **Cash, cash balances and balances with central banks** | **10 396** | **—** | **—** | **10 396** |
| Land Bank bills | 492 | — | — | 492 |
| RSA government bonds | 13 024 | — | — | 13 024 |
| Treasury bills | 9 441 | — | — | 9 441 |
| **Statutory liquid asset portfolio** | **22 957** | **—** | **—** | **22 957** |
| Loans and advances to banks | 51 483 | — | — | 51 483 |
| Remittances in transit | 1 208 | — | — | 1 208 |
| **Loans and advances to banks** | **52 691** | **—** | **—** | **52 691** |
| Debt instruments | 2 168 | 38 | — | 2 206 |
| Derivative assets | 21 398 | 359 | — | 21 757 |
| Money market assets | 1 317 | 23 | — | 1 340 |
| **Trading assets** | **24 883** | **420** | **—** | **25 303** |
| Derivatives designated as cash flow hedging instruments | 5 | — | — | 5 |
| Derivatives designated as fair value hedging instruments | 720 | — | — | 720 |
| **Hedging assets** | **725** | **—** | **—** | **725** |
| Accounts receivable | 1 259 | 1 430 | — | 2 689 |
| Settlement accounts and collateral received | 1 497 | 24 | — | 1 521 |
| **Other assets** | **2 756** | **1 454** | **—** | **4 210** |
| Retail banking | 12 454 | 261 389 | 27 182 | 301 025 |
| Cheque accounts | 21 | 5 864 | 126 | 6 011 |
| Credit cards | 303 | 10 243 | 806 | 11 352 |
| Instalment credit agreements | — | 50 738 | 1 944 | 52 682 |
| Loans to associated undertakings and joint venture companies | 4 691 | 1 722 | 53 | 6 466 |
| Microloans | — | 1 744 | 547 | 2 291 |
| Mortgages | 6 451 | 183 661 | 21 763 | 211 875 |
| Other advances | 988 | 188 | 4 | 1 180 |
| Personal loans | — | 7 229 | 1 939 | 9 168 |

# Notes to the consolidated financial statements

Year ended 31 December

**52. Credit risk** *(continued)*

**52.3 Credit risk measurement** *(continued)*

**52.3.3 Financial assets neither past due nor impaired** *(continued)*

**52.3.3 (a) Credit risk exposures relating to on balance sheet assets** *(continued)*

**BANK**

| | 2007<br>DG 1 – 11<br>Rm | DG 12 – 19<br>Rm | DG 20 – 21<br>Rm | Total<br>Rm |
|---|---|---|---|---|
| Absa Corporate and Business Bank | **13 781** | **53 566** | **1 482** | **68 829** |
| Corporate | **890** | **9 677** | **74** | **10 641** |
| Large and Medium | **11 728** | **42 113** | **1 393** | **55 234** |
| Other | **1 163** | **1 776** | **15** | **2 954** |
| Absa Capital | **20 608** | **29 770** | **243** | **50 621** |
| Africa and other | **1 021** | **—** | **—** | **1 021** |
| **Loans and advances to customers** | **47 864** | **344 725** | **28 907** | **421 496** |
| Debt instruments | **724** | **—** | **—** | **724** |
| **Investments** | **724** | **—** | **—** | **724** |
| **Total (refer to note 52.3.2)** | **162 996** | **346 599** | **28 907** | **538 502** |

| | 2006<br>DG 1 – 11<br>Rm | DG 12 – 19<br>Rm | DG 20 – 21<br>Rm | Total<br>Rm |
|---|---|---|---|---|
| Balances with the SARB | 8 402 | — | — | 8 402 |
| **Cash, cash balances and balances with central banks** | 8 402 | — | — | 8 402 |
| Land Bank bills | 492 | — | — | 492 |
| RSA government bonds | 13 166 | — | — | 13 166 |
| Treasury bills | 7 171 | — | — | 7 171 |
| **Statutory liquid asset portfolio** | 20 829 | — | — | 20 829 |
| Loans and advances to banks | 20 028 | — | — | 20 028 |
| Remittances in transit | 805 | — | — | 805 |
| **Loans and advances to banks** | 20 833 | — | — | 20 833 |

## 52. Credit risk *(continued)*
## 52.3 Credit risk measurement *(continued)*
## 52.3.3 Financial assets neither past due nor impaired *(continued)*
### 52.3.3 (a) Credit risk exposures relating to on balance sheet assets *(continued)*

| | BANK 2006 | | | |
|---|---|---|---|---|
| | DG 1 – 11 Rm | DG 12 – 19 Rm | DG 20 – 21 Rm | Total Rm |
| Debt instruments | 172 | 4 | — | 176 |
| Derivative assets | 14 766 | 299 | — | 15 065 |
| Money market assets | 564 | 141 | — | 705 |
| **Trading assets** | 15 502 | 444 | — | 15 946 |
| Derivatives designated as cash flow hedging instruments | 94 | — | — | 94 |
| Derivatives designated as fair value hedging instruments | 547 | — | — | 547 |
| **Hedging assets** | 641 | — | — | 641 |
| Accounts receivable | 1 140 | 1 285 | — | 2 425 |
| Settlement accounts and collateral received | 277 | 6 | — | 283 |
| **Other assets** | 1 417 | 1 291 | — | 2 708 |
| Retail banking | 11 800 | 227 199 | 21 361 | 260 360 |
| Cheque accounts | 25 | 4 744 | 103 | 4 872 |
| Credit cards | 346 | 9 273 | 671 | 10 290 |
| Instalment credit agreements | — | 49 032 | 798 | 49 830 |
| Loans to associated undertakings and joint venture companies | 4 439 | 1 726 | 61 | 6 226 |
| Microloans | — | 735 | 232 | 967 |
| Mortgages | 6 187 | 154 636 | 17 621 | 178 444 |
| Other advances | 803 | 6 | 1 | 810 |
| Personal loans | — | 7 047 | 1 874 | 8 921 |
| Absa Corporate and Business Bank | 10 660 | 43 211 | 1 019 | 54 890 |
| Corporate | 470 | 5 344 | 59 | 5 873 |
| Large and Medium | 9 396 | 36 646 | 940 | 46 982 |
| Other | 794 | 1 221 | 20 | 2 035 |
| Absa Capital | 14 461 | 23 223 | 83 | 37 767 |
| Other | 1 403 | — | — | 1 403 |
| **Loans and advances to customers** | 38 324 | 293 633 | 22 463 | 354 420 |
| Debt instruments | 1 406 | — | — | 1 406 |
| **Investments** | 1 406 | — | — | 1 406 |
| **Total (refer to note 52.3.2)** | 107 354 | 295 368 | 22 463 | 425 185 |

**52. Credit risk** *(continued)*

**52.3 Credit risk measurement** *(continued)*

**52.3.4 Financial assets renegotiated**

Certain of the Bank's loans and advances to customers would have been past due or impaired if their terms had not been renegotiated.

At the balance sheet date, the carrying amount of assets[1] renegotiated and transferred[2] to the neither past due nor impaired classification in the last 12 months was as follows:

| | BANK | |
|---|---|---|
| **Loans and advances to customers** | **2007 Rm** | 2006 Rm |
| Cheque accounts | **32** | 3 |
| Mortgages | **2 142** | 2 584 |
| Personal loans | **70** | 73 |
| Retail banking | **2 244** | 2 660 |
| Absa Corporate and Business Bank | **1 035** | 842 |
| | **3 279** | 3 502 |

In the event that a customer loan becomes past due, and the customer cannot temporarily afford to pay the arrears or monthly instalments, the customer could qualify for a remediation period to give him/her the opportunity to rectify the situation. On expiry of the remediation period the customer's situation is reassessed and the rectification of the account or the renegotiation of the terms of the agreement are explored. The terms of the agreement can only be permanently altered once in a 12-month period and is subject to affordability assessments and customer risk. The renegotiated term of the contract is limited by the maximum legally allowed financing term for the specific product.

**52.3.5 Financial assets that are past due but not impaired**

These are assets where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate, based on the level of security collateral available.

The age of loans and advances to customers that are past due but not impaired is as follows:

| | BANK | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | | | | | |
| **Loans and advances to customers** | **Past due up to 1 month Rm** | **Past due 1 – 2 months Rm** | **Past due 2 – 3 months Rm** | **Past due 3 – 4 months Rm** | **Past due older than 4 months Rm** | **Total Rm** |
| Retail banking | **574** | **118** | **119** | **124** | **670** | **1 605** |
| Cheque accounts | **—** | **1** | **1** | **2** | **12** | **16** |
| Instalment credit agreements | **52** | **4** | **4** | **4** | **67** | **131** |
| Mortgages | **517** | **113** | **113** | **117** | **586** | **1 446** |
| Personal loans | **5** | **—** | **1** | **1** | **5** | **12** |
| Absa Corporate and Business Bank | | | | | | |
| Large and Medium | **1 098** | **1** | **—** | **5** | **60** | **1 164** |
| **Past due but not impaired advances (refer to note 52.3.2)** | **1 672** | **119** | **119** | **129** | **730** | **2 769** |

[1]*Assets need to be included in loans and advances at the balance sheet date.*

[2]*Assets are only transferred to the neither past due nor impaired classification once the customer demonstrates the ability to make the contractual payments for a specified period.*

## 52. Credit risk *(continued)*

## 52.3 Credit risk measurement *(continued)*

### 52.3.5 Financial assets that are past due but not impaired *(continued)*

| Loans and advances to customers | 2006<br>Past due up to 1 month Rm | Past due 1 – 2 months Rm | Past due 2 – 3 months Rm | Past due 3 – 4 months Rm | Past due older than 4 months Rm | Total Rm |
|---|---|---|---|---|---|---|
| Retail banking | 342 | 78 | 87 | 56 | 295 | 858 |
| Cheque accounts | 1 | 2 | 1 | 1 | 11 | 16 |
| Instalment credit agreements | 4 | 5 | 3 | 2 | 18 | 32 |
| Mortgages | 333 | 70 | 82 | 52 | 263 | 800 |
| Personal loans | 4 | 1 | 1 | 1 | 3 | 10 |
| Absa Corporate and Business Bank | | | | | | |
| Large and Medium | 63 | 6 | 1 | 7 | 342 | 419 |
| **Past due but not impaired advances (refer to note 52.3.2)** | 405 | 84 | 88 | 63 | 637 | 1 277 |

### 52.3.6 Financial assets individually assessed as impaired

Absa's credit policy considers the following to be key indicators (albeit not the only indicators) of default:

- The borrower is unlikely to pay its credit obligation in full, without recourse by the Bank to actions such as realising any security held.
- The obligor is overdue.

In the wholesale portfolio, the identified impairment is calculated on accounts 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 accounting purposes, these accounts are considered to be identified impairments.

**52.3.6 (a) Analysis of assets individually assessed as impaired**

**BANK**

| **Loans and advances to customers** | **2007<br>Original carrying amount Rm** | **Impairment allowance Rm** | **Revised carrying amount Rm** | 2006<br>Original carrying amount Rm | Impairment allowance Rm | Revised carrying amount Rm |
|---|---|---|---|---|---|---|
| Retail banking | **22 400** | **2 463** | **19 937** | 13 892 | 1 903 | 11 989 |
| Cheque accounts | **252** | **151** | **101** | 136 | 94 | 42 |
| Credit cards | **2 475** | **754** | **1 721** | 955 | 299 | 656 |
| Instalment credit agreements | **5 267** | **599** | **4 668** | 3 904 | 395 | 3 509 |
| Microloans | **350** | **95** | **255** | 464 | 233 | 231 |
| Mortgages | **13 455** | **650** | **12 805** | 8 085 | 789 | 7 296 |
| Personal loans | **601** | **214** | **387** | 348 | 93 | 255 |
| Absa Corporate and Business Bank | **1 912** | **1 039** | **873** | 2 205 | 1 008 | 1 197 |
| Corporate | **119** | **69** | **50** | 411 | 116 | 295 |
| Large and Medium | **1 691** | **874** | **817** | 1 788 | 892 | 896 |
| Other | **102** | **96** | **6** | 6 | — | 6 |
| Absa Capital | **24** | **16** | **8** | — | — | — |
| **Total (refer to note 52.3.2)** | **24 336** | **3 518** | **20 818** | 16 097 | 2 911 | 13 186 |

**52. Credit risk** *(continued)*

**52.3 Credit risk measurement** *(continued)*

**52.3.6 Financial assets individually assessed as impaired** *(continued)*

**52.3.6 (b) Reconciliation of total impairments (identified and unidentified)**

**BANK**

**2007**

| Impairment of loans and advances to customers | Opening balance Rm | Acquisitions and disposals Rm | Net present value unwind on non-performing book Rm | Exchange and other adjustments Rm | Amounts written off and recoveries Rm | Impairment raised Rm | Closing balance Rm |
|---|---|---|---|---|---|---|---|
| Retail banking | 3 028 | — | (245) | — | (1 452) | 2 421 | 3 752 |
| Absa Corporate and Business Bank | 1 374 | — | (27) | — | (8) | 196 | 1 535 |
| Absa Capital | 193 | — | — | — | — | 1 | 194 |
| | 4 595 | — | (272) | — | (1 460) | 2 618 | 5 481 |

2006

| Impairment of loans and advances to customers | Opening balance Rm | Acquisitions and disposals Rm | Net present value unwind on non-performing book Rm | Exchange and other adjustments Rm | Amounts written off and recoveries Rm | Impairment raised Rm | Closing balance Rm |
|---|---|---|---|---|---|---|---|
| Retail banking | 2 604 | — | (94) | — | (1 009) | 1 527 | 3 028 |
| Absa Corporate and Business Bank | 1 087 | — | (25) | — | (72) | 384 | 1 374 |
| Absa Capital | 1 699 | — | — | — | (1 507) | 1 | 193 |
| Africa and other | 371 | (92) | — | — | (260) | (19) | — |
| | 5 761 | (92) | (119) | — | (2 848) | 1 893 | 4 595 |

## 52. Credit risk *(continued)*

### 52.4 Credit risk mitigation, collateral and other credit enhancements

The Bank uses a wide variety of techniques to reduce credit risk on its lending. The most fundamental of these is performing an assessment of the ability of a borrower to service the proposed level of borrowing without distress. It is the Bank's policy to establish that loans are within the customer's capacity to repay, rather than to rely excessively on security and, as a result, depending on the customer's standing and the type of product, facilities may be unsecured.

Nevertheless, collateral can be an important mitigant of credit risk and the Bank commonly obtains security for the funds advanced, such as in the case of a retail or commercial mortgage, a reverse repurchase agreement, or a commercial loan with a floating charge over book debts and inventories. When collateral is deemed appropriate, businesses are required to take specific, agreed classes of collateral and ensure that they are holding a correctly perfected charge. Alternatively, a business may put in place other forms of credit risk mitigation, such as the use of credit derivatives, in accordance with laid-down procedures or policies.

The following types of collateral are currently held against assets subject to credit risk:

| Assets subject to credit risk on balance sheet | Type of collateral |
|---|---|
| Cash, cash balances and balances with central banks | • Deposits from customers and cession of ringfenced bank accounts with cash |
| Loans and advances to banks | • Bonds and guarantees<br>• South African government bonds |
| Loans and advances to customers | • Bonds over properties<br>• Call options to holding companies<br>• Charge on property<br>• Debentures<br>• Governmental guarantees<br>• Guarantees from shareholders and directors<br>• Insurance policies<br>• Life insurance policies<br>• Listed equities<br>• Parental guarantees<br>• Personal and other company guarantees<br>• Pledged securities<br>• Property and equipment<br>• Put options from holding companies/other group companies<br>• Shares |

## 52. Credit risk *(continued)*

### 52.4 Credit risk mitigation, collateral and other credit enhancements *(continued)*

**Valuation of collateral**

Valuation of the collateral taken will be within agreed parameters and will be conservative in value. Any collateral taken in respect of OTC trading exposures will be subject to a "haircut" which is negotiated at the time of signing the collateral agreement. A haircut is the valuation percentage applicable to each type of collateral and will be largely based on liquidity and price volatility of the underlying security.

Within the corporate sectors, collateral for impaired loans, including guarantees and insurance, is reviewed regularly and at least annually to ensure that it is still enforceable and that the impairment allowance remains appropriate given the current valuation. Where the collateral has decreased in value, an additional impairment allowance may be considered. Conversely, increases in collateral may result in a release of the impairment allowance.

The Bank will consider all relevant factors, including local market conditions and practices, before any collateral is realised.

For most forms of security, the collateral given is valued only on origination or in the course of enforcement actions. The value of security is not updated based on the specific security except where a loan is individually assessed as impaired. For mortgages, in cases where a loan is not individually assessed as impaired, the house price index is applied to obtain the fair value of security. In the case of corporates, lending security may be in the form of floating charges where the value of collateral varies with the level of assets, such as inventory and receivables held by the customer.

The Bank also uses various forms of specialised legal agreements to reduce risk, including entering into master netting agreements with counterparties, which the Bank uses to restrict its exposure to credit losses. The International Swap and Derivatives Association (ISDA) Master Agreement is the Bank's preferred agreement for documenting OTC activity. It provides the contractual framework within which dealing activities across a full range of OTC products are conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults or other predetermined events occur. In the normal course of events, where the ISDA Master Agreement is used, the collateral document will be the ISDA Credit Support Annex (CSA). The collateral document must give the Bank the power to realise any collateral placed with it in the event of the failure of the counterparty, and to obtain further collateral when requested or in the event of insolvency, administration or similar processes, as well as in the case of early termination.

Security structures and legal covenants are subject to regular review, at least annually, to ensure that they remain fit for purpose and remain consistent with accepted local market practice. The Bank actively manages its credit exposures. When weaknesses in exposures are detected (either in individual exposures or in groups of exposures) the Bank takes action to mitigate the risks. Such actions may include reducing the amounts outstanding (in discussion with the customers, clients or counterparties, if appropriate), using credit derivatives and, sometimes, selling the loan assets.

The Bank manages the diversification of its portfolio to avoid unwanted credit risk concentrations. This takes several dimensions. Maximum exposure guidelines are in place relating to the exposures to any individual counterparty. These permit higher exposures to higher-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 Group Credit Committee (GCC) as well as the CRC and the GRCMC.

Similarly, the country risk policy specifies risk appetite by country and avoids excessive concentrations of credits in individual countries. Finally, there are policies that limit lending to certain industries, for example, commercial real estate.

#### 52.4.1 Fair value of collateral for loans past due but not impaired and loans individually impaired

Financial assets that are past due or individually assessed as impaired are for the most part collateralised or subject to other forms of credit enhancements. The effects of such arrangements are taken into account in the calculation of the impairment allowance held against them.

### 52. Credit risk *(continued)*

### 52.4 Credit risk mitigation, collateral and other credit enhancements *(continued)*

### 52.4.1 Fair value of collateral for loans past due but not impaired and loans individually impaired *(continued)*

The description and fair value of collateral and other credit enhancements held in respect of loans and advances to customers past due but not impaired and individually assessed as impaired is as follows:

| | BANK | |
|---|---|---|
| **Loans and advances to customers** | **2007 Rm** | 2006 Rm |
| Retail banking | **17 318** | 10 966 |
| Cheque accounts | **36** | 55 |
| Instalment credit agreements | **3 417** | 2 794 |
| Microloans | **2** | 1 |
| Mortgages | **13 798** | 8 064 |
| Personal loans | **65** | 52 |
| Absa Corporate and Business Bank | | |
| Large and Medium | **1 898** | 1 282 |
| **Fair value of collateral for loans past due but not impaired and individually impaired** | **19 216** | 12 248 |
| **Carrying values of loans past due but not impaired** | **2 769** | 1 277 |
| **Carrying values of loans individually impaired** | **24 336** | 16 097 |

An apparent shortfall exists due to the Bank using a probability of default when assessing certain of the individually impaired loans.

### 52.4.2 Enforcement of collateral

Carrying value of assets held by the Bank at the balance sheet date as a result of the enforcement of collateral, was as follows:

| | BANK | |
|---|---|---|
| **Loans and advances to customers** | **2007 Rm** | 2006 Rm |
| **Residential properties** | | |
| Opening balance | **142** | 221 |
| Acquisitions | **83** | 35 |
| Disposals | **(53)** | (114) |
| **Closing balance** | **172** | 142 |

Any properties repossessed are made available for sale in an orderly and timely fashion, with any proceeds realised being used to reduce or repay the outstanding loan. The Bank does not, as a rule, occupy repossessed properties for its business use.

### 52.5 Credit risk concentration

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The concentrations of credit exposure described in the table to follow are not proportionally related to credit loss. Some segments of the Bank's portfolio have, and are expected to have, proportionally higher credit charges compared to the exposure of other segments. Moreover, the volatility of credit loss is different in different parts of the portfolio. Thus comparatively large credit charges could arise in parts of the portfolio.

Mandate and scale limits, which can also be set at Bank level to reflect overall risk appetite, can relate either to the stock of current exposures in the relevant portfolio or to the flow of new exposures into that portfolio. Typical limits include the caps on high loan to value mortgages, the proportion of new mortgage business that is buy-to-let and restriction on maximum residual value risk in relation to vehicle lease agreements.

# Notes to the consolidated financial statements

Year ended 31 December

**52. Credit risk** *(continued)*

**52.5 Credit risk concentration** *(continued)*

**52.5.1 Analysis of credit risk concentration by industry**

The following table reflects the Bank's credit exposures at their carrying amounts, as categorised by the industry sectors of our counterparties at the balance sheet date:

| | **Cash, cash balances and balances with central banks Rm** | **Statutory liquid asset portfolio Rm** | **Loans and advances to banks Rm** | **Trading and hedging assets Rm** | **Loans and advances to customers Rm** |
|---|---|---|---|---|---|
| Agriculture | **—** | **—** | **—** | **5** | **10 545** |
| Construction and property | **—** | **—** | **—** | **3 500** | **39 318** |
| Consumer (home loans) | **—** | **—** | **—** | **—** | **203 166** |
| Consumer (other personal lending) | **—** | **—** | **—** | **—** | **88 223** |
| Electricity | **—** | **—** | **—** | **—** | **2 661** |
| Finance | **10 396** | **—** | **52 691** | **19 041** | **41 090** |
| Government | **—** | **22 957** | **—** | **1 281** | **2 291** |
| Manufacturing | **—** | **—** | **—** | **558** | **7 904** |
| Mining | **—** | **—** | **—** | **80** | **8 086** |
| Other | **—** | **—** | **—** | **794** | **10 170** |
| Services | **—** | **—** | **—** | **118** | **14 075** |
| Transport | **—** | **—** | **—** | **356** | **2 531** |
| Wholesale | **—** | **—** | **—** | **295** | **13 060** |
| **Subject to credit risk** | **10 396** | **22 957** | **52 691** | **26 028** | **443 120** |

| | Cash, cash balances and balances with central banks Rm | Statutory liquid asset portfolio Rm | Loans and advances to banks Rm | Trading and hedging assets Rm | Loans and advances to customers Rm |
|---|---|---|---|---|---|
| Agriculture | — | — | — | 19 | 9 264 |
| Construction and property | — | — | — | 24 | 24 908 |
| Consumer (home loans) | — | — | — | 626 | 165 504 |
| Consumer (other personal lending) | — | — | — | 3 | 76 932 |
| Electricity | — | — | — | 3 | 604 |
| Finance | 8 402 | — | 20 833 | 11 740 | 40 949 |
| Government | — | 20 829 | — | 367 | 1 529 |
| Manufacturing | — | — | — | 971 | 8 952 |
| Mining | — | — | — | 1 232 | 4 299 |
| Other | — | — | — | 60 | 5 815 |
| Services | — | — | — | 245 | 15 150 |
| Transport | — | — | — | 723 | 3 552 |
| Wholesale | — | — | — | 574 | 9 741 |
| **Subject to credit risk** | 8 402 | 20 829 | 20 833 | 16 587 | 367 199 |

## BANK

**2007**

| Other assets Rm | Investments Rm | Financial guarantees Rm | Guarantees Rm | Letters of credit Rm | Other contin-gencies Rm | Irrevocable facilities Rm | Total Rm |
|---|---|---|---|---|---|---|---|
| 13 | — | — | 256 | 25 | — | 5 | 10 849 |
| 358 | — | — | 1 920 | 1 | 4 | 90 | 45 191 |
| 1 | — | — | — | — | — | 8 875 | 212 042 |
| 61 | — | — | 495 | — | — | — | 88 779 |
| — | — | 378 | 12 | — | — | 485 | 3 536 |
| 2 288 | 68 | 446 | 2 987 | 755 | 12 | 15 283 | 145 057 |
| 1 355 | — | — | 32 | 941 | — | — | 28 857 |
| 14 | — | — | 1 552 | 819 | 3 | 1 252 | 12 102 |
| — | 656 | — | 87 | 139 | — | 7 343 | 16 391 |
| 79 | — | — | 504 | 2 | 1 | 2 | 11 552 |
| 41 | — | — | 841 | — | 1 | 10 | 15 086 |
| — | — | — | 218 | 37 | — | 4 883 | 8 025 |
| — | — | — | 883 | 71 | 2 | 1 812 | 16 123 |
| **4 210** | **724** | **824** | **9 787** | **2 790** | **23** | **40 040** | **613 590** |

2006

| Other assets Rm | Investments Rm | Financial guarantees Rm | Guarantees Rm | Letters of credit Rm | Other contin-gencies Rm | Irrevocable facilities Rm | Total Rm |
|---|---|---|---|---|---|---|---|
| — | — | — | 258 | 17 | — | 5 | 9 563 |
| 75 | — | — | 1 937 | — | 3 | 84 | 27 031 |
| 72 | — | — | — | — | — | 8 260 | 174 462 |
| — | — | — | 499 | — | — | — | 77 434 |
| — | — | — | 12 | — | — | 451 | 1 070 |
| 1 134 | 167 | 560 | 3 013 | 668 | 8 | 14 223 | 101 697 |
| 1 | — | — | 32 | 613 | — | — | 23 371 |
| — | — | — | 1 565 | 533 | 2 | 1 165 | 13 188 |
| — | 1 239 | — | 87 | 90 | — | 6 834 | 13 781 |
| — | — | — | 510 | 2 | 1 | 3 | 6 391 |
| 1 195 | — | — | 848 | — | 1 | 9 | 17 448 |
| 231 | — | — | 220 | 24 | — | 4 544 | 9 294 |
| — | — | — | 890 | 47 | 1 | 1 687 | 12 940 |
| 2 708 | 1 406 | 560 | 9 871 | 1 994 | 16 | 37 265 | 487 670 |

**52. Credit risk** *(continued)*

**52.5 Credit risk concentration** *(continued)*

**52.5.2 Analysis of credit risk concentration by geographical sector**

The following table reflects the Bank's credit exposure at their carrying amounts, as categorised by geographical region as at the balance sheet date. For this table, the Bank has allocated exposures to regions based on the country of domicile of the Bank's counterparties.

**BANK**

| | 2007 | | | | |
|---|---|---|---|---|---|
| | South Africa Rm | Rest of Africa Rm | Europe Rm | Asia, Americas and Australia Rm | Total Rm |
| **On balance sheet exposures** | | | | | |
| Cash, cash balances and balances with central banks | 10 396 | — | — | — | 10 396 |
| Statutory liquid asset portfolio | 22 957 | — | — | — | 22 957 |
| Loans and advances to banks | 38 071 | 4 | 14 376 | 240 | 52 691 |
| Trading and hedging assets | 17 936 | — | 7 918 | 174 | 26 028 |
| Loans and advances to customers | 427 095 | 1 151 | 3 880 | 10 994 | 443 120 |
| Other assets | 4 049 | — | 161 | — | 4 210 |
| Investments | 724 | — | — | — | 724 |
| **Subject to credit risk (refer to note 52.3.1 (a))** | **521 228** | **1 155** | **26 335** | **11 408** | **560 126** |
| **Off balance sheet exposures** | | | | | |
| Financial guarantees | 824 | — | — | — | 824 |
| Guarantees | 9 787 | — | — | — | 9 787 |
| Irrevocable facilities | 40 040 | — | — | — | 40 040 |
| Letters of credit | 2 790 | — | — | — | 2 790 |
| Other contingencies | 23 | — | — | — | 23 |
| | **53 464** | **—** | **—** | **—** | **53 464** |

### 52. Credit risk *(continued)*

### 52.5 Credit risk concentration *(continued)*

### 52.5.2 Analysis of credit risk concentration by geographical sector *(continued)*

| | BANK 2006 | | | | |
|---|---|---|---|---|---|
| | South Africa Rm | Rest of Africa Rm | Europe Rm | Asia, Americas and Australia Rm | Total Rm |
| **On balance sheet exposures** | | | | | |
| Cash, cash balances and balances with central banks | 8 402 | — | — | — | 8 402 |
| Statutory liquid asset portfolio | 20 829 | — | — | — | 20 829 |
| Loans and advances to banks | 3 866 | 36 | 16 669 | 262 | 20 833 |
| Trading and hedging assets | 11 322 | 108 | 3 829 | 1 328 | 16 587 |
| Loans and advances to customers | 359 215 | 678 | 3 196 | 4 110 | 367 199 |
| Other assets | 2 706 | — | 2 | — | 2 708 |
| Investments | 1 406 | — | — | — | 1 406 |
| **Subject to credit risk (refer to note 52.3.1 (a))** | 407 746 | 822 | 23 696 | 5 700 | 437 964 |
| **Off balance sheet exposures** | | | | | |
| Financial guarantees | 560 | — | — | — | 560 |
| Guarantees | 9 871 | — | — | — | 9 871 |
| Irrevocable facilities | 37 265 | — | — | — | 37 265 |
| Letters of credit | 1 994 | — | — | — | 1 994 |
| Other contingencies | 16 | — | — | — | 16 |
| | 49 706 | — | — | — | 49 706 |

## 53. Market risk

Market risk is the risk that the Bank'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, commodity prices and credit spreads.

The Bank's market risk management objectives include:

- the protection and enhancement of the balance sheet and income statement and facilitating business growth within a controlled and transparent risk management framework;
- concentrating traded market risk in Absa Capital; and
- concentrating the primary interest rate and foreign exchange rate risk appetite of the Bank in Absa Capital's trading book, and minimising banking book interest income volatility.

### 53.1 Management and control responsibilities

Market risk is managed in terms of the market risk control framework, in line with the PRP requirements. Under delegated authority from Absa's Chief Executive, Absa's Risk Director has appointed a PRO for market risk who is responsible for the design of the market risk control framework, which is approved by the GRCMC.

The board approves the overall appetite for market risk at Absa Group level, within which the GRCMC approves the market risk appetite for all categories of market risk. Market risk limits are set within the context of the approved market risk appetite. The Market Risk Committee (MRC) governs market risk across the Bank and meets monthly to review, approve and make recommendations concerning the market risk profile including risk appetite, limits and utilisation. Oversight and support is provided to the business by the central market risk team, assisted by risk management teams in the businesses. The head of each business, assisted by the business risk management team, is accountable for all market risks associated with its activities, which are reported to business risk governance and control committees. Each business is responsible for the identification, measurement, management, control and reporting of market risk as outlined in the market risk control framework.

### 53.2 Traded market risk

The Bank's policy is to concentrate its traded market risk exposure in Absa Capital. This includes transactions where Absa Capital acts as principal with clients or with the market. For maximum efficiency, Absa Capital manages client and market activities together.

In Absa Capital, market risk occurs in both the trading book and the banking book as defined for regulatory purposes. Interest rate risk in Absa Capital's banking book is subjected to the same rigorous measurement and control standards as described below for its traded market risk, but the associated sensitivities are reported in the banking book interest rate risk section further on.

#### 53.2.1 Risk measurement

The measurement techniques used to measure and control traded market risk include daily value at risk and stress testing.

**Daily value at risk (DVaR)**

DVaR is an estimate of the potential loss that might arise from unfavourable market movements if the current positions were to be held unchanged for one business day, measured to a confidence level of 98%. Daily losses exceeding the DVaR figure are likely to occur, on average, twice in every 100 business days.

Absa Capital uses an internal DVaR model based on the historical simulation method. Two years of historical price and rate data is applied, and updated daily. This internal model is also used for measuring value at risk over a 10-day holding period at a 99% confidence level for regulatory capital calculation purposes. The model has been signed off and is regularly reviewed by the SARB for use in the Bank.

There are a number of considerations that should be taken into account when reviewing the DVaR numbers. These are:

- Historical simulation assumes that the past is a good representation of the future, which may not always be the case.
- The assumed one-day time horizon will not fully capture the market risk of positions that cannot be closed out or hedged within one day.
- DVaR does not indicate the potential loss beyond the 98$^{th}$ percentile.

To complement DVaR, stress testing and other sensitivity measures are used.

## 53. Market risk *(continued)*

### 53.2 Traded market risk *(continued)*

#### 53.2.1 Risk measurement *(continued)*

**DVaR backtesting**

DVaR is an important market risk measurement and control tool and consequently the performance of the model is regularly assessed. The main approach employed is a technique known as backtesting, which counts the number of days when losses from the regulatory trading book exceed the corresponding DVaR estimate. The regulatory standard for backtesting is to measure losses against DVaR assuming a one-day holding period with a 99% level of confidence. The regulatory green zone of four or less exceptions over a 12-month period (daily trading revenue loss exceeding the corresponding backtesting DVaR) is consistent with a good working DVaR model.

For both 2007 and 2006, green status was maintained for Absa Capital's regulatory trading book.

**Stress testing**

Stress testing provides an indication of the potential size of losses that could arise in extreme conditions. Absa Capital performs two main types of stress testing. Firstly, risk factor stress testing, where historical stress moves are applied to each of the main risk categories which include interest rate, equity, foreign exchange and credit spread risk. Secondly, the trading book is subjected to ad hoc stress scenarios.

#### 53.2.2 Analysis of traded market risk exposures

The table below reflects the DVaR statistics for Absa Capital's trading book activities for the 12 months ended at the balance sheet date.

Absa Capital's traded market risk exposure, as measured by average total DVaR, increased by 77% to R12,69 million (2006: R7,19 million). The increase in average total DVaR was consistent with Absa Capital's business plan to grow its risk solutioning to clients and increased market volatility during the second half of 2007.

**Absa Capital trading book DVaR**

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | Average Rm | High[1] Rm | Low[1] Rm | Average Rm | High[1] Rm | Low[1] Rm |
| Interest rate risk[3] | 7,92 | 21,38 | 1,52 | 3,34 | 8,82 | 0,68 |
| Foreign exchange risk | 1,75 | 26,46 | 0,08 | 2,35 | 10,28 | 0,37 |
| Equities risk | 9,41 | 31,60 | 3,23 | 5,16 | 18,18 | 0,04 |
| Commodities risk | 0,76 | 10,16 | 0,03 | 0,30 | 2,29 | 0,00 |
| Diversification effect | (7,15) | n/a | n/a | (3,96) | n/a | n/a |
| **Total DVaR[2]** | **12,69** | **31,81** | **3,81** | 7,19 | 20,83 | 2,11 |

[1] *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.*

[2] *The year-end total DVaR for 2007 was R16,19 million (2006: R4,80 million). The year-end total value at risk over a 10-day holding period at a 99% confidence level for 2007 was R55,04 million (2006: R19,12 million).*

[3] *Credit spread risk remains small and is reported together with interest rate risk.*

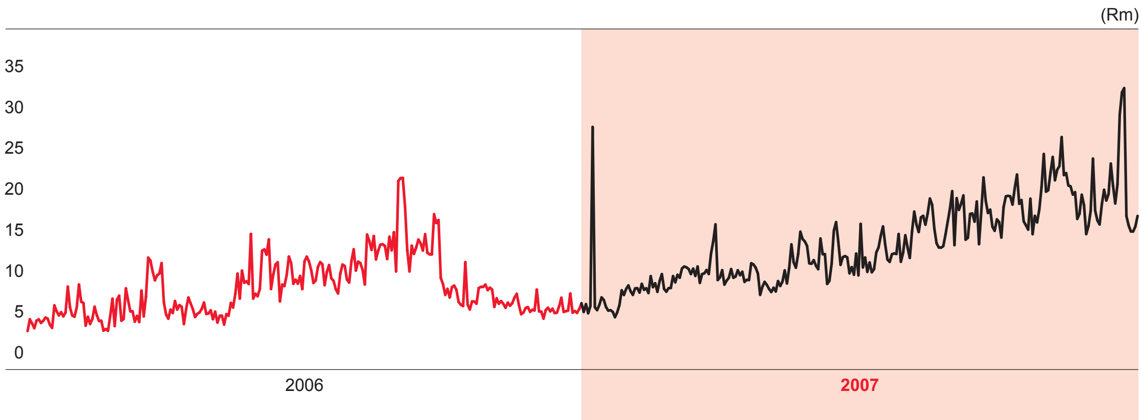
**53. Market risk** *(continued)*

**53.2 Traded market risk** *(continued)*

**53.2.2 Analysis of traded market risk exposures** *(continued)*

The graph below shows the history of Absa Capital's total trading book DVaR on a daily basis for 2006 and 2007. Throughout 2007, Absa Capital's total trading book DVaR remained within the approved risk appetite and DVaR limit. The trend for 2007 reflects controlled take-on of risk in line with Absa Capital's business plan. Absa Capital does on some occasions, in the conduct of client transactions, take on significantly larger than usual market risk. However, this is always undertaken within Absa's market risk governance framework.

**Absa Capital trading book total DVaR (daily values)**




## 53.3 Banking book interest rate risk

Interest rate risk is the risk that Absa's financial condition may be adversely affected as a result of changes in interest rate levels, yield curves and spreads. Banking book interest rate risk arises from the provision of retail and wholesale (non-traded) banking products and services, as well as certain structural exposures on the Bank's balance sheet. These risks impact both the earnings and the economic value of the Bank.

Banking book interest rate risk management strategies considered include:

- strategies regarding changes in the volume, composition, pricing and interest rate risk characteristics of assets and liabilities; and
- the execution of applicable derivative contracts to maintain the Bank's interest rate risk exposure within limits. 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 Bank's accounting policies are followed.

As part of Group Treasury's balance sheet management role, interest rate exposures arising from the repricing mismatches of assets and liabilities in the domestic banking book are transferred from the businesses to Group Treasury through matched funds transfer pricing. These positions are aggregated and the net exposure is hedged with the market via Absa Capital. Mainly owing to timing considerations, market risk can arise when some of the net position stays with Group Treasury.

Structural interest rate risk arises from the variability of income from non-interest bearing products, managed variable rate products and the Bank's equity, and is managed by Absa Group Treasury.

### 53.3.1 Risk measurement

Annual earnings at risk (AEaR) measures the sensitivity of net interest income over the next 12 months to a specified shock in interest rates. Where appropriate, AEaR is assessed across a range of interest rate scenarios, including parallel shocks, yield curve twists, inversions, and other relevant scenarios.

The structural balance is hedged using a portfolio of swaps where the maturity is based on the assumed stability of the underlying balance. The AEaR calculation takes into account both the underlying structural balance and the portfolio of swaps.

Outside Absa Capital, Absa uses a simplified approach to calculate DVaR. It is used as a complementary tool to AEaR. Both AEaR and DVaR are supplemented by stress testing, tailored to each banking book.

## 53. Market risk *(continued)*

## 53.3 Banking book interest rate risk *(continued)*

### 53.3.2 Repricing profile

The repricing profile of the Bank's domestic bank book is depicted in the table below. Items are allocated to time periods by reference to the earlier of the next contractual interest rate repricing date and the maturity date. Instruments which have no explicit contractual repricing or maturity dates are placed in time buckets according to management's judgement and analysis, based on the most likely repricing behaviour. For example, retail deposits are repayable on demand or at short notice, but form a stable base for the Bank's operations and liquidity needs because of the broad customer base (numerically and by depositor type).

The repricing profile shows that the banking book remains asset-sensitive, or positively gapped, as interest-earning assets reprice sooner than interest-paying liabilities, before and after derivative hedging activities. Thus, future net interest income remains vulnerable to a decrease in market interest rates. Hedging activities undertaken during 2007 resulted in a less asset-sensitive profile, compared to 2006, contributing to greater future interest margin stability.

**Expected repricing profile at the balance sheet date**

| | 2007 | | | |
|---|---|---|---|---|
| | **On demand – 3 months Rm** | **4 – 6 months Rm** | **7 – 12 months Rm** | **Over 12 months Rm** |
| **Domestic bank book** | | | | |
| Interest rate sensitivity gap | **104 629** | **(25 904)** | **(38 779)** | **(27 734)** |
| Derivatives | **(77 307)** | **19 375** | **27 591** | **30 342** |
| Net interest rate sensitivity gap | **27 322** | **(6 529)** | **(11 188)** | **2 608** |
| Cumulative interest rate gap | **27 322** | **20 793** | **9 605** | **12 213** |
| Cumulative gap as a percentage of the Bank's total assets (%) | **4,7** | **3,5** | **1,6** | **2,1** |

| | 2006 | | | |
|---|---|---|---|---|
| | On demand – 3 months Rm | 4 – 6 months Rm | 7 – 12 months Rm | Over 12 months Rm |
| **Domestic bank book** | | | | |
| Interest rate sensitivity gap | 98 262 | (20 696) | (34 692) | (23 724) |
| Derivatives | (53 236) | 8 925 | 25 855 | 18 457 |
| Net interest rate sensitivity gap | 45 026 | (11 771) | (8 837) | (5 267) |
| Cumulative interest rate gap | 45 026 | 33 255 | 24 418 | 19 151 |
| Cumulative gap as a percentage of the Bank's total assets (%) | 9,9 | 7,3 | 5,4 | 4,2 |

***Notes***

- *Derivatives for interest rate risk management purposes (net nominal value).*
- *The 2006 numbers have been restated. The change reflects reporting on the basis of expected repricing (previously contractual repricing), which more closely reflects the Bank's judgement and past repricing experience. Expected repricing assumptions are approved annually by the MRC.*

**53. Market risk** *(continued)*
**53.3 Banking book interest rate risk** *(continued)*
### 53.3.3 Analysis of annual earnings at risk

The table below shows the annual net interest income sensitivity in the Bank's domestic bank book. Assuming no management action in response to interest rate movements, a hypothetical immediate and sustained parallel fall of 100 basis points in all interest rates would generate a reduction in projected net interest income of R377 million. The decrease in total net interest income (NII) sensitivity was mainly due to a less asset-sensitive profile in 2007 compared to 2006.

**Net interest income sensitivity (AEaR) for a 100 basis point fall in interest rates as at the balance sheet date on Absa's domestic bank book**

| | **2007** | 2006 |
|---|---|---|
| Change (Rm) | **(377)** | (416) |
| Percentage of projected 12 months' net interest income (%) | **(1,81)** | (2,33) |
| Percentage of the Bank's equity (%) | **(1,06)** | (1,45) |

***Notes***
- *Banking book interest rate risk as managed by each of Absa Capital and Absa Group Treasury are also measured in terms of DVaR and subject to DVaR limits.*

### 53.3.4 Equity sensitivity

Interest rate changes affect equity (capital) in the following three ways:
- Higher or lower profit after tax resulting from higher or lower net interest income.
- Higher or lower available-for-sale reserves reflecting higher or lower fair values of available-for-sale financial instruments.
- Higher or lower values of derivatives held in the cash flow hedge reserve.

The pre-tax effect from net interest income sensitivity is reported in note 53.3.3. The effect of taxation can be estimated using the Bank's effective tax rate of 29% (2006: 29%).

The equity sensitivities that follow are illustrative, based on simplified scenarios and consider the impact on the cash flow hedges and available-for-sale portfolios which are marked-to-market through reserves. The impact is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges, and derivatives designated as cash flow hedges, for an assumed change in interest rates.

**Sensitivity of reserves to interest rate movements**

| | **2007** | | | 2006 | | |
|---|---|---|---|---|---|---|
| | **Impact as at 31 December Rm** | **Maximum impact[1] Rm** | **Minimum impact[1] Rm** | Impact as at 31 December Rm | Maximum impact[1] Rm | Minimum impact[1] Rm |
| + 100 basis point parallel move in all yield curves | | | | | | |
| Available-for-sale reserve | **(833)** | **(970)** | **(649)** | (679) | (705) | (425) |
| Cash flow hedge reserve | **(57)** | **(70)** | **(45)** | (49) | (49) | (22) |
| **Total** | **(890)** | **(1 025)** | **(695)** | (728) | (747) | (447) |
| **As a percentage of the Bank's equity at 31 December (%)** | **(2,51)** | **(2,90)** | **(1,96)** | (2,54) | (2,60) | (1,56) |
| – 100 basis point parallel move in all yield curves | | | | | | |
| Available-for-sale eserve | **833** | **970** | **649** | 679 | 705 | 425 |
| Cash flow hedge reserve | **57** | **70** | **45** | 49 | 49 | 22 |
| **Total** | **890** | **1 025** | **695** | 728 | 747 | 447 |
| **As a percentage of the Bank's equity at 31 December (%)** | **2,51** | **2,90** | **1,96** | 2,54 | 2,60 | 1,56 |

[1]*The maximum and minimum impacts reported for each reserve category did not necessarily occur for the same month as the maximum and minimum impact reported for the total.*

## 53. Market risk *(continued)*

## 53.4 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

### 53.4.1 Currency concentration

The tables to follow summarise the Bank's assets and liabilities at carrying amounts, categorised by currency, as at the balance sheet date

**BANK**

| | 2007 | | | | | |
|---|---|---|---|---|---|---|
| | ZAR Rm | USD Rm | GBP Rm | Euro Rm | Other Rm | Total Rm |
| **Assets** | | | | | | |
| Cash, cash balances and balances with central banks | 15 069 | — | — | — | — | 15 069 |
| Statutory liquid asset portfolio | 22 957 | — | — | — | — | 22 957 |
| Loans and advances to banks | 44 845 | 5 067 | 1 697 | 1 082 | — | 52 691 |
| Trading assets | 18 146 | 4 773 | 212 | 2 280 | 465 | 25 876 |
| Hedging assets | 545 | — | — | 180 | — | 725 |
| Other assets | 4 931 | 65 | 6 | — | — | 5 002 |
| Current tax assets | 168 | — | — | — | — | 168 |
| Loans and advances to customers | 434 516 | 6 864 | 62 | 1 422 | 256 | 443 120 |
| Loans to Absa Group companies | 9 438 | — | — | — | — | 9 438 |
| Deferred tax assets | 48 | — | — | — | — | 48 |
| Investments | 5 990 | — | 119 | — | — | 6 109 |
| Investments in associated undertakings and joint venture companies | 1 370 | — | — | — | — | 1 370 |
| Intangible assets | 228 | — | — | — | — | 228 |
| Property and equipment | 4 254 | — | 4 | — | — | 4 258 |
| **Total assets** | 562 505 | 16 769 | 2 100 | 4 964 | 721 | 587 059 |
| **Liabilities** | | | | | | |
| Deposits from banks | 50 446 | 13 677 | 635 | 296 | 113 | 65 167 |
| Trading liabilities | 14 888 | 5 034 | 146 | 2 813 | 66 | 22 947 |
| Hedging liabilities | 2 226 | — | — | — | — | 2 226 |
| Other liabilities and sundry provisions | 10 085 | 18 | 2 | 8 | — | 10 113 |
| Current tax liabilities | 49 | — | 7 | — | — | 56 |
| Deposits due to customers | 298 762 | 5 880 | 177 | — | 58 | 304 877 |
| Debt securities in issue | 127 947 | — | — | 6 076 | — | 134 023 |
| Deferred tax liabilities | 2 259 | — | — | — | — | 2 259 |
| Policyholder liabilities under insurance contracts | 67 | — | — | — | — | 67 |
| Borrowed funds | 9 796 | — | — | — | — | 9 796 |
| **Total liabilities** | 516 525 | 24 609 | 967 | 9 193 | 237 | 551 531 |
| **Equity** | | | | | | |
| **Capital and reserves** | | | | | | |
| Attributable to equity holders of the Bank: | | | | | | |
| Share capital | 303 | — | — | — | — | 303 |
| Share premium | 5 415 | — | — | — | — | 5 415 |
| Preference share capital | 1 | — | — | — | — | 1 |
| Preference share premium | 4 643 | — | — | — | — | 4 643 |
| Other reserves | 1 441 | 1 | 163 | — | — | 1 605 |
| Retained earnings | 23 161 | (170) | 544 | — | — | 23 535 |
| | 34 964 | (169) | 707 | — | — | 35 502 |
| Minority interest | 26 | — | — | — | — | 26 |
| **Total equity** | 34 990 | (169) | 707 | — | — | 35 528 |
| **Total equity and liabilities** | 551 515 | 24 440 | 1 674 | 9 193 | 237 | 587 059 |
| Gross currency position | n/a | (7 671) | 426 | (4 229) | 484 | (10 990) |
| Foreign currency derivative | | | | | | 11 985 |
| **Net currency position** | | | | | | 995 |
| **Credit commitments** | | | | | | |
| Financial guarantee contracts | 824 | — | — | — | — | 824 |
| Capital commitments | 83 | — | — | — | — | 83 |
| Contingent liabilities | 52 819 | 13 | 78 | — | — | 52 910 |

***Note***

- *All non-monetary items are classified based on the location of the asset, or where it will most reasonably be realised.*

**53. Market risk** *(continued)*
**53.4 Foreign exchange risk** *(continued)*
**53.4.1 Currency concentration** *(continued)*

| | BANK | | | | | |
|---|---|---|---|---|---|---|
| | 2006 | | | | | |
| | ZAR Rm | USD Rm | GBP Rm | Euro Rm | Other Rm | Total Rm |
| **Assets** | | | | | | |
| Cash, cash balances and balances with central banks | 12 022 | — | — | — | — | 12 022 |
| Statutory liquid asset portfolio | 20 829 | — | — | — | — | 20 829 |
| Loans and advances to banks | 14 541 | 5 301 | 780 | 207 | 4 | 20 833 |
| Trading assets | 12 853 | 4 233 | 163 | 487 | 6 | 17 742 |
| Hedging assets | 641 | — | — | — | — | 641 |
| Other assets | 3 135 | 12 | — | 4 | — | 3 151 |
| Loans and advances to customers | 361 315 | 2 723 | 1 440 | 1 047 | 674 | 367 199 |
| Loans to Absa Group companies | 3 029 | — | — | — | — | 3 029 |
| Deferred tax assets | 56 | — | 7 | — | — | 63 |
| Investments | 3 960 | — | — | — | — | 3 960 |
| Investments in associated undertakings and joint venture companies | 601 | — | — | — | — | 601 |
| Intangible assets | 147 | — | — | — | — | 147 |
| Property and equipment | 3 504 | 1 | 4 | — | — | 3 509 |
| **Total assets** | 436 633 | 12 270 | 2 394 | 1 745 | 684 | 453 726 |
| **Liabilities** | | | | | | |
| Deposits from banks | 20 442 | 7 915 | 121 | 419 | — | 28 897 |
| Trading liabilities | 9 793 | 5 769 | 141 | 355 | 82 | 16 140 |
| Hedging liabilities | 1 257 | — | — | — | — | 1 257 |
| Other liabilities and sundry provisions | 7 990 | — | 25 | — | — | 8 015 |
| Current tax liabilities | 941 | — | — | — | — | 941 |
| Deposits due to customers | 270 354 | 3 222 | 1 163 | 438 | 230 | 275 407 |
| Debt securities in issue | 83 866 | — | — | — | — | 83 866 |
| Deferred tax liabilities | 2 133 | — | — | — | — | 2 133 |
| Policyholder liabilities under insurance contracts | 76 | — | — | — | — | 76 |
| Borrowed funds | 8 268 | — | — | — | — | 8 268 |
| **Total liabilities** | 405 120 | 16 906 | 1 450 | 1 212 | 312 | 425 000 |
| **Equity** | | | | | | |
| **Capital and reserves** | | | | | | |
| Attributable to equity holders of the Bank: | | | | | | |
| Share capital | 303 | — | — | — | — | 303 |
| Share premium | 5 415 | — | — | — | — | 5 415 |
| Preference share capital | 1 | — | — | — | — | 1 |
| Preference share premium | 2 991 | — | — | — | — | 2 991 |
| Other reserves | 1 618 | 106 | (42) | — | — | 1 682 |
| Retained earnings | 18 242 | (163) | 255 | — | — | 18 334 |
| **Total equity** | 28 570 | (57) | 213 | — | — | 28 726 |
| **Total equity and liabilities** | 433 690 | 16 849 | 1 663 | 1 212 | 312 | 453 726 |
| Gross currency position | n/a | (4 579) | 731 | 533 | 372 | (2 943) |
| Foreign currency derivative | | | | | | 3 598 |
| **Net currency position** | | | | | | 655 |
| **Credit commitments** | | | | | | |
| Financial guarantee contracts | 560 | — | — | — | — | 560 |
| Capital commitments | 116 | — | — | — | — | 116 |
| Contingent liabilities | 48 969 | — | 177 | — | — | 49 146 |

***Note***

- *All non-monetary items are classified based on the location of the asset, or where it will most reasonably be realised.*

## 53. Market risk *(continued)*

### 53.4 Foreign exchange risk *(continued)*

### 53.4.2 Non-structural and structural foreign exchange risk

The Bank considers two sources of foreign exchange risk: non-structural foreign exchange transaction and structural foreign exchange translation exposures.

**Non-structural foreign exchange risk**

Non-structural foreign exchange risk arises when a business undertakes a transaction in a currency other than its functional currency. Absa's policy is for non-structural foreign exchange risk to be concentrated and managed in the Absa Capital trading book. In accordance with this policy, there were no material net currency exposures outside Absa Capital that would give rise to material foreign exchange gains and losses being recognised in the income statement.

**Structural foreign exchange risk**

Structural foreign exchange risk arises primarily in relation to the Bank's investments in its offshore entities whose functional currencies are currencies other than the Bank's presentation currency. For consolidation purposes these are translated into South African rand (ZAR) on a periodic basis. ZAR equivalent values are thus affected by exchange rate movements, which may impact either the income statement or equity.

The impact of a change in the exchange rate between ZAR and any of the relevant currencies would be:

- a higher or lower profit after tax, arising from changes in the exchange rates used to translate items in the consolidated income statement;
- a higher or lower currency translation reserve within equity, representing the retranslation of the net assets of non-ZAR entities, arising from changes in the exchange rates used to translate the net assets at the balance sheet date, net of the effects of any hedges of net instruments; and
- changes in the value of available-for-sale investments denominated in foreign currencies, impacting the available-for-sale reserve.

The main functional currencies in which the Bank's business is transacted are ZAR and, on a lesser scale, US dollar (USD), euro and sterling (GBP).

Structural foreign currency risk can be mitigated through hedging using forward foreign exchange contracts, or by financing with borrowings in the same currency as the functional currency involved. The Bank does not currently mitigate structural foreign exchange risk, but structural foreign currency exposures are monitored regularly to consider the need for any mitigating actions towards minimising material fluctuations.

**53. Market risk** *(continued)*

**53.5 Interest return on average balances**

Average balances and weighted average effective interest rates were as follows:

BANK

| | 2007 Average balance Rm | 2007 Average rate % | 2007 Interest income/ expense Rm | 2006 Average balance Rm | 2006 Average rate % | 2006 Interest income/ expense Rm |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash, cash balances and balances with central banks | 12 272 | 0,90 | 110 | 10 517 | 0,66 | 69 |
| Statutory liquid asset portfolio | 21 630 | 7,66 | 1 656 | 18 629 | 7,98 | 1 487 |
| Loans and advances to customers and banks | 436 557 | 11,64 | 50 813 | 351 697 | 9,92 | 34 890 |
| Trading and hedging assets[1] | 18 303 | (2,99) | (547) | 19 017 | (0,16) | (31) |
| Other assets | 6 915 | 2,62 | 181 | 5 209 | 1,98 | 103 |
| Current tax assets | 34 | — | — | 8 | — | — |
| Deferred tax assets | 61 | — | — | 30 | — | — |
| Investments | 5 408 | — | — | 4 996 | — | — |
| Investments in associated undertakings and joint venture companies | 796 | — | — | 684 | — | — |
| Property, equipment and intangible assets | 3 835 | — | — | 3 380 | — | — |
| **Total assets** | 505 811 | 10,32 | 52 213 | 414 167 | 8,82 | 36 518 |
| **Liabilities** | | | | | | |
| Deposits from customers and banks | 321 823 | 6,80 | 21 881 | 285 058 | 5,57 | 15 885 |
| Trading and hedging liabilities[1] | 21 843 | 2,56 | 560 | 21 466 | 0,70 | 150 |
| Debt securities in issue | 114 631 | 9,51 | 10 905 | 68 279 | 7,91 | 5 402 |
| Other liabilities and sundry provisions | 5 673 | 2,75 | 156 | 6 180 | 2,61 | 161 |
| Borrowed funds | 9 538 | 8,35 | 796 | 7 703 | 9,68 | 746 |
| Liabilities under insurance contracts | 12 | — | — | 7 | — | — |
| Current tax liabilities | 795 | — | — | 584 | — | — |
| Deferred tax liabilities | 1 991 | — | — | 2 223 | — | — |
| **Total liabilities** | 476 306 | 7,20 | 34 298 | 391 500 | 5,71 | 22 344 |
| **Equity** | | | | | | |
| **Capital and reserves** | | | | | | |
| Attributable to equity holders of the Bank: | | | | | | |
| Share capital | 270 | — | — | 185 | — | — |
| Share premium | 5 417 | — | — | 5 247 | — | — |
| Other reserves | 1 836 | — | — | 1 607 | — | — |
| Retained earnings | 17 814 | — | — | 13 575 | — | — |
| | 25 337 | — | — | 20 614 | — | — |
| Minority interest | 4 168 | — | — | 2 053 | — | — |
| **Total equity** | 29 505 | — | — | 22 667 | — | — |
| **Total equity and liabilities** | 505 811 | 6,78 | 34 298 | 414 167 | 5,39 | 22 344 |
| **Net interest margin** | | 3,54 | | | 3,43 | |

Daily averages have been used to calculate the average balances.

[1]*Interest on trading and hedging assets and liabilities relates to the fair value adjustments on hedging instruments.*

## 54. Liquidity risk

### 54.1 Introduction

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

The risk that it 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.

### 54.2 Liquidity risk management

Group Treasury's Liquidity and Funding Management function is responsible for the management of liquidity risk on behalf of the Bank. Prudent management of liquidity contributes positively to earnings, with sound liquidity risk management being pivotal to the viability of the Bank and the maintenance of overall banking stability.

The Bank 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 considerations.

Liquidity risk management within the Bank focuses on a number of key areas including:

- the continuous management of net anticipated cash flows, between assets and liabilities, within approved cash flow 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 easily be liquidated as protection against any unforeseen interruption to cash flow;
- the monitoring and managing of liquidity costs; and
- the ongoing assessment and evaluation of various funding sources designated to grow and diversify the Bank's funding base in order to achieve an optimal funding profile and sound liquidity risk management.

### 54.3 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 of liquidity management.

In addition to cash flow management, Group Treasury also monitors its money market shortage participation, short- and long-term funding ratios, short-term maturity mismatches, 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 system failure, the restoration of liquidity management and payment systems.

# Notes to the consolidated financial statements

Year ended 31 December

**54. Liquidity risk** *(continued)*

**54.3 Liquidity risk measurement** *(continued)*

**54.3.1 Liquidity risk measurement – discounted**

A summary of the Bank's discounted and undiscounted liquidity profile is reflected in the tables that follow.

BANK

| | 2007 | | | | |
|---|---|---|---|---|---|
| | 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 | 4 593 | 10 476 | — | — | 15 069 |
| Statutory liquid asset portfolio | — | 13 748 | 5 280 | 3 929 | 22 957 |
| Loans and advances to banks | 2 038 | 21 919 | 24 452 | 4 282 | 52 691 |
| Trading assets | 25 876 | — | — | — | 25 876 |
| Hedging assets | — | 12 | 464 | 249 | 725 |
| Other assets | 957 | 3 103 | 847 | 95 | 5 002 |
| Current tax assets | — | 168 | — | — | 168 |
| Loans and advances to customers | 96 488 | 52 513 | 75 915 | 218 204 | 443 120 |
| Loans to Absa Group companies | — | — | 9 338 | — | 9 338 |
| Deferred tax assets | — | 11 | 37 | — | 48 |
| Investments | — | 1 188 | 410 | 4 511 | 6 109 |
| Investments in associated undertakings and joint venture companies | — | 963 | 363 | 44 | 1 370 |
| Intangible assets | — | — | 213 | 15 | 228 |
| Property and equipment | — | 57 | 2 320 | 1 881 | 4 258 |
| **Total assets** | 129 952 | 104 158 | 119 639 | 233 210 | 586 959 |
| **Liabilities** | | | | | |
| Deposits from banks | 19 159 | 44 037 | 1 802 | 169 | 65 167 |
| Trading liabilities | 22 947 | — | — | — | 22 947 |
| Hedging liabilities | 1 | 1 410 | 824 | (9) | 2 226 |
| Other liabilities and sundry provisions | 444 | 7 158 | 1 699 | 812 | 10 113 |
| Current tax liabilities | — | 56 | — | — | 56 |
| Deposits due to customers | 178 123 | 111 151 | 4 383 | 11 220 | 304 877 |
| Debt securities in issue | 791 | 111 815 | 18 066 | 3 351 | 134 023 |
| Deferred tax liabilities | — | 48 | 1 254 | 957 | 2 259 |
| Policyholder liabilities under insurance contracts | — | 67 | — | — | 67 |
| Borrowed funds | — | 297 | 6 041 | 3 458 | 9 796 |
| **Total liabilities** | 221 465 | 276 039 | 34 069 | 19 958 | 551 531 |
| **Equity** | | | | | |
| **Capital and reserves** | | | | | |
| Attributable to equity holders of the Bank: | | | | | |
| Share capital | — | — | — | 303 | 303 |
| Share premium | — | — | — | 5 415 | 5 415 |
| Preference share capital | — | — | — | 1 | 1 |
| Preference share premium | — | — | — | 4 643 | 4 643 |
| Other reserves | — | 646 | (932) | 1 891 | 1 605 |
| Retained earnings | — | 686 | (74) | 22 823 | 23 435 |
| | — | 1 332 | (1 006) | 35 076 | 35 402 |
| Minority interest | — | — | — | 26 | 26 |
| **Total equity** | — | 1 332 | (1 006) | 35 102 | 35 428 |
| **Total equity and liabilities** | 221 465 | 277 371 | 33 063 | 55 060 | 586 959 |
| **Net liquidity position** | (91 513) | (173 213) | 86 576 | 178 150 | — |

### 54. Liquidity risk *(continued)*
### 54.3 Liquidity risk measurement *(continued)*
### 54.3.1 Liquidity risk measurement – discounted *(continued)*

| | BANK 2006 On demand Rm | Within 1 year Rm | From 1 year to 5 years Rm | More than 5 years Rm | Total Rm |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash, cash balances and balances with central banks | 3 647 | 8 375 | — | — | 12 022 |
| Statutory liquid asset portfolio | — | 9 122 | 7 727 | 3 980 | 20 829 |
| Loans and advances to banks | 8 321 | 3 889 | 5 760 | 2 863 | 20 833 |
| Trading assets | 17 742 | — | — | — | 17 742 |
| Hedging assets | — | 245 | 288 | 108 | 641 |
| Other assets | 409 | 2 531 | 185 | 26 | 3 151 |
| Loans and advances to customers | 66 519 | 41 497 | 74 505 | 184 678 | 367 199 |
| Loans to Absa Group companies | — | — | — | 3 029 | 3 029 |
| Deferred tax assets | — | 24 | 39 | — | 63 |
| Investments | 197 | 905 | 1 427 | 1 431 | 3 960 |
| Investments in associated undertakings and joint venture companies | — | 344 | 64 | 193 | 601 |
| Intangible assets | — | — | 35 | 112 | 147 |
| Property and equipment | — | 188 | 1 734 | 1 587 | 3 509 |
| **Total assets** | 96 835 | 67 120 | 91 764 | 198 007 | 453 726 |
| **Liabilities** | | | | | |
| Deposits from banks | 4 794 | 24 014 | 89 | — | 28 897 |
| Trading liabilities | 16 140 | — | — | — | 16 140 |
| Hedging liabilities | — | 545 | 490 | 222 | 1 257 |
| Other liabilities and sundry provisions | 567 | 5 710 | 853 | 885 | 8 015 |
| Current tax liabilities | — | 941 | — | — | 941 |
| Deposits due to customers | 143 236 | 119 295 | 6 316 | 6 560 | 275 407 |
| Debt securities in issue | 9 064 | 65 810 | 8 854 | 138 | 83 866 |
| Deferred tax liabilities | — | 104 | 531 | 1 498 | 2 133 |
| Policyholder liabilities under insurance contracts | — | 76 | — | — | 76 |
| Borrowed funds | — | 253 | 4 600 | 3 415 | 8 268 |
| **Total liabilities** | 173 801 | 216 748 | 21 733 | 12 718 | 425 000 |
| **Equity** | | | | | |
| **Capital and reserves** | | | | | |
| Attributable to equity holders of the Bank: | | | | | |
| Share capital | — | — | — | 303 | 303 |
| Share premium | — | — | — | 5 415 | 5 415 |
| Preference share capital | — | — | — | 1 | 1 |
| Preference share premium | — | — | — | 2 991 | 2 991 |
| Other reserves | 10 | 21 | 69 | 1 582 | 1 682 |
| Retained earnings | — | 1 467 | (40) | 16 907 | 18 334 |
| **Total equity** | 10 | 1 488 | 29 | 27 199 | 28 726 |
| **Total equity and liabilities** | 173 811 | 218 236 | 21 762 | 39 917 | 453 726 |
| **Net liquidity position** | (76 976) | (151 116) | 70 002 | 158 090 | — |

# Notes to the consolidated financial statements

Year ended 31 December

**54. Liquidity risk** *(continued)*

**54.4 Contractual maturity of financial liabilities – undiscounted basis**

The table below reflects the cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

**BANK**

| | 2007 | | | | | |
|---|---|---|---|---|---|---|
| | On demand Rm | Within 1 year Rm | From 1 year to 5 years Rm | More than 5 years Rm | Discount effect Rm | Total Rm |
| **Liabilities** | | | | | | |
| **On balance sheet** | | | | | | |
| Deposits from banks | 19 166 | 44 202 | 1 816 | 169 | (186) | 65 167 |
| Trading liabilities | 22 947 | — | — | — | — | 22 947 |
| Hedging liabilities | — | 1 544 | 902 | (10) | (210) | 2 226 |
| Other liabilities and sundry provisions[1] | 444 | 4 845 | 963 | 240 | (549) | 5 943 |
| Deposits due to customers | 178 183 | 116 105 | 9 746 | 24 669 | (23 826) | 304 877 |
| Debt securities in issue | 830 | 120 083 | 24 737 | 5 584 | (17 211) | 134 023 |
| Borrowed funds | — | 1 355 | 8 325 | 4 986 | (4 870) | 9 796 |
| **Total liabilities** | 221 570 | 288 134 | 46 489 | 35 638 | (46 852) | 544 979 |
| **Off balance sheet** | | | | | | |
| Loan commitments | 40 040 | — | — | — | — | 40 040 |

| | 2006 | | | | | |
|---|---|---|---|---|---|---|
| | On demand Rm | Within 1 year Rm | From 1 year to 5 years Rm | More than 5 years Rm | Discount effect Rm | Total Rm |
| **Liabilities** | | | | | | |
| **On balance sheet** | | | | | | |
| Deposits from banks | 4 801 | 24 584 | 128 | — | (616) | 28 897 |
| Trading liabilities | 16 140 | — | — | — | — | 16 140 |
| Hedging liabilities | — | 811 | 736 | 180 | (470) | 1 257 |
| Other liabilities and sundry provisions[1] | 567 | 3 263 | 916 | 497 | (705) | 4 538 |
| Deposits due to customers | 143 280 | 123 301 | 9 552 | 12 317 | (13 043) | 275 407 |
| Debt securities in issue | 9 083 | 69 671 | 10 456 | 234 | (5 578) | 83 866 |
| Borrowed funds | — | 1 159 | 6 876 | 4 250 | (4 017) | 8 268 |
| **Total liabilities** | 173 871 | 222 789 | 28 664 | 17 478 | (24 429) | 418 373 |
| **Off balance sheet** | | | | | | |
| Loan commitments | 37 206 | — | — | — | — | 37 206 |

[1]*Balance only includes financial liabilities.*

## 55. Capital management

### 55.1 Introduction

**Objectives of capital management**

Absa manages its capital within the minimum regulatory/statutory requirements, economic capital requirements as well as the target levels set by the board of directors. Economic capital is the amount of capital that Absa must hold to protect itself against exceptional losses at a given degree of confidence to maintain the desired credit rating (AA) of the Barclays Group. It is calculated as the aggregate of the capital requirement for:

- Basel II Pillar 1 risks (market, credit and operational risks);
- risks not adequately covered under Pillar 1; and
- risks not measured under Pillar 1.

**Absa's capital management strategy**

Absa's capital management strategy is focused on maximising shareholder value by optimising the level and mix of capital resources. Decisions on the allocation of capital resources, conducted as part of the strategic planning review, are based on a number of factors, including return on economic and regulatory capital.

Absa has a number of capital management objectives, which are to:

- meet the individual capital ratios required by regulators and the Bank's board;
- support endeavours of the Barclays Group to maintain an AA credit rating; and
- generate sufficient capital to support asset growth.

**Importance of capital management**

Capital is managed as a board-level priority in Absa, which reflects the importance of capital planning.

The board is responsible for assessing and approving the Bank's capital management policy, capital target levels, capital strategy and risk-based capital allocation. The capital ratios, together with the short- and medium-term capital plans, are disclosed at least quarterly to the Bank's board.

### 55.2 Regulatory capital requirements

**Minimum banking requirements**

Capital adequacy and the use of regulatory capital are monitored by employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision (the Basel Committee) and implemented by the SARB or other host regulators for supervisory purposes. These techniques include the capital adequacy ratio calculation, which the SARB and other host regulators regard as a key supervisory tool.

Risk-weighted assets are determined by applying risk weights to balance sheet assets and off balance sheet financial instruments according to the relative credit risk of the counterparty. The risk weighting for each balance sheet asset and off balance sheet financial instrument is regulated by the Banks Act, No 94 of 1990 (as amended), or by regulations in the respective countries where the other banking licences are held. Included in the overall risk-weighted assets is a notional risk weighting for the trading book, calculated based on the market, counterparty and large exposure risks.

**Minimum regulated entities' requirements**

The capital requirements for regulated entities, other than banks, are determined in accordance with the stipulations of their respective regulators.

**Minimum unregulated entities' requirements**

The capital requirements are determined in accordance with the SARB capital requirements, which entail the application of a 10% capital requirement to the total on balance sheet and off balance sheet exposures, net of intragroup exposures.

### 55.3 Qualifying capital

**Banking entities**

Regulatory guidelines define three tiers of capital resources:

- Primary (Tier I) capital comprises mainly shareholders' funds, including certain accounting reserves, hybrid debt instruments (in terms of Basel II) and non-redeemable, non-cumulative preference shares. Primary capital is the highest tier and can be used to meet trading and banking activity requirements.
- Secondary (Tier II) capital includes cumulative preference shares, subordinated debt (prescribed debt instrument), general provisions for bad and doubtful debts, general credit risk reserve and fixed asset revaluation reserves. Tier II capital can also be used to support both trading and banking activities.
- Tertiary (Tier III) capital comprises prescribed unsecured subordinated debt with a minimum original maturity of two years and uncapitalised net profits derived from trading activities. The use of Tier III capital is restricted to trading activities only. It is not eligible to support counterparty or settlement risk.

In addition, Absa makes provision for a prudence buffer in excess of the minimum capital requirements to ensure that banking entities are adequately capitalised.

## 55. Capital management *(continued)*

### 55.3 Qualifying capital *(continued)*

**Other regulated entities**

The qualifying capital is determined in terms of the rules and regulations of the regulator responsible for the supervision of the entity.

**Unregulated entities**

Only primary share capital as defined in the section titled "Banking entities" is regarded as qualifying capital.

### 55.4 Target capital levels

One of the measurements used to ensure that the objectives for managing capital are met is the ability to meet the board target levels. Target capital levels have been set for Absa Bank Limited and are equal to the minimum regulatory requirements set by the SARB.

The target capital adequacy threshold for the Bank is as follows:

| | Absa Bank Limited % |
|---|---|
| Total regulatory minimum requirement | **10,00** |
| Buffer | **2,25** |
| Total capital | **12,25** |

**Minimum regulatory requirement used as target for other entities**

| Company name | Regulator | Regulatory requirement[1] % |
|---|---|---|
| Absa Bank (London branch) | FSA | **10,00** |

[1]*The minimum requirements are the higher of the home/host regulatory requirements.*

**Absa Bank Limited – Capital adequacy – regulatory capital and risk-weighted assets**

| | 2007 | | 2006 |
|---|---|---|---|
| | **Unweighted assets Rm** | **Risk-weighted assets Rm** | Risk-weighted assets Rm |
| Risk-weighted assets – banking activities | | | |
| On balance sheet | **521 137** | **338 385** | 278 231 |
| Off balance sheet | **868 709** | **9 719** | 8 498 |
| Total | **1 389 846** | **348 104** | 286 729 |
| Notional assets – trading activities | | **11 557** | 10 439 |
| | **1 389 846** | **359 661** | 297 168 |

## 55. Capital management *(continued)*

### 55.4 Target capital levels *(continued)*

**Absa Bank Limited – Capital adequacy – regulatory capital and risk-weighted assets** *(continued)*

| | 2007 Qualifying capital Rm | 2007 Capital as a percentage of risk-weighted assets % | 2006 Capital as a percentage of risk-weighted assets % |
|---|---|---|---|
| Primary capital | | | |
| Ordinary share capital | **303** | **0,1** | 0,1 |
| Ordinary share premium | **5 415** | **1,5** | 1,8 |
| Preference shares | **4 644** | **1,3** | 1,0 |
| Reserves[1] | **22 755** | **6,3** | 6,2 |
| Total Tier I capital | **33 117** | **9,2** | 9,1 |
| Secondary capital | | | |
| Subordinated redeemable debt | **10 325** | **2,9** | 2,9 |
| Regulatory credit provision/reserve[2] | **1 638** | **0,4** | 0,3 |
| Impairments | **(10)** | **—** | — |
| Total Tier II capital | **11 953** | **3,3** | 3,2 |
| Total qualifying capital | **45 070** | **12,5** | 12,3 |

[1] *Reserves include unappropriated banking profits.*
[2] *Includes unidentified credit impairments.*

**Capital adequacy ratios and targets**

| **Absa Bank Limited** | Target % | Regulatory constraint % | **2007 %** | 2006 % |
|---|---|---|---|---|
| Total capital adequacy ratio | 12,25 | ≥10,0 | **12,5** | 12,3 |
| Tier I capital adequacy ratio | 8,75 | ≥7,5 | **9,2** | 9,1 |
| Preference shares as a percentage of Tier I capital | 17,00 | ≤20,0 | **14,0** | 11,1 |
| Tier II and Tier III as a percentage of Tier I | n/a | ≤100,0 | **36,1** | 34,8 |
| Lower Tier II as a percentage of Tier I (subordinated debt) capital | n/a | ≤50,0 | **31,2** | 31,9 |
| Ordinary equity and reserves as a percentage of capital | n/a | n/a | **63,2** | 65,9 |
| Preference shares as a percentage of capital | n/a | n/a | **10,3** | 8,2 |
| Tier II and Tier III as a percentage of capital | n/a | n/a | **26,5** | 25,8 |

## 55. Capital management *(continued)*

### 55.5 Basel II progress update

Basel II was instituted in South Africa from 1 January 2008. Under Basel II, Absa's regulatory capital requirement will be determined using the risk-sensitive measurement approaches of Basel II.

SARB approval has been received to implement the advanced internal ratings-based approach for retail credit. The foundation internal ratings-based approach will be implemented for wholesale and corporate credit. The advanced measurement approach will be implemented for operational risk.

The Bank has participated in the SARB-initiated quantitative impact studies and parallel run processes to determine the impact of Basel II on the Bank's capital position. Management has refined the assumptions of the risk models and obtained guidance on the interpretation of the new banking regulations.

The capital level of the Bank as an entity was not materially affected by Basel II, but there have been substantial changes to the capital required for certain classes of business conducted by the Bank. These changes to capital requirements will gradually flow through to more appropriate pricing for risk.

The capital requirements of Absa are expected to reduce while the net qualifying capital will also decrease mainly as a result of:

- the deduction of the excess of expected loss (Basel II) above IFRS accounting impairments from qualifying capital; and
- portfolio impairments no longer qualifying as regulatory capital.

The impact on the total capital adequacy ratio of Absa is expected to be neutral to marginally positive.

## 56. Fair value of financial instruments

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value.

| | BANK | | | |
|---|---|---|---|---|
| | **2007** | | 2006 | |
| | **Carrying value Rm** | **Fair value Rm** | Carrying value Rm | Fair value Rm |
| **Financial assets** | | | | |
| Balances with SARB and other central banks | **10 396** | **10 396** | 8 402 | 8 402 |
| Coins and bank notes | **4 673** | **4 673** | 3 620 | 3 620 |
| **Cash, cash balances and balances with central banks (refer to note 2)** | **15 069** | **15 069** | 12 022 | 12 022 |
| **Loans and advances to banks (refer to note 4)** | **41 699** | **41 755** | 20 833 | 20 833 |
| **Other assets (refer to note 6)** | **4 210** | **4 210** | 2 708 | 2 708 |
| Retail banking | **321 275** | **321 039** | 272 080 | 272 050 |
| Cheque accounts | **6 036** | **6 036** | 4 880 | 4 880 |
| Credit cards | **12 941** | **12 941** | 10 834 | 10 834 |
| Instalment credit agreements | **57 407** | **57 247** | 53 293 | 53 266 |
| Loans to associated undertakings and joint venture companies | **6 466** | **6 466** | 6 226 | 6 226 |
| Microloans | **2 458** | **2 458** | 1 191 | 1 191 |
| Mortgages | **225 575** | **225 520** | 185 820 | 185 817 |
| Other | **1 182** | **1 182** | 810 | 810 |
| Personal loans | **9 210** | **9 189** | 9 026 | 9 026 |
| Absa Capital | **44 084** | **42 907** | 32 905 | 32 901 |
| Absa Corporate and Business Bank | **63 709** | **63 788** | 48 700 | 48 831 |
| Corporate | **10 640** | **10 643** | 6 249 | 6 249 |
| Large and Medium | **50 166** | **50 242** | 40 454 | 40 585 |
| Other | **2 903** | **2 903** | 1 997 | 1 997 |
| Africa and other | **1 023** | **1 023** | 1 405 | 1 403 |
| **Loans and advances to customers – net of impairment (refer to note 8)** | **430 091** | **428 757** | 355 090 | 355 185 |
| **Loans to Absa Group companies** | **9 438** | **9 438** | 3 029 | 3 029 |
| **Total** | **500 507** | **499 229** | 393 682 | 393 777 |
| **Financial liabilities** | | | | |
| **Deposits from banks (refer to note 16)** | **36 564** | **36 564** | 28 897 | 28 897 |
| **Other liabilities (refer to note 18)** | **8 751** | **8 751** | 6 916 | 6 916 |
| Call deposits | **45 726** | **45 726** | 42 181 | 42 181 |
| Cheque account deposits | **94 776** | **94 776** | 88 774 | 88 774 |
| Credit card deposits | **2 173** | **2 173** | 2 291 | 2 291 |
| Fixed deposits | **89 053** | **110 882** | 86 735 | 87 776 |
| Foreign currency deposits | **8 330** | **8 330** | 12 002 | 12 002 |
| Liabilities to clients under acceptances | **108** | **108** | 20 | 20 |
| Notice deposits | **6 863** | **6 857** | 6 879 | 6 879 |
| Other deposits | **8 591** | **8 591** | 6 864 | 6 864 |
| Saving and transmission deposits | **35 270** | **35 270** | 25 396 | 25 396 |
| **Deposits due to customers (refer to note 19)** | **290 890** | **312 713** | 271 142 | 272 183 |
| **Debt securities in issue (refer to note 20)** | **124 296** | **160 689** | 83 866 | 108 421 |
| **Borrowed funds (refer to note 22)** | **4 951** | **5 118** | 5 900 | 6 296 |
| **Total** | **465 452** | **523 835** | 396 721 | 422 713 |

## 57. Segment reporting

### 57.1 Segment report per geographical segment

| | BANK | | | | |
|---|---|---|---|---|---|
| | 2007 | | | | |
| | South Africa Rm | Rest of Africa Rm | Europe Rm | Asia Rm | Total Rm |
| **Income statement** | | | | | |
| Net interest income | 17 833 | (1) | 83 | — | 17 915 |
| Impairment losses on loans and advances | (2 254) | — | 47 | — | (2 207) |
| Non-interest income | 12 684 | (4) | 16 | — | 12 696 |
| Operating expenses | (16 531) | (36) | (16) | (1) | (16 584) |
| Other | (615) | (2) | — | — | (617) |
| **Operating profit before income tax** | 11 117 | (43) | 130 | (1) | 11 203 |
| Taxation expense | (3 240) | 12 | (39) | — | (3 267) |
| **Profit for the year** | 7 877 | (31) | 91 | (1) | 7 936 |
| **Attributable to:** | | | | | |
| Ordinary equity holder | 7 561 | (31) | 91 | (1) | 7 620 |
| Preference equity holders | 313 | — | — | — | 313 |
| Minority interest | 3 | — | — | — | 3 |
| | 7 877 | (31) | 91 | (1) | 7 936 |
| **Balance sheet** | | | | | |
| Loans and advances to customers | 440 751 | 170 | 2 199 | — | 443 120 |
| Investments in associated undertakings and joint venture companies | 1 370 | — | — | — | 1 370 |
| Other assets | 140 825 | 34 | 1 699 | 11 | 142 569 |
| **Total assets** | 582 946 | 204 | 3 898 | 11 | 587 059 |
| Deposits due to customers | 304 013 | — | 864 | — | 304 877 |
| Other liabilities | 244 301 | 231 | 2 042 | 80 | 246 654 |
| **Total liabilities** | 548 314 | 231 | 2 906 | 80 | 551 531 |
| **Other** | | | | | |
| Capital expenditure | 1 848 | — | — | — | 1 848 |

## 57. Segment report *(continued)*

### 57.1 Segment report per geographical segment *(continued)*

| | BANK 2006[1] | | | | |
|---|---|---|---|---|---|
| | South Africa Rm | Rest of Africa Rm | Europe Rm | Asia Rm | Total Rm |
| **Income statement** | | | | | |
| Net interest income | 14 064 | (3) | 109 | 4 | 14 174 |
| Impairment losses on loans and advances | (1 328) | — | (188) | 1 | (1 515) |
| Non-interest income | 11 243 | — | 12 | 0 | 11 255 |
| Operating expenses | (14 462) | (56) | (27) | (2) | (14 547) |
| Other | (818) | (1) | — | — | (819) |
| **Operating profit before income tax** | 8 699 | (60) | (94) | 3 | 8 548 |
| Taxation expense | (2 464) | 16 | 28 | (4) | (2 424) |
| **Profit for the year** | 6 235 | (44) | (66) | (1) | 6 124 |
| **Attributable to:** | | | | | |
| Ordinary equity holder | 6 162 | (44) | (66) | (1) | 6 051 |
| Preference equity holders | 73 | — | — | — | 73 |
| | 6 235 | (44) | (66) | (1) | 6 124 |
| **Balance sheet** | | | | | |
| Loans and advances to customers | 366 043 | — | 1 156 | — | 367 199 |
| Investments in associated undertakings and joint venture companies | 601 | — | — | — | 601 |
| Other assets | 83 644 | 27 | 2 001 | 254 | 85 926 |
| **Total assets** | 450 288 | 27 | 3 157 | 254 | 453 726 |
| Deposits due to customers | 275 362 | — | 45 | — | 275 407 |
| Other liabilities | 147 235 | 68 | 2 210 | 80 | 149 593 |
| **Total liabilities** | 422 597 | 68 | 2 255 | 80 | 425 000 |
| **Other** | | | | | |
| Capital expenditure | 1 559 | — | — | — | 1 559 |

[1]*Certain amounts have been reclassified in terms of Annexure A.*

# Notes to the consolidated financial statements

Year ended 31 December

## 57. Segment report *(continued)*

## 57.2 Segment report per market segment

| | Retail banking | | Absa Corporate and Business Bank | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| **Income statement (Rm)** | | | | |
| Net interest income | **12 568** | 9 958 | **3 897** | 3 092 |
| Net interest income – external[2] | **32 990** | 22 628 | **2 452** | 839 |
| Net interest income – internal | **(20 422)** | (12 670) | **1 445** | 2 253 |
| Impairment losses on loans and advances | **(2 056)** | (1 184) | **(148)** | (331) |
| Non-interest income | **8 691** | 7 841 | **2 255** | 2 076 |
| Non-interest income – external[2] | **8 012** | 7 257 | **2 058** | 1 916 |
| Non-interest income – internal | **679** | 584 | **197** | 160 |
| Depreciation and amortisation | **(267)** | (57) | **(8)** | (6) |
| Operating expenses[1] | **(11 445)** | (10 276) | **(3 233)** | (2 835) |
| Other | **(294)** | (291) | **(43)** | (48) |
| Equity-accounted earnings | **29** | 15 | **56** | 34 |
| **Operating profit before income tax** | **7 226** | 6 006 | **2 776** | 1 982 |
| Taxation expense | **(2 237)** | (1 911) | **(851)** | (598) |
| **Profit for the year** | **4 989** | 4 095 | **1 925** | 1 384 |
| **Attributable to:** | | | | |
| Ordinary equity holder | **4 989** | 4 095 | **1 922** | 1 384 |
| Preference equity holders | **—** | — | **—** | — |
| Minority interest | **—** | — | **3** | — |
| | **4 989** | 4 095 | **1 925** | 1 384 |
| **Operating performance (%)** | | | | |
| Net interest margin on average assets | **3,29** | 3,22 | **4,38** | 4,09 |
| Impairment losses on loans and advances as a percentage of average loans and advances to customers | **0,69** | 0,49 | **0,23** | 0,67 |
| Non-interest income as a percentage of operating income | **40,8** | 44,1 | **36,6** | 40,2 |
| Cost-to-income ratio | **55,0** | 58,1 | **52,7** | 55,0 |
| Cost-to-assets ratio | **3,1** | 3,4 | **3,8** | 3,8 |

*Certain comparatives have been reclassified in terms of Annexure A.*

[1]*Excludes depreciation and amortisation.*

[2]*External revenue refers to revenue outside of the Absa Group.*

| Absa Capital | | African operations | | Other | | Absa Bank | |
|---|---|---|---|---|---|---|---|
| **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| **1 418** | 897 | **(1)** | (3) | **33** | 230 | **17 915** | 14 174 |
| **(18 781)** | (10 467) | **—** | — | **1 118** | 1 066 | **17 779** | 14 066 |
| **20 199** | 11 364 | **(1)** | (3) | **(1 085)** | (836) | **136** | 108 |
| **6** | (5) | **—** | — | **(9)** | 5 | **(2 207)** | (1 515) |
| **2 177** | 1 421 | **(4)** | — | **(423)** | (83) | **12 696** | 11 255 |
| **2 501** | 1 761 | **(4)** | — | **(422)** | 99 | **12 145** | 11 033 |
| **(324)** | (340) | **—** | — | **(1)** | (182) | **551** | 222 |
| **(2)** | (9) | **—** | — | **(528)** | (652) | **(805)** | (724) |
| **(1 308)** | (928) | **(36)** | (56) | **243** | 272 | **(15 779)** | (13 823) |
| **(77)** | (107) | **(2)** | (1) | **(286)** | (420) | **(702)** | (867) |
| **—** | — | **—** | — | **—** | (1) | **85** | 48 |
| **2 214** | 1 269 | **(43)** | (60) | **(970)** | (649) | **11 203** | 8 548 |
| **(681)** | (340) | **12** | 16 | **490** | 409 | **(3 267)** | (2 424) |
| **1 533** | 929 | **(31)** | (44) | **(480)** | (240) | **7 936** | 6 124 |
| **1 533** | 929 | **(31)** | (44) | **(793)** | (313) | **7 620** | 6 051 |
| **—** | — | **—** | — | **313** | 73 | **313** | 73 |
| **—** | — | **—** | — | **—** | — | **3** | — |
| **1 533** | 929 | **(31)** | (44) | **(480)** | (240) | **7 936** | 6 124 |
| **n/a** | n/a | **n/a** | n/a | **n/a** | n/a | **3,54** | 3,42 |
| **(0,01)** | 0,01 | **n/a** | n/a | **n/a** | n/a | **0,54** | 0,44 |
| **60,6** | 61,3 | **n/a** | n/a | **n/a** | n/a | **41,5** | 44,3 |
| **36,4** | 40,4 | **n/a** | n/a | **n/a** | n/a | **54,2** | 57,2 |
| **0,4** | 0,4 | **n/a** | n/a | **n/a** | n/a | **3,2** | 3,6 |

# Notes to the consolidated financial statements

Year ended 31 December

**57. Segment report** *(continued)*

**57.2 Segment report per market segment** *(continued)*

| | Retail banking | | Absa Corporate and Business Bank | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| **Balance sheet (Rm)** | | | | |
| Total advances | **321 275** | 272 042 | **70 370** | 56 140 |
| Investments in associated undertakings and joint venture companies | **330** | 274 | **1 059** | 344 |
| Other assets | **100 354** | 72 710 | **19 456** | 24 934 |
| Other assets – external | **30 990** | 22 134 | **8 024** | 6 447 |
| Other assets – internal[1] | **69 364** | 50 576 | **11 432** | 18 487 |
| **Total assets** | **421 959** | 345 026 | **90 885** | 81 418 |
| Total deposits | **96 952** | 80 855 | **76 301** | 67 691 |
| Other liabilities | **304 319** | 248 504 | **7 614** | 8 470 |
| Other liabilities – external | **14 281** | 10 624 | **6 528** | 7 354 |
| Other liabilities – internal[1] | **290 038** | 237 880 | **1 086** | 1 116 |
| **Total liabilities** | **401 271** | 329 359 | **83 915** | 76 161 |
| **Financial performance (%)** | | | | |
| Return on average equity | **27,1** | 28,8 | **30,0** | 27,4 |
| Return on average assets | **1,29** | 1,33 | **2,13** | 1,70 |
| **Other** | | | | |
| Banking customer base per segment (South Africa) | **8 905 491** | 8 303 873 | **87 708** | 81 661 |

*Certain comparatives have been reclassified in terms of Annexure A.*

**Note**

*The comparative year has been reclassified for:*

- *Migration of customers from Absa Private Bank to Retail Bank in the current year.*
- *Absa Development Company Holdings (Proprietary) Limited was moved from "Corporate centre" to "Absa Corporate and Business Bank" during the year under review.*

*Capital is allocated based on Basel I risk-weighted calculation. As a consequence, business units that have relatively lower asset levels attract a lower capital requirement.*

| | Absa Private Bank | | Retail Bank[2] | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| **Retail banking** | | | | |
| Attributable earnings (Rm) | **237** | 178 | **2 144** | 1 400 |
| Return on average equity (%) | **15,4** | 13,3 | **125,7** | 124,1 |
| Cost-to-income ratio (%) | **69,2** | 71,5 | **65,7** | 70,6 |
| Impairment losses on loans and advances as a percentage of average loans and advances to customers (%) | **0,26** | 0,27 | **3,38** | 2,76 |
| Total assets (Rm) | **31 030** | 26 520 | **89 025** | 63 731 |
| Total loans and advances (Rm) | **28 709** | 24 548 | **15 747** | 13 079 |
| Total deposits (Rm) | **18 879** | 14 409 | **75 977** | 64 159 |
| Total liabilities (Rm) | **29 314** | 25 151 | **86 977** | 62 463 |

[1]*Internal assets and liabilities for the Bank are eliminated in "Other".*

[2]*Includes the results of Digital Banking, Micro Lending, Personal Bank Ventures and Alliances, Small Business, Telephone Banking and Entry Level Banking.*

[3]*Includes the results of Repossessed properties.*

| Absa Capital 2007 | Absa Capital 2006 | African operations 2007 | African operations 2006 | Other 2007 | Other 2006 | Absa Bank 2007 | Absa Bank 2006 |
|---|---|---|---|---|---|---|---|
| **50 452** | 37 869 | **170** | — | **853** | 1 148 | **443 120** | 367 199 |
| **—** | — | **—** | — | **(19)** | (17) | **1 370** | 601 |
| **359 520** | 218 205 | **34** | 27 | **(336 795)** | (229 950) | **142 569** | 85 926 |
| **86 053** | 41 112 | **8** | 27 | **17 494** | 16 206 | **142 569** | 85 926 |
| **273 467** | 177 093 | **26** | — | **(354 289)** | (246 156) | **—** | — |
| **409 972** | 256 074 | **204** | 27 | **(335 961)** | (228 819) | **587 059** | 453 726 |
| **131 143** | 126 697 | **—** | — | **481** | 164 | **304 877** | 275 407 |
| **274 618** | 126 457 | **231** | 68 | **(340 128)** | (233 906) | **246 654** | 149 593 |
| **220 041** | 116 996 | **193** | 12 | **5 611** | 14 607 | **246 654** | 149 593 |
| **54 577** | 9 461 | **38** | 56 | **(345 739)** | (248 513) | **—** | — |
| **405 761** | 253 154 | **231** | 68 | **(339 647)** | (233 742) | **551 531** | 425 000 |
| **43,0** | 32,9 | **n/a** | n/a | **n/a** | n/a | **26,4** | 25,1 |
| **0,46** | 0,40 | **n/a** | n/a | **n/a** | n/a | **1,48** | 1,42 |
| **2 503** | 2 415 | **n/a** | n/a | **n/a** | n/a | **8 995 702** | 8 387 949 |

| Absa Home Loans[3] 2007 | Absa Home Loans[3] 2006 | Absa Card 2007 | Absa Card 2006 | Absa Vehicle and Asset Finance 2007 | Absa Vehicle and Asset Finance 2006 | Total 2007 | Total 2006 |
|---|---|---|---|---|---|---|---|
| **1 279** | 1 086 | **706** | 700 | **623** | 731 | **4 989** | 4 095 |
| **15,0** | 16,5 | **70,7** | 104,4 | **11,5** | 16,3 | **27,1** | 28,8 |
| **34,7** | 39,6 | **40,8** | 42,1 | **47,6** | 46,5 | **55,0** | 58,1 |
| **0,26** | 0,13 | **3,50** | 2,08 | **1,03** | 0,82 | **0,69** | 0,49 |
| **216 453** | 177 762 | **13 995** | 11 189 | **71 456** | 65 824 | **421 959** | 345 026 |
| **200 930** | 165 218 | **11 817** | 9 998 | **64 072** | 59 199 | **321 275** | 272 042 |
| **—** | — | **2 065** | 2 247 | **31** | 40 | **96 952** | 80 855 |
| **206 636** | 170 489 | **12 807** | 10 380 | **65 537** | 60 876 | **401 271** | 329 359 |

## 58. Derivatives

Derivative financial instruments are entered into in the normal course of business to manage various financial risks. Derivative financial instruments entered into in terms of asset and liability management strategies are defined as hedging transactions and such instruments are accounted for in terms of the Bank's accounting policies as set out in note 1.7.12.

At the balance sheet date, the Bank did not have any compound financial instruments with multiple embedded derivatives in issue.

### 58.1 Derivatives held for trading

The Bank trades derivative instruments mainly on behalf of customers while their own positions are insignificant. The Bank transacts derivative contracts to address customer demands both as a market maker in the wholesale markets and in structuring tailored derivatives for customers. Trading derivative products include the following instruments:

**Foreign exchange derivatives**

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

**Interest rate derivatives**

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

**Equity derivatives**

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

**Commodity derivatives**

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

**Credit derivatives**

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

## 58. Derivatives *(continued)*

## 58.2 Derivatives held for hedging

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

**Derivatives designated as fair value hedges**

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

Fair value hedges are used by the Bank to protect against changes in fair value of financial assets and liabilities owing to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, available-for-sale assets, debt securities and borrowed funds.

The Bank recognised the following gains and losses on hedging instruments and hedging items:

| | BANK | |
|---|---|---|
| | **2007 Rm** | 2006 Rm |
| Movement in hedged items (assets) (refer to note 26) | **(343)** | (39) |
| Movement in hedging instruments (refer to note 26) | **457** | 68 |
| Movement in hedged items (liabilities) (refer to note 27) | **417** | 121 |
| Movement in hedging instruments (refer to note 27) | **(560)** | (150) |

Hedge effectiveness is measured using a statistical method and results are within the 80% to 125% range.

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

| | BANK | |
|---|---|---|
| | **2007 Rm** | 2006 Rm |
| Ineffectiveness (outside range) (refer to note 29) | **139** | 4 |
| Ineffectiveness (inside range) | **(14)** | 47 |

**Derivatives designated as cash flow hedges**

The Bank uses interest rate swaps to protect against changes in cash flows of certain variable rate debt issues. The Bank applies hedge accounting for its non-trading interest rate risk in major currencies by analysing the 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 risk rates and reinvestment or reborrowing of current balances.

The Bank is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Bank designates interest rate swaps as hedging items in a cash flow hedging relationship to hedge the variability in cash flows owing to changes in interest rates.

**58. Derivatives** *(continued)*

**58.2 Derivatives held for hedging** *(continued)*

A schedule indicating the periods when the hedged cash flows are expected to occur and when they are expected to affect the income statement as at the balance sheet date is as follows:

**BANK**

| | **2007** Less than 1 year Rm | 1 – 2 years Rm | 2 – 3 years Rm | 3 – 4 years Rm | 4 – 5 years Rm | More than 5 years Rm | Total Rm |
|---|---|---|---|---|---|---|---|
| Forecast receivable cash flow[1] | **3** | **—** | **—** | **—** | **—** | **—** | **3** |
| Forecast payable cash flow[1] | **(629)** | **(354)** | **(178)** | **(73)** | **(19)** | **(8)** | **(1 261)** |
| Net cash outflow | **(626)** | **(354)** | **(178)** | **(73)** | **(19)** | **(8)** | **(1 258)** |

| | 2006 Less than 1 year Rm | 1 – 2 years Rm | 2 – 3 years Rm | 3 – 4 years Rm | 4 – 5 years Rm | More than 5 years Rm | Total Rm |
|---|---|---|---|---|---|---|---|
| Forecast receivable cash flow[1] | 25 | 24 | 16 | 13 | 9 | 9 | 96 |
| Forecast payable cash flow[1] | (379) | (123) | (60) | (28) | (3) | — | (593) |
| Net cash outflow | (354) | (99) | (44) | (15) | 6 | 9 | (497) |

The following net gain/(loss) on cash flow hedges was recycled from equity to the income statement:

**BANK**

| | **2007 Rm** | 2006 Rm |
|---|---|---|
| Interest and similar income (refer to note 26) | **(1 004)** | (99) |
| Gains and losses from banking and trading activities (refer to note 29) | **(60)** | (5) |
| | **(1 064)** | (104) |
| Taxation | **309** | 30 |
| **Net cash flow hedges recycled to the income statement** | **(755)** | (74) |

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

**BANK**

| | **2007 Rm** | 2006 Rm |
|---|---|---|
| Ineffectiveness (outside range) (refer to note 29) | **(60)** | (5) |
| Ineffectiveness (inside range) | **(46)** | (45) |

[1]*These balances are shown before taxation.*

## 58. Derivatives *(continued)*

### 58.3 Detailed breakdown of derivatives

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

- ***Foreign exchange contracts*** represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.
- ***Foreign currency and interest rate futures*** are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the exchange.
- ***Forward rate agreements*** are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.
- ***Currency and interest rate swaps*** are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (ie, 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. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.
- ***Options*** are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange traded or negotiated between the Bank and a customer.

**58. Derivatives** *(continued)*

**58.3 Detailed breakdown of derivatives** *(continued)*

BANK

| | 2007 | | | | 2006 | |
|---|---|---|---|---|---|---|
| | Notional amount Rm | Fair value (net) Rm | Fair value assets Rm | Fair value liabilities Rm | Notional amount Rm | Fair value (net) Rm |
| **Trading** | | | | | | |
| **Foreign exchange derivatives** | | | | | | |
| Foreign exchange contracts | 314 329 | 356 | 5 185 | (4 829) | 193 897 | (208) |
| Currency swaps | 93 746 | (869) | 1 774 | (2 643) | 41 255 | (848) |
| Currency interest rate swaps | 17 404 | 10 | 193 | (183) | 15 293 | 59 |
| OTC foreign exchange options | 5 991 | 7 | 92 | (85) | 9 153 | — |
| OTC foreign exchange options purchased | 3 000 | 92 | 92 | — | 4 577 | 97 |
| OTC foreign exchange options written | 2 991 | (85) | — | (85) | 4 576 | (97) |
| Other OTC foreign exchange derivatives | 25 587 | (7) | 1 | (8) | 460 | — |
| **Total foreign exchange derivatives** | 457 057 | (503) | 7 245 | (7 748) | 260 058 | (997) |
| **Interest rate derivatives** | | | | | | |
| Forward rate agreements (FRAs) | 862 847 | 30 | 767 | (737) | 354 565 | 28 |
| Swaps | 28 452 | (79) | 24 | (103) | 15 293 | (75) |
| Interest rate swaps | 759 819 | (768) | 8 211 | (8 979) | 392 006 | (1 383) |
| OTC options on FRAs and swaps | 15 781 | (145) | 52 | (197) | 10 422 | 11 |
| OTC options on FRAs and swaps purchased | 10 411 | 52 | 52 | — | 5 258 | 34 |
| OTC options on FRAs and swaps written | 5 370 | (197) | — | (197) | 5 164 | (23) |
| OTC bond option contracts | 4 446 | 6 | 15 | (9) | 1 835 | 6 |
| OTC bond options purchased | 2 945 | 15 | 15 | — | 961 | 17 |
| Other bond options written | 1 501 | (9) | — | (9) | 874 | (11) |
| OTC interest rate derivatives | 1 671 345 | (956) | 9 069 | (10 025) | 774 121 | (1 413) |
| Non-qualifying hedges | | | | | | |
| Interest rate swaps | 49 384 | 230 | 743 | (513) | 54 119 | (496) |
| **Total interest rate derivatives** | 1 720 729 | (726) | 9 812 | (10 538) | 828 240 | (1 909) |
| Balance carried forward | 2 177 786 | (1 229) | 17 057 | (18 286) | 1 088 298 | (2 906) |

58. **Derivatives** *(continued)*

58.3 **Detailed breakdown of derivatives** *(continued)*

BANK

| | 2007 | | | | 2006 | |
|---|---|---|---|---|---|---|
| | Notional amount Rm | Fair value (net) Rm | Fair value assets Rm | Fair value liabilities Rm | Notional amount Rm | Fair value (net) Rm |
| **Balance brought forward** | 2 177 786 | (1 229) | 17 057 | (18 286) | 1 088 298 | (2 906) |
| **Equity derivatives** | | | | | | |
| OTC options purchased | 13 468 | 1 010 | 1 007 | 4 | 8 091 | 1 224 |
| OTC options written | 11 357 | (1 384) | — | (1 384) | 8 028 | (1 199) |
| Equity futures | 1 529 | 1 304 | 1 304 | — | 2 750 | 2 212 |
| Other OTC equity derivatives | 83 839 | 12 | 176 | (165) | 501 | 91 |
| OTC equity derivatives | 110 193 | 942 | 2 487 | (1 545) | 19 370 | 2 328 |
| Exchange traded derivatives | 99 578 | (15) | — | (15) | 51 176 | (20) |
| Exchange traded options purchased | 38 340 | — | — | — | 19 956 | — |
| Exchange traded options written | 39 213 | (15) | — | (15) | 19 080 | (20) |
| Exchange traded futures | 22 025 | — | — | — | 12 140 | — |
| **Total equity derivatives** | 209 771 | 927 | 2 487 | (1 560) | 70 546 | 2 308 |
| **Commodity derivatives** | | | | | | |
| Agricultural forwards | 42 | 3 | 4 | (1) | 20 | 2 |
| OTC agricultural options purchased | 21 | 2 | 2 | — | 17 | 2 |
| OTC agricultural options written | 60 | (2) | — | (2) | 24 | (1) |
| OTC options on gold | 8 276 | 80 | 1 658 | (1 578) | 7 588 | 77 |
| OTC gold options purchased | 4 138 | 1 664 | 1 658 | 6 | 3 794 | 1 118 |
| OTC gold options written | 4 138 | (1 584) | — | (1 584) | 3 794 | (1 041) |
| Other OTC commodity derivatives | 3 308 | (94) | 508 | (602) | 1 975 | (12) |
| OTC commodity derivatives | 11 707 | (11) | 2 172 | (2 183) | 9 624 | 68 |
| Exchange traded derivatives | 466 | — | — | — | 200 | — |
| Exchange traded agricultural options purchased | 32 | — | — | — | 5 | — |
| Exchange traded agricultural options written | 85 | — | — | — | 29 | — |
| Exchange traded agricultural futures | 349 | — | — | — | 166 | — |
| **Total commodity derivatives** | 12 173 | (11) | 2 172 | (2 183) | 9 824 | 68 |
| **Credit derivatives** | | | | | | |
| Swaps | 3 328 | 39 | 39 | — | 1 556 | 27 |
| Embedded derivatives | (3 514) | (12) | 2 | (14) | 1 261 | (5) |
| **Total credit derivatives** | (186) | 27 | 41 | (14) | 2 817 | 22 |
| **Total trading** | 2 399 544 | (286) | 21 757 | (22 043) | 1 171 485 | (508) |
| **Hedging** | | | | | | |
| **Cash flow hedges** | | | | | | |
| Interest rate swaps | 87 159 | (1 608) | 5 | (1 613) | 110 928 | (567) |
| OTC options | 304 | (13) | — | (13) | — | — |
| | 87 463 | (1 621) | 5 | (1 626) | 110 928 | (567) |
| **Fair value hedges** | | | | | | |
| Interest rate swaps | 1 969 | (60) | 540 | (600) | 20 837 | (71) |
| Equity options and currency swaps | — | 180 | 180 | — | 22 | 22 |
| | 1 969 | 120 | 720 | (600) | 20 859 | (49) |
| **Total hedges** | 89 432 | (1 501) | 725 | (2 226) | 131 787 | (616) |
| **Total derivative instruments** | 2 488 976 | (1 787) | 22 482 | (24 269) | 1 303 272 | (1 124) |

**58. Derivatives** *(continued)*

**58.3 Detailed breakdown of derivatives** *(continued)*

To the extent that the Bank has ISDA agreements with the same counterparty, the Bank's net exposure was R11 127 million (2006: R13 100 million).

**Notional amount**

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

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

**Fair value**

The amounts disclosed represent the fair value as at the balance sheet date of all derivative financial instruments held. The fair value of a derivative financial instrument represents the market value if the rights and obligations arising from derivative instruments were closed out by the Bank in orderly market conditions at the balance sheet date. 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.

# Annexure A: Reclassifications

## Consolidated balance sheet

As at 31 December 2006

| | | BANK | | |
|---|---|---|---|---|
| | Commentary | As previously reported Rm | Reclassifi-cations Rm | Reclassified balance Rm |
| **Assets** | | | | |
| Cash, cash balances and balances with central banks | | 12 022 | — | 12 022 |
| Statutory liquid asset portfolio | | 20 829 | — | 20 829 |
| Loans and advances to banks | | 20 833 | — | 20 833 |
| Trading assets | 1 | 17 711 | 31 | 17 742 |
| Hedging assets | 1 | 672 | (31) | 641 |
| Other assets | | 3 151 | — | 3 151 |
| Loans to Absa Group companies | | 3 029 | — | 3 029 |
| Loans and advances to customers | 2 | 368 320 | (1 121) | 367 199 |
| Deferred tax assets | | 63 | — | 63 |
| Investments | 2 | 2 839 | 1 121 | 3 960 |
| Investments in associated undertakings and joint venture companies | | 601 | — | 601 |
| Intangible assets | | 147 | — | 147 |
| Property and equipment | | 3 509 | — | 3 509 |
| **Total assets** | | 453 726 | — | 453 726 |
| **Liabilities** | | | | |
| Deposits from banks | 3 | 39 236 | (10 339) | 28 897 |
| Trading liabilities | 1 | 15 499 | 641 | 16 140 |
| Hedging liabilities | 1 | 1 898 | (641) | 1 257 |
| Other liabilities and sundry provisions | | 8 015 | — | 8 015 |
| Current tax liabilities | | 941 | — | 941 |
| Deposits due to customers | 3 | 348 934 | (73 527) | 275 407 |
| Debt securities in issue | 3 | — | 83 866 | 83 866 |
| Deferred tax liabilities | | 2 133 | — | 2 133 |
| Policyholder liabilities under insurance contracts | | 76 | — | 76 |
| Borrowed funds | | 8 268 | — | 8 268 |
| **Total liabilities** | | 425 000 | — | 425 000 |
| **Equity** | | | | |
| **Capital and reserves** | | | | |
| Attributable to equity holders of the Bank: | | | | |
| Share capital | | 303 | — | 303 |
| Share premium | | 5 415 | — | 5 415 |
| Preference share capital | | 1 | — | 1 |
| Preference share premium | | 2 991 | — | 2 991 |
| Other reserves | | 1 682 | — | 1 682 |
| Retained earnings | | 18 334 | — | 18 334 |
| **Total equity** | | 28 726 | — | 28 726 |
| **Total equity and liabilities** | | 453 726 | — | 453 726 |

# Annexure A: Reclassifications

## Consolidated income statement

Year ended 31 December 2006

| | | BANK | | |
|---|---|---|---|---|
| | Commentary | As previously reported Rm | Reclassifi-cations Rm | Reclassified balance Rm |
| Net interest income | 4 & 6 | 14 184 | (10) | 14 174 |
| Interest and similar income | | 36 551 | (33) | 36 518 |
| Interest expense and similar charges | | (22 367) | 23 | (22 344) |
| Impairment losses on loans and advances | | (1 515) | — | (1 515) |
| **Net interest income after impairment losses on loans and advances** | | 12 669 | (10) | 12 659 |
| Net fee and commission income | | 9 434 | (461) | 8 973 |
| Fee and commission income | 5 & 6 | 9 468 | 18 | 9 486 |
| Fee and commission expense | 6 | (34) | (479) | (513) |
| Gains and losses from banking and trading activities | 6 | 1 274 | (40) | 1 234 |
| Gains and losses from investment activities | | 169 | — | 169 |
| Other operating income | 5 | 897 | (18) | 879 |
| **Operating income before operating expenses** | | 24 443 | (529) | 23 914 |
| Operating expenditure | | (15 943) | 529 | (15 414) |
| Operating expenses | 6 | (15 070) | 523 | (14 547) |
| Non-credit related impairments | | (71) | — | (71) |
| Indirect taxation | | (802) | 6 | (796) |
| Share of retained earnings from associated undertakings and joint venture companies | | 48 | — | 48 |
| **Operating profit before income tax** | | 8 548 | — | 8 548 |
| Taxation expense | | (2 424) | — | (2 424) |
| **Profit for the year** | | 6 124 | — | 6 124 |
| **Attributable to:** | | | | |
| Ordinary equity holder of the Bank | | 6 051 | — | 6 051 |
| Preference equity holders of the Bank | | 73 | — | 73 |
| | | 6 124 | — | 6 124 |

1. **Trading and hedging assets and liabilities**

   Certain trading assets and liabilities previously aggregated with hedging assets and liabilities have been separated.

2. **Equity and shareholder loans**

   Shareholder loans granted to Private Equity, Commercial Property Finance (CPF) and Incubator Fund clients have been reclassified as part of the net investment. Previously these were shown as "Loans and advances to customers".

3. **Debt securities in issue**

   Negotiable certificates of deposit and other funding paper issued were previously reported as a subcategory of "Deposits due to customers" and "Deposits from banks". This is disclosed on a separate line on the face of the balance sheet, called "Debt securities in issue".

4. **Reclassification of interest**

   Hedging income and expenses have been reclassified to better eliminate mismatches.

5. **Fees from trust and other fiduciary activities**

   Unit and property trust income have been reclassified from "Other operating income" to "Fee and commission income".

6. **Fee expenses and similar items**

   While implementing IFRS 7, the Bank adopted a policy where all fees paid, relating to either a financial instrument or fee income, should be classified as a fee expense. Similarly, any fees related to trading should be moved to "Gains and losses from banking and trading activities".

# Company balance sheet

As at 31 December

| | Note | COMPANY 2007 Rm | 2006 Rm |
|---|---|---|---|
| **Assets** | | | |
| Cash, cash balances and balances with central banks | 2 | **15 053** | 12 021 |
| Statutory liquid asset portfolio | 3 | **22 957** | 20 829 |
| Loans and advances to banks | 4 | **50 648** | 20 830 |
| Trading assets | 5 | **25 876** | 17 742 |
| Hedging assets | 5 | **725** | 641 |
| Other assets | 6 | **4 545** | 2 872 |
| Current tax assets | 7 | **168** | — |
| Loans and advances to customers | 8 | **432 287** | 356 556 |
| Loans to Absa Group companies | 10 | **10 931** | 4 291 |
| Deferred tax assets | 11 | **10** | 22 |
| Investments | 12 | **5 939** | 4 011 |
| Investments in associated undertakings and joint venture companies | 13 | **1 096** | 408 |
| Subsidiaries | 14 | **2 907** | 3 040 |
| Intangible assets | 15 | **101** | 35 |
| Property and equipment | 16 | **4 233** | 3 436 |
| **Total assets** | | **577 476** | 446 734 |
| **Liabilities** | | | |
| Deposits from banks | 17 | **65 299** | 29 452 |
| Trading liabilities | 18 | **22 947** | 16 139 |
| Hedging liabilities | 18 | **2 226** | 1 257 |
| Other liabilities and sundry provisions | 19 | **9 322** | 7 310 |
| Current tax liabilities | 7 | **29** | 914 |
| Deposits due to customers | 20 | **297 285** | 269 596 |
| Debt securities in issue | 21 | **134 023** | 83 866 |
| Deferred tax liabilities | 11 | **2 185** | 2 114 |
| Borrowed funds | 22 | **9 796** | 8 268 |
| **Total liabilities** | | **543 112** | 418 916 |
| **Equity** | | | |
| **Capital and reserves** | | | |
| Attributable to equity holders of the Company: | | | |
| Ordinary share capital | 24 | **303** | 303 |
| Ordinary share premium | 24 | **5 415** | 5 415 |
| Preference share capital | 24 | **1** | 1 |
| Preference share premium | 24 | **4 643** | 2 991 |
| Other reserves | 25 | **1 329** | 1 481 |
| Retained earnings | | **22 673** | 17 627 |
| **Total equity** | | **34 364** | 27 818 |
| **Total equity and liabilities** | | **577 476** | 446 734 |

# Company income statement

## Year ended 31 December

| | Note | COMPANY 2007 Rm | COMPANY 2006 Rm |
|---|---|---|---|
| Net interest income | | **17 217** | 13 496 |
| Interest and similar income | 26 | **51 106** | 35 471 |
| Interest expense and similar charges | 27 | **(33 889)** | (21 975) |
| Impairment losses on loans and advances | 9 | **(2 180)** | (1 468) |
| **Net interest income after impairment losses on loans and advances** | | **15 037** | 12 028 |
| Net fee and commission income | | **10 026** | 8 941 |
| Fee and commission income | 28 | **10 593** | 9 464 |
| Fee and commission expense | 28 | **(567)** | (523) |
| Gains and losses from banking and trading activities | 29 | **1 533** | 1 234 |
| Gains and losses from investment activities | 30 | **579** | 928 |
| Other operating income | 31 | **758** | 773 |
| **Operating income before operating expenses** | | **27 933** | 23 904 |
| Operating expenditure | | **(17 104)** | (15 269) |
| Operating expenses | 32 | **(16 405)** | (14 403) |
| Non-credit related impairments | 34 | **(58)** | (72) |
| Indirect taxation | 35 | **(641)** | (794) |
| **Operating profit before income tax** | | **10 829** | 8 635 |
| Taxation expense | 36 | **(3 139)** | (2 333) |
| **Profit for the year** | | **7 690** | 6 302 |
| **Attributable to:** | | | |
| Ordinary equity holder of the Company | | **7 377** | 6 229 |
| Preference equity holders of the Company | | **313** | 73 |
| | | **7 690** | 6 302 |
| • basic earnings per share (cents) | 37 | **2 187,1** | 1 852,2 |
| • diluted earnings per share (cents) | 37 | **2 187,1** | 1 852,2 |

# Company statement of changes in equity

Year ended 31 December

| | Number of ordinary shares '000 | Ordinary share capital Rm | Ordinary share premium Rm | Preference share capital Rm | Preference share premium Rm |
|---|---|---|---|---|---|
| Balance at 1 January 2006 | 332 891 | 303 | 4 665 | — | — |
| Shares issued | 4 395 | 0 | 750 | 1 | 2 999 |
| *Less:* Costs incurred | — | — | — | — | (8) |
| Movement in regulatory general credit risk reserve | — | — | — | — | — |
| Movement in available-for-sale reserve and/or cash flow hedges reserve | — | — | — | — | — |
| Fair value gains and losses | — | — | — | — | — |
| Amount removed from equity and recognised in the income statement | — | — | — | — | — |
| Movement in share-based payment reserve | — | — | — | — | — |
| Value of employee services | — | — | — | — | — |
| Transfer from share-based payment reserve | — | — | — | — | — |
| Dividends declared – ordinary shares | — | — | — | — | — |
| Dividends declared – preference shares | — | — | — | — | — |
| Foreign currency translation effects | — | — | — | — | — |
| Profit attributable to ordinary equity holder | — | — | — | — | — |
| Profit attributable to preference equity holders | — | — | — | — | — |
| Balance at 31 December 2006 | 337 286 | 303 | 5 415 | 1 | 2 991 |

| | **Number of ordinary shares '000** | **Ordinary share capital Rm** | **Ordinary share premium Rm** | **Preference share capital Rm** | **Preference share premium Rm** |
|---|---|---|---|---|---|
| **Balance at 1 January 2007** | **337 286** | **303** | **5 415** | **1** | **2 991** |
| Shares issued | **—** | **—** | **—** | **0** | **1 658** |
| *Less:* Costs incurred | **—** | **—** | **—** | **—** | **(6)** |
| Movement in regulatory general credit risk reserve | **—** | **—** | **—** | **—** | **—** |
| Movement in available-for-sale reserve and/or cash flow hedges reserve | **—** | **—** | **—** | **—** | **—** |
| Fair value gains and losses | **—** | **—** | **—** | **—** | **—** |
| Amount removed from equity and recognised in the income statement | **—** | **—** | **—** | **—** | **—** |
| Movement in share-based payment reserve | **—** | **—** | **—** | **—** | **—** |
| Value of employee services | **—** | **—** | **—** | **—** | **—** |
| Transfer from share-based payment reserve | **—** | **—** | **—** | **—** | **—** |
| Dividends declared | **—** | **—** | **—** | **—** | **—** |
| Foreign currency translation effects | **—** | **—** | **—** | **—** | **—** |
| Profit attributable to ordinary equity holder | **—** | **—** | **—** | **—** | **—** |
| Profit attributable to preference equity holders | **—** | **—** | **—** | **—** | **—** |
| **Balance at 31 December 2007** | **337 286** | **303** | **5 415** | **1** | **4 643** |
| **Note** | **24** | **24** | **24** | **24** | **24** |

*Note: All movements are reflected net of taxation.*

**COMPANY**

| 2006 Regulatory general credit risk reserve Rm | Available-for-sale reserve Rm | Cash flow hedges reserve Rm | Foreign currency translation reserve Rm | Capital reserve Rm | Share-based payment reserve Rm | Retained earnings Rm | Total Rm |
|---|---|---|---|---|---|---|---|
| — | (70) | 132 | (11) | 1 422 | 112 | 13 339 | 19 892 |
| — | — | — | — | — | — | — | 3 750 |
| — | — | — | — | — | — | — | (8) |
| 50 | — | — | — | — | — | (50) | — |
| — | 67 | (485) | — | — | — | — | (418) |
| — | 36 | (559) | — | — | — | — | (523) |
| — | 31 | 74 | — | — | — | — | 105 |
| — | — | — | — | — | 55 | 23 | 78 |
| — | — | — | — | — | 78 | — | — |
| — | — | — | — | — | (23) | 23 | 78 |
| — | — | — | — | — | — | (1 914) | (1 914) |
| — | — | — | — | — | — | (73) | (73) |
| — | — | — | 209 | — | — | — | 209 |
| — | — | — | — | — | — | 6 229 | 6 229 |
| — | — | — | — | — | — | 73 | 73 |
| 50 | (3) | (353) | 198 | 1 422 | 167 | 17 627 | 27 818 |

| **2007 Regulatory general credit risk reserve Rm** | **Available-for-sale reserve Rm** | **Cash flow hedges reserve Rm** | **Foreign currency translation reserve Rm** | **Capital reserve Rm** | **Share-based payment reserve Rm** | **Retained earnings Rm** | **Total Rm** |
|---|---|---|---|---|---|---|---|
| **50** | **(3)** | **(353)** | **198** | **1 422** | **167** | **17 627** | **27 818** |
| **—** | **—** | **—** | **—** | **—** | **—** | **—** | **1 658** |
| **—** | **—** | **—** | **—** | **—** | **—** | **—** | **(6)** |
| **379** | **—** | **—** | **—** | **—** | **—** | **(379)** | **—** |
| **—** | **61** | **(540)** | **—** | **—** | **—** | **—** | **(479)** |
| **—** | **18** | **(1 295)** | **—** | **—** | **—** | **—** | **(1 277)** |
| **—** | **43** | **755** | **—** | **—** | **—** | **—** | **798** |
| **—** | **—** | **—** | **—** | **—** | **(11)** | **87** | **76** |
| **—** | **—** | **—** | **—** | **—** | **76** | **—** | **76** |
| **—** | **—** | **—** | **—** | **—** | **(87)** | **87** | **—** |
| **—** | **—** | **—** | **—** | **—** | **—** | **(2 352)** | **(2 352)** |
| **—** | **—** | **—** | **(41)** | **—** | **—** | **—** | **(41)** |
| **—** | **—** | **—** | **—** | **—** | **—** | **7 377** | **7 377** |
| **—** | **—** | **—** | **—** | **—** | **—** | **313** | **313** |
| **429** | **58** | **(893)** | **157** | **1 422** | **156** | **22 673** | **34 364** |
| **25** | **25** | **25** | **25** | **25** | **25** | | |

# Company cash flow statement

Year ended 31 December

| | Note | COMPANY 2007 Rm | COMPANY 2006 Rm |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Net interest and commission received | | **27 066** | 22 754 |
| Net trading and other income | | **2 898** | 1 615 |
| Cash payments to employees and suppliers | | **(15 913)** | (14 069) |
| Income taxes paid | | **(3 896)** | (2 547) |
| Cash flow from operating profit before changes in operating assets and liabilities | | **10 155** | 7 753 |
| Net (increase)/decrease in trading securities | | **(8 555)** | 2 851 |
| Net increase in loans and advances to customers | | **(77 954)** | (78 791) |
| Net increase in other assets | | **(42 140)** | (11 247) |
| Net increase/(decrease) in trading liabilities | | **7 776** | (3 980) |
| Net increase in amounts due to customers and banks | | **113 649** | 76 223 |
| Net increase in other liabilities | | **2 113** | 1 031 |
| Net cash generated/(utilised) from operating activities | | **5 044** | (6 160) |
| **Cash flow from investing activities** | | | |
| Purchase of property and equipment | 16 | **(1 682)** | (1 056) |
| Proceeds from sale of property and equipment | | **58** | 91 |
| Purchase of intangible assets | 15 | **(150)** | (119) |
| Disposal of subsidiaries, net of cash | | **36** | 446 |
| Disposal of associated undertakings and joint venture companies | 13.6 | **—** | 360 |
| Acquisition of associated undertakings and joint venture companies, net of cash | 13.5 | **(378)** | (174) |
| Net increase in loans to associated undertakings and joint venture companies | | **(17)** | — |
| Net increase in securities | | **(2 426)** | (521) |
| Net cash utilised from investing activities | | **(4 559)** | (973) |
| **Cash flow from financing activities** | | | |
| Issue of ordinary shares | | **—** | 750 |
| Issue of preference shares | | **1 652** | 2 992 |
| Proceeds from borrowed funds | | **1 725** | 2 000 |
| Dividends paid | | **(2 352)** | (1 987) |
| Net cash generated from financing activities | | **1 025** | 3 755 |
| Net increase/(decrease) in cash and cash equivalents | | **1 510** | (3 378) |
| Cash and cash equivalents at the beginning of the year | | **3 494** | 6 873 |
| Effect of exchange rate movement on cash and cash equivalents | | **1** | (1) |
| **Cash and cash equivalents at the end of the year** | 45 | **5 005** | 3 494 |

# Notes to the Company financial statements

Year ended 31 December

| | COMPANY 2007 Rm | COMPANY 2006 Rm |
|---|---|---|
| **1. Accounting policies** | | |
| The financial statements of Absa Bank Limited (Company) are prepared according to the same accounting principles used in preparing the consolidated financial statements of Absa Bank Limited and its subsidiaries (Bank). For detailed accounting policies refer to the Bank's financial statements. | | |
| **1.1 Reclassifications** | | |
| Certain income statement and balance sheet items have been reclassified to enhance the usefulness of the Company's financial reporting. Refer to Annexure A to the financial statements for additional explanation of these reclassifications. | | |
| **2. Cash, cash balances and balances with central banks** | | |
| Balances with the SARB | **10 395** | 8 402 |
| Coins and bank notes | **4 658** | 3 619 |
| | **15 053** | 12 021 |
| *Portfolio analysis* | | |
| Loans and receivables | | |
| Balances with the SARB | **10 395** | 8 402 |
| Coins and bank notes | **4 658** | 3 619 |
| | **15 053** | 12 021 |
| **3. Statutory liquid asset portfolio** | | |
| Land Bank bills | **492** | 492 |
| RSA government bonds | **13 024** | 13 166 |
| Treasury bills | **9 441** | 7 171 |
| | **22 957** | 20 829 |
| *Portfolio analysis* | | |
| Available-for-sale | **9 933** | 7 663 |
| Land Bank bills | **492** | 492 |
| Treasury bills | **9 441** | 7 171 |
| Designated at fair value | | |
| RSA government bonds | **2 683** | 3 744 |
| Hedged item in fair value hedging relationship | | |
| RSA government bonds[1] | **10 341** | 9 422 |
| | **22 957** | 20 829 |
| Included above are the following assets pledged with the SARB | **2 829** | 3 513 |

The related liability for the pledged assets, which is disclosed in "Deposits from banks", bears interest at the SARB repurchase rate.

[1]*Previously designated as available-for-sale instruments.*

| | COMPANY 2007 Rm | 2006 Rm |
|---|---|---|
| **4. Loans and advances to banks** | | |
| Loans and advances to banks | **49 440** | 20 025 |
| Remittances in transit | **1 208** | 805 |
| | **50 648** | 20 830 |
| *Portfolio analysis* | | |
| Designated at fair value | **10 992** | — |
| Loans and receivables | **39 656** | 20 830 |
| | **50 648** | 20 830 |

Loans with variable rates are R48 268 million (2006: R19 611 million) and fixed rates are R1 171 million (2006: R414 million).

Included above are loans and advances with the Company's ultimate parent company of R13 209 million (2006: R3 353 million). Refer to note 40 for the full disclosure of related party transactions.

Included above are loans and advances to banks with a carrying value of R68 million (2006: Rnil) that have been pledged as security.

Included above are reverse repurchase agreements of R29 307 million (2006: R8 867 million). Refer to note 41 of the Bank's financial statements for further information.

| | COMPANY 2007 Rm | 2006 Rm |
|---|---|---|
| **5. Trading and hedging assets** | | |
| Debt instruments | **2 206** | 176 |
| Derivative assets (refer to note 58 of the Bank's financial statements) | **21 757** | 15 065 |
| Commodity derivatives | **2 172** | 1 497 |
| Credit derivatives | **41** | 27 |
| Equity derivatives | **2 487** | 3 610 |
| Foreign exchange derivatives | **7 245** | 6 431 |
| Interest rate derivatives | **9 812** | 3 500 |
| Equity instruments | **573** | 1 796 |
| Money market assets | **1 340** | 705 |
| Total trading assets | **25 876** | 17 742 |
| Hedging assets (refer to note 58 of the Bank's financial statements) | **725** | 641 |
| | **26 601** | 18 383 |
| *Portfolio analysis* | | |
| Derivatives designated as cash flow hedging instruments | **5** | 94 |
| Derivatives designated as fair value hedging instruments | **720** | 547 |
| Held for trading | **25 876** | 17 742 |
| Debt instruments | **2 206** | 176 |
| Derivative assets | **21 757** | 15 065 |
| Equity instruments | **573** | 1 796 |
| Money market assets | **1 340** | 705 |
| | **26 601** | 18 383 |

Included above are derivative positions with the Company's ultimate parent company of R4 707 million (2006: R187 million). Refer to note 40 for the full disclosure of related party transactions.

Trading assets with a carrying value of R3 199 million (2006: R1 491 million) and derivative assets with a carrying value of R9 million (2006: Rnil) have been pledged as security.

*Certain comparatives have been reclassified in terms of Annexure A.*

| | COMPANY | |
|---|---|---|
| | **2007** | 2006 |
| | **Rm** | Rm |
| **6. Other assets** | | |
| Accounts receivable and prepayments | **4 419** | 2 748 |
| Accrued dividends | **101** | 104 |
| Deferred costs | **25** | 20 |
| | **4 545** | 2 872 |
| *Portfolio analysis* | | |
| Loans and receivables | **4 219** | 2 604 |
| Non-financial assets | **326** | 268 |
| | **4 545** | 2 872 |

Included above are settlement accounts with the Company's ultimate parent company of R245 million (2006: Rnil). Refer to note 40 for the full disclosure of related party transactions.

Included in accounts receivable and prepayments are assets with a carrying value of R400 million (2006: Rnil) that have been pledged as security.

| | COMPANY | |
|---|---|---|
| | **2007** | 2006 |
| | **Rm** | Rm |
| **7. Current tax** | | |
| **Current tax assets** | | |
| Amount due from revenue authorities | **168** | — |
| **Current tax liabilities** | | |
| Amount due to revenue authorities | **29** | 914 |
| **8. Loans and advances to customers** | | |
| Cheque accounts | **19 597** | 15 380 |
| Client liabilities under acceptances | **108** | 20 |
| Corporate overdrafts and specialised finance loans | **5 907** | 5 615 |
| Credit cards | **13 827** | 11 244 |
| Foreign currency loans | **11 143** | 4 591 |
| Instalment credit agreements (refer to note 8.1) | **55 320** | 51 610 |
| Gross advances | **71 420** | 64 722 |
| Unearned finance charges | **(16 100)** | (13 112) |
| Loans granted under resale agreements (Carries) (refer to note 41 of the Bank's financial statements) | **8 233** | 8 561 |
| Loans to associated undertakings and joint venture companies (refer to note 13) | **7 495** | 7 192 |
| Microloans | **2 628** | 1 388 |
| Mortgages | **263 029** | 214 671 |
| Other advances | **1 001** | 153 |
| Overnight finance | **12 636** | 7 370 |
| Personal loans | **16 771** | 16 326 |
| Preference shares | **3 803** | 2 675 |
| Wholesale overdrafts | **15 992** | 13 933 |
| Fair value adjustments | **162** | 306 |
| Mortgages | **82** | 258 |
| Wholesale overdrafts | **80** | 48 |
| | **437 652** | 361 035 |
| Impairment losses on loans and advances (refer to note 9) | **(5 365)** | (4 479) |
| | **432 287** | 356 556 |

| | COMPANY | |
|---|---|---|
| | **2007 Rm** | 2006 Rm |
| **8. Loans and advances to customers** *(continued)* | | |
| *Portfolio analysis* | | |
| Designated at fair value | **13 029** | 12 109 |
| Loans granted under resale agreements (Carries) | **3 040** | — |
| Mortgages | **6 661** | 7 440 |
| Wholesale overdrafts | **3 328** | 4 669 |
| Loans and receivables | **424 623** | 348 926 |
| | **437 652** | 361 035 |

*Certain comparatives have been reclassified in terms of Annexure A.*

| | COMPANY | |
|---|---|---|
| | **2007 Rm** | 2006 Rm |
| **8.1 Instalment credit agreements** | | |
| *Maturity analysis* | | |
| **Gross investment in finance leases** | | |
| Less than one year | **20 126** | 19 173 |
| Between one and five years | **50 306** | 45 548 |
| More than five years | **988** | 1 |
| | **71 420** | 64 722 |
| **Unearned finance charges** | | |
| Less than one year | **(4 194)** | (3 621) |
| Between one and five years | **(11 681)** | (9 491) |
| More than five years | **(225)** | — |
| | **(16 100)** | (13 112) |
| **Net investment in finance leases** | | |
| Less than one year | **15 932** | 15 552 |
| Between one and five years | **38 625** | 36 057 |
| More than five years | **763** | 1 |
| | **55 320** | 51 610 |

The Company 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.

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

Unguaranteed residual values of instalment credit agreements at the balance sheet date are estimated at R6 537 million (2006: R5 775 million).

The accumulated allowance for uncollectable minimum lease payments receivable included in the allowance for impairments at the balance sheet date is R570 million (2006: R321 million).

| | COMPANY 2007 Rm | 2006 Rm |
|---|---|---|
| **9. Impairment losses on loans and advances** | | |
| **Balance at the beginning of the year as previously reported** | **4 492** | 5 562 |
| Reclassification to investments | **(13)** | (13) |
| **Reclassified balance at the beginning of the year** | **4 479** | 5 549 |
| Interest on impaired assets (refer to note 26) | **(271)** | (119) |
| Amounts written off during the year | **(1 431)** | (2 797) |
| | **2 777** | 2 633 |
| Impairments raised during the year (refer to note 9.1) | **2 588** | 1 846 |
| **Balance at the end of the year (refer to note 8)** | **5 365** | 4 479 |
| *Comprising* | | |
| Identified impairments | **3 116** | 2 492 |
| Identified impairments – net present value adjustment | **336** | 353 |
| Unidentified impairments | **1 913** | 1 634 |
| | **5 365** | 4 479 |
| **9.1 Income statement charge for impairment losses on loans and advances** | | |
| Impairments raised during the year | **2 588** | 1 846 |
| Identified impairments | **2 055** | 918 |
| Identified impairments – net present value adjustment | **254** | 270 |
| Unidentified impairments | **279** | 658 |
| Recoveries of advances previously written off | **(408)** | (378) |
| | **2 180** | 1 468 |
| **10. Loans to Absa Group companies** | | |
| Fellow subsidiaries | **9 869** | 3 157 |
| Holding company | **1 062** | 1 134 |
| | **10 931** | 4 291 |
| *Portfolio analysis* | | |
| Loans and receivables | **10 931** | 4 291 |
| **11. Deferred tax** | | |
| **11.1 Reconciliation of net deferred tax liability** | | |
| **Balance at the beginning of the year** | **2 092** | 2 273 |
| Deferred tax asset released/(raised) on STC credits (refer to note 11.3) | **12** | (22) |
| Deferred tax on amounts charged directly to equity | **(188)** | (188) |
| Available-for-sale investments | **33** | 10 |
| Fair value measurement | **15** | — |
| Transfer to income statement | **18** | 10 |
| Cash flow hedges | **(221)** | (198) |
| Fair value measurement | **(530)** | (228) |
| Transfer to income statement | **309** | 30 |
| Income statement charge (refer to note 36) | **274** | 9 |
| Tax effect of translation and other differences | **(15)** | 20 |
| **Balance at the end of the year** | **2 175** | 2 092 |

# Notes to the Company financial statements

Year ended 31 December

| | COMPANY 2007 Rm | 2006 Rm |
|---|---|---|
| **11. Deferred tax** *(continued)* | | |
| **11.2 Deferred tax liability/(asset)** | | |
| Tax effects of temporary differences between tax and book value for: | | |
| Accruals and provisions | **2 220** | 2 584 |
| Impairment of advances | **(415)** | (340) |
| Property allowances | **51** | 70 |
| Gains on investments | **(161)** | (494) |
| Lease and rental debtor allowances | **490** | 297 |
| Other differences | **—** | (3) |
| **Deferred tax liability** | **2 185** | 2 114 |
| Deferred tax asset – STC (refer to note 11.3) | **(10)** | (22) |
| **Deferred tax asset** | **(10)** | (22) |
| **Net deferred tax liability** | **2 175** | 2 092 |
| **11.3 Secondary taxation on companies (STC)** | | |
| Accumulated STC credits | **92** | 174 |
| Deferred tax asset raised (refer to note 11.2) | **10** | 22 |
| Raised at 10,0% | **6** | — |
| Raised at 12,5% | **4** | 22 |
| **Movement in deferred tax asset for the year (refer to note 11.1)** | **(12)** | 22 |

If the total reserves of R24 002 million as at the balance sheet date (2006: R19 108 million) were to be declared as dividends, the secondary tax impact at a rate of 10,0% (2006: 12,5%) would be R2 400 million (2006: R2 389 million).

| | 2007 Rm | 2006 Rm |
|---|---|---|
| **12. Investments** | | |
| Debt instruments | **724** | 1 406 |
| Listed equity instruments | **959** | 691 |
| Unlisted equity and hybrid instruments | **4 256** | 1 914 |
| | **5 939** | 4 011 |
| **Directors' valuation and market value** | | |
| Directors' valuation of unlisted equity and hybrid instruments | **4 256** | 1 914 |
| Market value of debt instruments | **724** | 1 406 |
| Market value of listed equity instruments | **959** | 691 |
| | **5 939** | 4 011 |

| | COMPANY 2007 Rm | 2006 Rm |
|---|---|---|
| **12. Investments** *(continued)* | | |
| *Portfolio analysis* | | |
| Available-for-sale (refer to note 12.1) | **494** | 463 |
| Debt instruments | **68** | 167 |
| Listed equity instruments | **1** | 1 |
| Unlisted equity and hybrid instruments | **425** | 295 |
| Designated at fair value | **5 445** | 3 548 |
| Debt instruments | **656** | 1 239 |
| Listed equity instruments | **958** | 690 |
| Unlisted equity and hybrid instruments | **3 831** | 1 619 |
| | **5 939** | 4 011 |

| | COMPANY 2007 Rm | 2006 Rm |
|---|---|---|
| **12.1 Available-for-sale investments** | | |
| Carrying value at the beginning of the year | **463** | 389 |
| Cost plus fair value movements | **506** | 436 |
| *Less:* Impairment[1] | **(43)** | (47) |
| Movement in investments | **31** | 70 |
| Movement in impairments (refer to note 34) | **—** | 4 |
| Carrying value at the end of the year | **494** | 463 |
| Cost plus fair value movements | **537** | 506 |
| *Less*: Impairment[1] | **(43)** | (43) |

*Certain comparatives have been reclassified in terms of Annexure A.*

| | COMPANY 2007 Rm | 2006 Rm |
|---|---|---|
| **13. Investments in associated undertakings and joint venture companies** | | |
| Listed investments | **555** | 143 |
| Unlisted investments | **541** | 265 |
| | **1 096** | 408 |
| **13.1 Movement in carrying amount** | | |
| **Balance at the beginning of the year** | **408** | 340 |
| Net acquisition of associated undertakings and joint venture companies at cost (refer to note 13.4) | **649** | 67 |
| Change in loans to associated undertakings and joint venture companies | **18** | 11 |
| Impairment charge (refer to note 34) | **—** | (10) |
| Other movements | **21** | — |
| **Balance at the end of the year** | **1 096** | 408 |
| **13.2 Analysis of carrying amount** | | |
| *Listed investments* | | |
| Shares at cost | **555** | 143 |
| *Unlisted investments* | | |
| Shares at book value | **513** | 254 |
| Shares at cost | **523** | 264 |
| *Less:* Impairment | **(10)** | (10) |
| Loans to associated undertakings and joint venture companies | **28** | 11 |
| | **541** | 265 |

Other commercial loans to associated undertakings and joint venture companies included in advances amounted to R7 495 million (2006: R7 192 million). Refer to note 8 for further details.

[1]*All impairments relate to equity instruments.*

| | COMPANY 2007 Rm | 2006 Rm |
|---|---|---|
| **13. Investments in associated undertakings and joint venture companies** *(continued)* | | |
| **13.3 Valuation** | | |
| Market value of listed investments | **568** | 156 |
| Directors' valuation of unlisted investments | **776** | 459 |
| | **1 344** | 615 |
| **13.4 Acquisitions and disposals** | | |
| **The following acquisitions were concluded during the current year, at cost:** | | |
| Somerset West Autopark (Proprietary) Limited | **0** | n/a |
| On 3 January 2007, the Company acquired a 33,3% interest in Somerset West Autopark (Proprietary) Limited. | | |
| Ngwenya River Estate (Proprietary) Limited | **38** | n/a |
| On 29 January 2007, the Company acquired a 50,0% interest in Ngwenya River Estate (Proprietary) Limited. | | |
| Ambit Properties Limited | **412** | n/a |
| During the year, the Company acquired an additional 9,3% interest in Ambit Properties Limited. The Company's shareholding is now 30,6%. | | |
| African Trading Spirit 309 (Proprietary) Limited | **11** | n/a |
| During the year, the Company made an additional contribution in African Trading Spirit 309 (Proprietary) Limited. | | |
| Maravedi Group (Proprietary) Limited | **7** | n/a |
| On 20 November 2007, the Company acquired an additional interest in Maravedi Group (Proprietary) Limited. | | |
| Persistant Properties (Proprietary) Limited | **8** | n/a |
| On 29 August 2007, the Company acquired a 50,0% interest in Persistant Properties (Proprietary) Limited. Thereafter, additional contributions were made to such interest. | | |
| Agrista (Proprietary) Limited | **0** | n/a |
| On 1 February 2007, the Company acquired a 46,5% interest in Agrista (Proprietary) Limited. | | |
| Northern Lights Trading 197 (Proprietary) Limited | **70** | n/a |
| During the year, the Company acquired a 50,0% interest in Northern Lights Trading 197 (Proprietary) Limited. | | |
| RZT Zelpy 4809 (Proprietary) Limited | **30** | n/a |
| On 1 November 2007, the Company acquired a 25,0% interest in RZT Zelpy 4809 (Proprietary) Limited. | | |
| Barrie Island Property Investments (Proprietary) Limited | **3** | n/a |
| During December 2007, the Company acquired a 40,0% interest in Barrie Island Property Investments (Proprietary) Limited. | | |
| Blue Nightingale 608 (Proprietary) Limited | **32** | n/a |
| During December 2007, the Company acquired a 30,0% interest in Blue Nightingale 608 (Proprietary) Limited. | | |
| Maxcity Properties (Proprietary) Limited | **38** | n/a |
| On 13 December 2007, the Company acquired a 40,0% interest in Maxcity Properties (Proprietary) Limited. | | |
| **Balance carried forward** | **649** | n/a |

| | COMPANY 2007 Rm | 2006 Rm |
|---|---|---|
| **13. Investments in associated undertakings and joint venture companies** *(continued)* | | |
| **13.4 Acquisitions and disposals** *(continued)* | | |
| **Balance brought forward** | **649** | n/a |
| **The following acquisitions were concluded during the previous year, at cost:** | | |
| Paramount Property Fund Limited | **n/a** | 57 |
| On 1 April 2006, the Company acquired a further interest in Paramount Property Fund Limited. | | |
| Ballito Junction Development (Proprietary) Limited | **n/a** | 35 |
| The investment in Ballito Junction Development (Proprietary) Limited was recognised as an associate from 1 January 2006. | | |
| Ambit Properties Limited | **n/a** | 146 |
| On 1 April 2006, the Company acquired an additional 3,6% interest in Ambit Properties Limited. This increased the Company's shareholding to 21,3%. | | |
| Campus on Rigel (Proprietary) Limited | **n/a** | 0 |
| On 21 April 2006, the Company acquired a 33,3% interest in Campus on Rigel (Proprietary) Limited. | | |
| Abseq Properties (Proprietary) Limited | **n/a** | 133 |
| On 1 April 2006, the Company acquired a 50,0% interest in Abseq Properties (Proprietary) Limited. | | |
| African Trading Spirit 309 (Proprietary) Limited | **n/a** | 20 |
| On 1 November 2006, the Company acquired a 50,0% interest in African Trading Spirit 309 (Proprietary) Limited. | | |
| Palm Hill Property Investments (Proprietary) Limited | **n/a** | 0 |
| On 1 November 2006, the Company acquired a 40,0% interest in Palm Hill Property Investments (Proprietary) Limited. | | |
| **Total acquisitions** | **649** | 391 |
| **The following disposals were concluded during the year:** | | |
| Axial Finance (Proprietary) Limited | **(0)** | n/a |
| On 16 February 2007, the Company sold its shares in Axial Finance (Proprietary) Limited to a third party. | | |
| Ambit Properties Limited | **(0)** | n/a |
| On 16 July 2007, the Company sold a share in Ambit Properties Limited to a third party. | | |
| Ambit Management Services (Proprietary) Limited | **(0)** | n/a |
| Ambit Management Services (Proprietary) Limited is now recognised as a subsidiary. | | |
| **The following disposals were concluded during the previous year:** | | |
| Paramount Property Fund Limited | **n/a** | (300) |
| On 17 October 2006, the Company sold its share in Paramount Property Fund Limited to a third party. | | |
| Conbros Limited | **n/a** | (24) |
| Conbros Limited was recognised as a subsidiary during 2006. | | |
| **Total disposals** | **(0)** | (324) |
| **Net acquisition (refer to note 13.1)** | **649** | 67 |
| **13.5 Details of the net assets acquired on the aforementioned acquisitions are as follows:** | | |
| Purchase consideration | | |
| Cash paid | **378** | 174 |
| Sale of property and equipment | **303** | — |
| Transfer of investments to associates | **—** | 217 |
| Elimination of profits to the extent of interest in Ambit Properties Limited | **(32)** | — |
| | **649** | 391 |
| For further information on the Company's associated undertakings and joint venture companies, refer to note 43 of the Bank's financial statements. | | |

# Notes to the Company financial statements

Year ended 31 December

| | COMPANY 2007 Rm | 2006 Rm |
|---|---|---|
| **13. Investments in associated undertakings and joint venture companies** *(continued)* | | |
| **13.6 Details of the net assets disposed of on the aforementioned disposals are as follows:** | | |
| Consideration received | | |
| Cash received | — | 360 |
| Consideration in shares | — | 107 |
| Profit on disposal (Paramount) | — | (167) |
| Transferred to subsidiaries (Conbros) | — | 24 |
| | — | 324 |
| **14. Subsidiaries** | | |
| Shares at cost | **427** | 447 |
| Dividends receivable | **228** | 889 |
| Loans to subsidiary companies | **2 252** | 1 704 |
| | **2 907** | 3 040 |

## 15. Intangible assets

| | COMPANY 2007 Cost Rm | 2007 Accumulated amortisation and impairments Rm | 2007 Carrying value Rm | 2006 Cost Rm | 2006 Accumulated amortisation and impairments Rm | 2006 Carrying value Rm |
|---|---|---|---|---|---|---|
| Computer software development costs | **327** | **(226)** | **101** | 177 | (142) | 35 |

**Reconciliation of intangible assets**

| **2007** | **Opening balance Rm** | **Additions Rm** | **Amortisation Rm** | **Impairment charge Rm** | **Total Rm** |
|---|---|---|---|---|---|
| Computer software development costs | **35** | **150** | **(63)** | **(21)** | **101** |

| 2006 | Opening balance Rm | Additions Rm | Amortisation Rm | Impairment charge Rm | Total Rm |
|---|---|---|---|---|---|
| Computer software development costs | — | 119 | (18) | (66) | 35 |

## 16. Property and equipment

| | COMPANY 2007 Cost Rm | 2007 Accumulated depreciation Rm | 2007 Carrying value Rm | 2006 Cost Rm | 2006 Accumulated depreciation Rm | 2006 Carrying value Rm |
|---|---|---|---|---|---|---|
| Computer equipment | **2 882** | **(1 489)** | **1 393** | 3 071 | (1 877) | 1 194 |
| Freehold property | **1 615** | **(154)** | **1 461** | 1 162 | (128) | 1 034 |
| Furniture and other equipment | **2 936** | **(1 697)** | **1 239** | 2 807 | (1 765) | 1 042 |
| Leasehold property | **490** | **(350)** | **140** | 490 | (324) | 166 |
| Motor vehicles | **3** | **(3)** | **—** | 3 | (3) | — |
| | **7 926** | **(3 693)** | **4 233** | 7 533 | (4 097) | 3 436 |

## 16. Property and equipment *(continued)*

**Reconciliation of property and equipment**

**COMPANY**

| **2007** | **Opening balance Rm** | **Additions Rm** | **Disposals Rm** | **Foreign exchange movements Rm** | **Depreciation Rm** | **Total Rm** |
|---|---|---|---|---|---|---|
| Computer equipment | **1 194** | **708** | **(48)** | **—** | **(461)** | **1 393** |
| Freehold property | **1 034** | **466** | **(9)** | **—** | **(30)** | **1 461** |
| Furniture and other equipment | **1 042** | **508** | **(87)** | **—** | **(224)** | **1 239** |
| Leasehold property | **166** | **—** | **—** | **—** | **(26)** | **140** |
| | **3 436** | **1 682** | **(144)** | **—** | **(741)** | **4 233** |

| 2006 | Opening balance Rm | Additions Rm | Disposals Rm | Foreign exchange movements Rm | Depreciation Rm | Total Rm |
|---|---|---|---|---|---|---|
| Computer equipment | 1 099 | 495 | (23) | — | (377) | 1 194 |
| Freehold property | 943 | 126 | (7) | 2 | (30) | 1 034 |
| Furniture and other equipment | 928 | 435 | (50) | 1 | (272) | 1 042 |
| Leasehold property | 192 | — | — | — | (26) | 166 |
| Motor vehicles | 1 | — | — | — | (1) | — |
| | 3 163 | 1 056 | (80) | 3 | (706) | 3 436 |

Leasehold property and computer equipment with a carrying value of R36 million (2006: R98 million) are encumbered under finance leases (refer to note 23).

In terms of the Companies Act No 61 of 1973 (as amended), of South Africa, details regarding freehold property are kept at each company's registered office, and this information will be made available to shareholders on written request.

| | **COMPANY 2007 Rm** | 2006 Rm |
|---|---|---|
| **17. Deposits from banks** | | |
| Deposits from banks | **65 299** | 29 452 |
| *Portfolio analysis* | | |
| Designated at fair value | **28 603** | — |
| Financial liabilities at amortised cost | **36 696** | 29 452 |
| | **65 299** | 29 452 |

All deposits from banks have variable interest rates.

Included above are deposits with the Company's ultimate parent company of R16 254 million (2006: R8 420 million). Refer to note 40 for the full disclosure of related party transactions.

Included in the above balance are repurchase agreements to the value of R28 603 million (2006: R9 423 million). Refer to note 41 of the Bank's financial statements for further details.

*Certain comparatives have been reclassified in terms of Annexure A.*

| | COMPANY 2007 Rm | 2006 Rm |
|---|---|---|
| **18. Trading liabilities and hedging liabilities** | | |
| Derivative liabilities (refer to note 58 of the Bank's financial statements) | **22 043** | 15 573 |
| Commodity derivatives | **2 183** | 1 429 |
| Credit derivatives | **14** | 5 |
| Equity derivatives | **1 560** | 1 302 |
| Foreign exchange derivatives | **7 748** | 7 428 |
| Interest rate derivatives | **10 538** | 5 409 |
| Trading liabilities | **904** | 566 |
| Total trading liabilities | **22 947** | 16 139 |
| Hedging liabilities (refer to note 58 of the Bank's financial statements) | **2 226** | 1 257 |
| | **25 173** | 17 396 |
| *Portfolio analysis* | | |
| Derivatives designated as cash flow hedging instruments | **1 626** | 661 |
| Derivatives designated as fair value hedging instruments | **600** | 596 |
| Held for trading | **22 947** | 16 139 |
| Derivative liabilities | **22 043** | 15 573 |
| Trading liabilities | **904** | 566 |
| | **25 173** | 17 396 |

Included in trading liabilities are derivative liabilities with the Company's ultimate parent company of R5 496 million (2006: R1 237 million). Refer to note 40 for the full disclosure of related party transactions.

*Certain comparatives have been reclassified in terms of Annexure A.*

| | COMPANY 2007 Rm | 2006 Rm |
|---|---|---|
| **19. Other liabilities and sundry provisions** | | |
| Audit fee accrual | **20** | 16 |
| Creditors, other accruals and sundry provisions | **4 917** | 3 769 |
| Deferred income | **112** | 126 |
| Leave pay accrual | **476** | 418 |
| Liabilities under finance leases (refer to note 23) | **884** | 908 |
| Settlement balances | **1 217** | 780 |
| Share-based payment liability (refer to note 49 of the Bank's financial statements) | **195** | 78 |
| Staff bonus and incentive accrual | **1 501** | 1 215 |
| | **9 322** | 7 310 |
| *Portfolio analysis* | | |
| Designated at fair value | **234** | — |
| Financial liabilities at amortised cost | **8 011** | 6 275 |
| Non-financial liabilities | **1 077** | 1 035 |
| | **9 322** | 7 310 |

Included above are settlement accounts with the Company's ultimate parent company for R121 million (2006: Rnil). Refer to note 40 for the full disclosure of related party transactions.

| | COMPANY | |
|---|---|---|
| | **2007 Rm** | 2006 Rm |
| **20. Deposits due to customers** | | |
| Call deposits | **45 726** | 42 168 |
| Cheque account deposits | **94 776** | 88 774 |
| Credit card deposits | **2 173** | 2 291 |
| Fixed deposits | **101 925** | 91 000 |
| Foreign currency deposits | **8 330** | 12 001 |
| Liabilities to clients under acceptances | **108** | 20 |
| Notice deposits | **6 863** | 6 879 |
| Other deposits | **999** | 1 067 |
| Repurchase agreements with non-banks (refer to note 41 of the Bank's financial statements) | **1 115** | — |
| Saving and transmission deposits | **35 270** | 25 396 |
| | **297 285** | 269 596 |
| *Portfolio analysis* | | |
| Designated at fair value | **11 465** | 278 |
| Financial liabilities at amortised cost | **283 298** | 265 318 |
| Hedged items in fair value hedging relationship | **2 522** | 4 000 |
| | **297 285** | 269 596 |

*Certain comparatives have been reclassified in terms of Annexure A.*

| | | |
|---|---|---|
| **21. Debt securities in issue** | | |
| Customers | **116 934** | 73 526 |
| Floating rate notes | **33 185** | 13 962 |
| Negotiable certificates of deposit | **62 509** | 43 496 |
| Other debt securities in issue | **14 939** | — |
| Promissory notes | **6 301** | 16 068 |
| Banks | **17 089** | 10 340 |
| Floating rate notes | **2 764** | — |
| Negotiable certificates of deposit | **13 416** | 5 829 |
| Promissory notes | **909** | 4 511 |
| | **134 023** | 83 866 |
| *Portfolio analysis* | | |
| Designated at fair value | | |
| Other debt securities in issue | **3 764** | — |
| Financial liabilities at amortised cost | **124 296** | 83 866 |
| Floating rate notes | **35 949** | 13 962 |
| Negotiable certificates of deposit | **75 925** | 49 325 |
| Other debt securities in issue | **5 212** | — |
| Promissory notes | **7 210** | 20 579 |
| Hedged item in fair value hedging relationship | | |
| Other debt securities in issue | **5 963** | — |
| | **134 023** | 83 866 |

*Certain comparatives have been reclassified in terms of Annexure A.*

| | | COMPANY 2007 Rm | COMPANY 2006 Rm |
|---|---|---|---|
| **22. Borrowed funds** | | | |
| **22.1 Subordinated callable notes** | | | |
| The subordinated debt instruments listed below qualify as secondary capital in terms of the Banks Act, No 94 of 1990 (as amended). | | | |
| **Interest rate** | **Final maturity date** | | |
| 14,25% | 22 March 2014 | **3 100** | 3 100 |
| 10,75% | 26 March 2015 | **1 100** | 1 100 |
| Three-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** | 2 000 |
| 8,80% | 7 March 2019 | **1 725** | — |
| Accrued interest | | **297** | 253 |
| Fair value adjustment[1] | | **(326)** | (85) |
| | | **9 796** | 8 268 |

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 each year, on the basis that the last date for payment shall be 22 March 2009. Should the note not be redeemed on 22 March 2009, interest will be paid quarterly in arrear thereafter on 22 March, 22 June, 22 September and 22 December, with the first quarterly payment commencing on 22 June 2009.

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

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

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

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.

[1] *The fair value adjustment relates to subordinated callable notes designated as hedged items in a hedging relationship.*

| | COMPANY | |
|---|---|---|
| | **2007 Rm** | 2006 Rm |
| **22. Borrowed funds** *(continued)* | | |
| **22.1 Subordinated callable notes** *(continued)* | | |
| The 8,80% notes may be redeemed in full at the option of Absa Bank Limited on 7 March 2019. Interest is paid semi-annually in arrear on 7 March and 7 September of each year, provided that the last date for payment shall be 7 March 2019. If Absa Bank Limited does not exercise the redemption option, interest is payable thereafter at a floating rate of three-month JIBAR plus 0,92% quarterly in arrear on 7 March, 7 June, 7 September and 7 December. These notes were issued on 7 March 2007. | | |
| These notes are listed on the Bond Exchange of South Africa. Preliminary expenses relating to the placement of notes were capitalised and are expensed on a systematic basis over the period of the notes. | | |
| *Portfolio analysis* | | |
| Financial liabilities at amortised cost | **4 951** | 5 900 |
| Hedged item in fair value hedging relationship | **4 845** | 2 368 |
| | **9 796** | 8 268 |
| **23. Liabilities under finance leases** | | |
| **Minimum lease payments due** | | |
| Less than one year | **230** | 199 |
| Between one and two years | **252** | 221 |
| Between two and three years | **223** | 243 |
| Between three and four years | **231** | 222 |
| Between four and five years | **257** | 231 |
| More than five years | **240** | 497 |
| | **1 433** | 1 613 |
| **Less interest** | | |
| Less than one year | **(148)** | (156) |
| Between one and two years | **(130)** | (147) |
| Between two and three years | **(108)** | (130) |
| Between three and four years | **(86)** | (108) |
| Between four and five years | **(55)** | (86) |
| More than five years | **(22)** | (78) |
| | **(549)** | (705) |
| **Principal** | | |
| Less than one year | **82** | 43 |
| Between one and two years | **122** | 74 |
| Between two and three years | **115** | 113 |
| Between three and four years | **145** | 114 |
| Between four and five years | **202** | 145 |
| More than five years | **218** | 419 |
| **Present value of minimum lease payments (refer to note 19)** | **884** | 908 |

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

Refer to note 16 for details of property and equipment subject to finance leases.

# Notes to the Company financial statements

Year ended 31 December

| | COMPANY 2007 Rm | 2006 Rm |
|---|---|---|
| **24. Share capital and premium** | | |
| **24.1 Ordinary share capital** | | |
| **Authorised** | | |
| 320 000 000 (2006: 320 000 000) ordinary shares of R1,00 each | **320** | 320 |
| 250 000 000 (2006: 250 000 000) "A" ordinary shares of R0,01 each | **3** | 3 |
| | **323** | 323 |
| **Issued** | | |
| 302 609 359 (2006: 302 609 359) ordinary shares of R1,00 each | **303** | 303 |
| 34 676 057 (2006: 34 676 057) "A" ordinary shares of R0,01 each | **0** | 0 |
| | **303** | 303 |
| **Total issued capital** | | |
| Share capital | **303** | 303 |
| Share premium | **5 415** | 5 415 |
| | **5 718** | 5 718 |

*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 the balance sheet date, 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 Absa Group Limited annual general meeting.

*Shares issued during the previous year*

On 10 March 2006, 4 394 961 "A" ordinary shares were issued at a par value of R0,01 and R170,64 share premium, on payment of a R750 million special dividend to Absa Group Limited (refer to note 39).

All shares issued by the Company are paid in full.

| | COMPANY 2007 Rm | 2006 Rm |
|---|---|---|
| **24.2 Preference share capital – listed** | | |
| **Authorised** | | |
| 30 000 000 (2006: 30 000 000) non-cumulative non-redeemable preference shares of R0,01 each | **1** | 1 |
| **Issued** | | |
| 4 944 839 (2006: 3 000 000) non-cumulative non-redeemable preference shares of R0,01 each | **1** | 1 |
| **Total issued capital** | | |
| Share capital | **1** | 1 |
| Share premium | **4 643** | 2 991 |
| | **4 644** | 2 992 |

The holders of such shares shall not be entitled to voting rights unless a declared preference dividend remains in arrear 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.

## 24. Share capital and premium *(continued)*

### 24.2 Preference share capital – listed *(continued)*

*Shares issued during the year*

The following non-cumulative, non-redeemable preference shares were issued by Absa Bank Limited during the year by way of a private placement on the JSE to raise cost-effective permanent share capital as part of a general capital management programme to provide the Company with funding for strategic initiatives:

- On 4 April 2007, 1 681 184 shares at R847,34 per share, being R0,01 par value and R847,33 share premium.
- On 8 May 2007, 74 381 shares at R878,87 per share, being R0,01 par value and R878,86 share premium.
- On 12 June 2007, 31 223 shares at R894,19 per share, being R0,01 par value and R894,18 share premium.
- On 10 July 2007, 105 520 shares at R895,11 per share, being R0,01 par value and R895,10 share premium.
- On 7 August 2007, 23 994 shares at R887,90 per share, being R0,01 par value and R887,89 share premium.
- On 11 September 2007, 28 537 shares at R842,33 per share, being R0,01 par value and R842,32 share premium.

*Shares issued during the previous year*

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

## 25. Other reserves

**Foreign currency 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.

**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 hedge reserve**

The cash flow hedge 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.

**Regulatory general credit risk reserve**

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

**Share-based payment reserve**

The reserve comprises the credit to equity for equity-settled share-based payment arrangements in terms of IFRS 2 – Share-based payment. The standard requires that the expense be charged to the income statement, while a credit needs to be raised against equity over the vesting period (ie, the period between the allocation date and the date on which employees will become entitled to their options). When options are exercised, the reserve related to the specific options are transferred to share capital and/or share premium. If the options lapse before vesting, the related reserve is transferred to retained earnings.

# Notes to the Company financial statements

Year ended 31 December

| | COMPANY 2007 Rm | 2006 Rm |
|---|---|---|
| **26. Interest and similar income** | | |
| Interest and similar income is earned from: | | |
| Cash, cash balances and balances with central banks | **108** | 68 |
| Fair value adjustments on hedging instruments | **(547)** | (31) |
| Loans and advances to banks (refer to note 26.1) | **2 301** | 614 |
| Loans and advances to customers (refer to note 26.2) | **47 191** | 33 098 |
| Net other interest | **397** | 235 |
| Statutory liquid asset portfolio | **1 656** | 1 487 |
| | **51 106** | 35 471 |
| *Portfolio analysis* | | |
| Fair value adjustments on hedged instruments | | |
| Statutory liquid assets portfolio (refer to note 58 of the Bank's financial statements) | **(343)** | (39) |
| Fair value adjustments on hedging instruments | **(547)** | (31) |
| Cash flow hedges | **(1 004)** | (99) |
| Fair value hedges (refer to note 58 of the Bank's financial statements) | **457** | 68 |
| Interest on financial assets held at amortised cost | **51 858** | 35 163 |
| Interest on financial assets designated at fair value | | |
| Statutory liquid asset portfolio | **138** | 369 |
| Other fair value adjustments | | |
| Loans and advances | **—** | 9 |
| | **51 106** | 35 471 |
| **26.1 Loans and advances to banks** | | |
| Other | **2 189** | 559 |
| Parent company (refer to note 43 of the Bank's financial statements) | **18** | 13 |
| Ultimate parent company (refer to note 43 of the Bank's financial statements) | **94** | 42 |
| | **2 301** | 614 |
| **26.2 Loans and advances to customers** | | |
| Cheque accounts | **2 475** | 1 799 |
| Corporate overdrafts and specialised finance loans | **650** | 532 |
| Credit cards | **2 134** | 1 340 |
| Foreign currency loans | **653** | 757 |
| Instalment credit agreements | **6 963** | 5 380 |
| Interest on impaired assets (refer to note 9) | **271** | 119 |
| Microloans | **314** | 248 |
| Mortgages | **27 683** | 18 402 |
| Other advances[1] | **848** | 1 073 |
| Overnight finance | **1 147** | 539 |
| Personal loans | **2 649** | 1 811 |
| Preference shares | **286** | 221 |
| Wholesale overdrafts | **1 118** | 877 |
| | **47 191** | 33 098 |

*Certain comparatives have been reclassified in terms of Annexure A.*

[1]*Includes items such as interest on factored debtors' books and interest on loans to associates.*

| | COMPANY 2007 Rm | 2006 Rm |
|---|---|---|
| **27. Interest expense and similar charges** | | |
| Interest expense and similar charges are paid on: | | |
| Borrowed funds | **796** | 746 |
| Debt securities in issue | **10 905** | 5 402 |
| Deposits from banks (refer to note 27.1) | **1 235** | 1 021 |
| Deposits due to customers (refer to note 27.2) | **20 237** | 14 495 |
| Fair value adjustments on hedging instruments | **560** | 150 |
| Interest incurred on finance leases | **156** | 161 |
| | **33 889** | 21 975 |
| *Portfolio analysis* | | |
| Fair value adjustments on hedged items (refer to note 58 of the Bank's financial statements) | **(417)** | (121) |
| Borrowed funds | **(241)** | (97) |
| Debt securities in issue | **(176)** | (24) |
| Fair value adjustments on hedging instruments (refer to note 58 of the Bank's financial statements) | | |
| Fair value hedges | **560** | 150 |
| Interest paid on financial liabilities held at amortised cost | **33 746** | 21 946 |
| | **33 889** | 21 975 |
| **27.1 Deposits from banks** | | |
| Other | **985** | 878 |
| Ultimate parent company (refer to note 43 of the Bank's financial statements) | **250** | 143 |
| | **1 235** | 1 021 |
| **27.2 Deposits due to customers** | | |
| Call deposits | **4 075** | 3 331 |
| Cheque account deposits | **4 548** | 3 550 |
| Credit card deposits | **63** | 61 |
| Fixed deposits | **8 675** | 5 569 |
| Foreign currency deposits | **1 266** | 677 |
| Notice deposits | **470** | 337 |
| Other deposits | **7** | 444 |
| Saving and transmission deposits | **1 133** | 526 |
| | **20 237** | 14 495 |

*Certain comparatives have been reclassified in terms of Annexure A.*

| | COMPANY 2007 Rm | 2006 Rm |
|---|---|---|
| **28. Net fee and commission income** | | |
| **Fee and commission income** | | |
| Credit-related fees and commissions | **9 734** | 8 679 |
| Credit cards | **1 543** | 1 383 |
| Cheque accounts | **2 536** | 2 384 |
| Electronic banking | **2 657** | 2 248 |
| Other | **1 203** | 1 153 |
| Saving accounts | **1 795** | 1 511 |
| Corporate finance fees | **293** | 142 |
| External administration fees | **192** | 157 |
| Insurance commission received | **346** | 453 |
| Portfolio and other management fees | **16** | 16 |
| Unit and property trust income | **12** | 17 |
| | **10 593** | 9 464 |
| **Fee and commission expense** | | |
| Fees and commissions paid | **(567)** | (523) |
| | **10 026** | 8 941 |
| **28.1 Net fee and commission linked to financial instruments not at fair value** | | |
| **Fee and commission income** | | |
| Credit cards | **740** | 703 |
| Cheque accounts | **2 536** | 2 384 |
| Electronic banking | **2 657** | 2 248 |
| Other | **476** | 720 |
| Saving accounts | **1 795** | 1 511 |
| | **8 204** | 7 566 |
| **Fee and commission expense** | | |
| Fees and commissions paid | **(147)** | (136) |
| | **8 057** | 7 430 |
| **28.2 Trust and other fiduciary activities** | | |
| Portfolio and other management fees | **16** | 16 |
| Unit and property trust income | **12** | 17 |
| | **28** | 33 |

The Company provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involves the Company making allocation, purchase and sale decisions in relation to a wide range of financial instruments. Some of these arrangements involve the Company accepting targets for benchmark levels of returns for the assets under the Company's care.

*Certain comparatives have been reclassified in terms of Annexure A.*

| | COMPANY | |
|---|---|---|
| | **2007** **Rm** | 2006 Rm |
| **29. Gains and losses from banking and trading activities** | | |
| Designated at fair value | **953** | (105) |
| Debt instruments | **2** | — |
| Debt securities in issue | **(112)** | 1 |
| Equity instruments | **856** | 430 |
| Loans and advances and deposits to customers | **261** | (381) |
| Statutory liquid assets | **(54)** | (155) |
| Associated undertakings and joint venture companies | | |
| (Loss)/profit realised on disposal | **(6)** | 167 |
| Held for trading | | |
| Derivatives and trading instruments | **507** | 1 173 |
| Ineffective hedges | **79** | (1) |
| Cash flow hedges (refer to note 58 of the Bank's financial statements) | **(60)** | (5) |
| Fair value hedges | **139** | 4 |
| | **1 533** | 1 234 |

*Certain comparatives have been reclassified in terms of Annexure A.*

| | | |
|---|---|---|
| **30. Gains and losses from investment activities** | | |
| Designated at fair value | | |
| Equity instruments | **43** | 94 |
| Subsidiaries | **533** | 834 |
| Dividends received | **497** | 587 |
| Profit realised on disposal | **36** | 247 |
| Associated undertakings and joint venture companies | | |
| Dividends received | **3** | — |
| | **579** | 928 |
| **31. Other operating income** | | |
| Exchange differences on operational activities | **93** | 72 |
| Internal banking income[1] | **284** | 222 |
| Profit on disposal of internally generated intangibles | **68** | — |
| Profit on disposal of property and equipment | **80** | 11 |
| Property rental | **92** | 89 |
| Sundry income[2] | **141** | 379 |
| | **758** | 773 |

*Certain comparatives have been reclassified in terms of Annexure A.*

*[1]Internal banking income includes fees and commission income earned from transactions with Absa Group Limited as well as the Company's ultimate parent company of R3 million (2006: R25 million). Refer to note 40 for the full disclosure of related party transactions.*

*[2]Sundry income includes service fees levied on sundry non-core business activities.*

# Notes to the Company financial statements

Year ended 31 December

| | COMPANY 2007 Rm | COMPANY 2006 Rm |
|---|---|---|
| **32. Operating expenses** | | |
| Amortisation on intangible assets (refer to note 15) | **63** | 18 |
| Auditors' remuneration | **50** | 52 |
| Audit fees | **46** | 43 |
| Other fees | **4** | 9 |
| Cash transportation | **268** | 227 |
| Depreciation (refer to note 16) | **741** | 706 |
| Computer equipment | **461** | 377 |
| Furniture and other equipment | **224** | 272 |
| Freehold property | **30** | 30 |
| Leasehold property | **26** | 26 |
| Motor vehicles | **—** | 1 |
| Equipment rental and maintenance | **257** | 221 |
| Information technology | **1 076** | 1 062 |
| Marketing costs | **885** | 726 |
| Operating lease expense | **761** | 696 |
| Other operating costs | **1 177** | 1 134 |
| Other professional fees | **1 205** | 987 |
| Printing and stationery | **274** | 231 |
| Staff costs (refer to note 33) | **9 038** | 7 810 |
| Telephone and postage | **610** | 533 |
| | **16 405** | 14 403 |

*Certain comparatives have been reclassified in terms of Annexure A.*

| | COMPANY 2007 Rm | COMPANY 2006 Rm |
|---|---|---|
| **33. Staff costs (refer to note 32)** | | |
| Bonuses | **1 414** | 1 353 |
| Employer contributions to post-retirement funds | **525** | 427 |
| Other staff costs | **340** | 282 |
| Salaries | **6 426** | 5 474 |
| Share-based payments (refer to note 49 of the Bank's financial statements) | **186** | 150 |
| Training costs | **147** | 124 |
| | **9 038** | 7 810 |
| Average number of employees employed by the Company | **32 167** | 30 876 |
| Number of employees employed by the Company at year-end | **32 843** | 31 490 |
| **34. Non-credit related impairments** | | |
| Financial instruments | | |
| Available-for-sale instruments (refer to note 12.1) | **—** | (4) |
| Other | **58** | 76 |
| Computer software development costs (refer to note 15) | **21** | 66 |
| Investments in associated undertakings and joint venture companies (refer to note 13.1) | **—** | 10 |
| Repossessed properties | **37** | — |
| | **58** | 72 |

During the year under review and the prior year indications existed that the carrying amount of certain computer software capitalised may neither be recoverable through future economic benefits to the Company nor through sale. These assets have consequently been impaired.

During the year under review an assessment was performed on the net realisable value of repossessed properties. It was concluded that the costs of the properties exceed their net realisable value and consequently these properties were impaired.

The current year's impairment losses are reported in the following segments:

- Repossessed properties are reported in the retail banking segment.
- Impairments on computer software development costs are reported in the other segment.

| | COMPANY | |
|---|---|---|
| | **2007 Rm** | 2006 Rm |
| **34. Non-credit related impairments** *(continued)* | | |
| Impairment losses in the 2006 financial year were reported in the following segments: | | |
| • Computer software development costs were reported in the Africa market segment. | | |
| • Investments in associated undertakings and joint venture companies were reported in the ACBB segment. | | |
| • Available-for-sale instruments and computer software development costs were reported in the other segment. | | |
| **35. Indirect taxation** | | |
| Payments to third parties | **35** | 86 |
| Regional Services Council Levies[1] | **—** | 45 |
| Training levy | **66** | 49 |
| Value-added tax net of input credits | **540** | 614 |
| | **641** | 794 |
| **36. Taxation expense** | | |
| **Current** | | |
| South African current taxation | **2 510** | 2 105 |
| South African current taxation – prior year | **(16)** | 26 |
| Secondary taxation on companies | **182** | 135 |
| Foreign taxation | **189** | 58 |
| | **2 865** | 2 324 |
| **Deferred** | | |
| Deferred taxation (refer to notes 11.1 and 36.1) | **274** | 9 |
| | **3 139** | 2 333 |
| **Reconciliation between accounting profit and the tax expense is as follows:** | | |
| Operating profit before income tax | **10 829** | 8 635 |
| Tax calculated at tax rate of 29% | **3 141** | 2 504 |
| Effect of different tax rates in other countries | **(23)** | 53 |
| Income not subject to tax | **(438)** | (510) |
| Expenses not deductible for tax purposes | **292** | 151 |
| Secondary taxation on companies | **182** | 135 |
| Other | **(15)** | — |
| | **3 139** | 2 333 |
| **36.1 The deferred tax charge in the income statement comprises the following temporary differences:** | | |
| Allowances for loan losses | **(75)** | (73) |
| Accelerated tax depreciation | **174** | 26 |
| Other provisions | **(21)** | (186) |
| Other temporary differences | **196** | 242 |
| | **274** | 9 |

[1]*Regional Services Council Levies were abolished from 1 July 2006.*

# Notes to the Company financial statements

Year ended 31 December

| | COMPANY 2007 Rm | 2006 Rm |
|---|---|---|
| **37. Earnings per share** | | |
| **Basic earnings per share** | | |
| Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. | | |
| Profit attributable to ordinary equity holder of the Company | **7 377** | 6 229 |
| Weighted average number of ordinary shares in issue (millions) | **337,3** | 336,3 |
| Issued shares at the beginning of the year (millions) | **337,3** | 332,9 |
| Effect of shares issued during the year (weighted millions) | **—** | 3,4 |
| **Basic earnings per share (cents)** | **2 187,1** | 1 852,2 |
| **Diluted earnings per share (cents)** | **2 187,1** | 1 852,2 |

## 38. Headline earnings

| | COMPANY 2007 Gross Rm | 2007 Net[1] Rm | 2006 Gross Rm | 2006 Net[1] Rm |
|---|---|---|---|---|
| **Headline earnings is determined as follows:** | | | | |
| Net profit attributable to ordinary equity holder of the Company | | **7 377** | | 6 229 |
| **Adjustments for:** | | | | |
| IAS 16 – Net profit on disposal of property and equipment (refer to note 31) | **(80)** | **(57)** | (11) | (8) |
| IAS 21 – Recycled foreign currency translation reserve, disposal of investments in foreign operations | **(25)** | **(30)** | — | — |
| IAS 28 and 31 – Net loss/(profit) on disposal of associated undertakings and joint venture companies (refer to note 29) | **6** | **6** | (167) | (113) |
| IAS 28 – Impairment of associated undertakings and joint venture companies (refer to note 34) | **—** | **—** | 10 | 7 |
| IAS 38 – Net (profit)/loss on disposal and impairment of intangible assets (refer to notes 31 and 34) | **(47)** | **(43)** | 66 | 47 |
| IAS 39 – Release of available-for-sale reserves | **47** | **33** | (370) | (319) |
| IAS 39 – Impairment of available-for-sale-assets (refer to note 34) | **—** | **—** | (4) | (3) |
| **Headline earnings** | | **7 286** | | 5 840 |
| **Diluted headline earnings** | | **7 286** | | 5 840 |
| **Headline earnings per share (cents)** | | **2 160,3** | | 1 736,5 |
| **Diluted headline earnings per share (cents)** | | **2 160,3** | | 1 736,5 |

[1] *The net amount is reflected after taxation.*

| | COMPANY | |
|---|---|---|
| | **2007 Rm** | 2006 Rm |
| **39. Dividends per share** | | |
| **Dividends paid to ordinary equity holder during the year** | | |
| February 2007 final dividend number 41 of 208,2 cents per ordinary share (February 2006: 248,8 cents) | **630** | 753 |
| September 2007 interim dividend number 42 of 465,9 cents per ordinary share (September 2006: 383,7 cents) | **1 409** | 1 161 |
| | **2 039** | 1 914 |
| **Dividends paid to ordinary equity holder relating to income for the year** | | |
| September 2007 interim dividend number 42 of 465,9 cents per ordinary share (September 2006: 383,7 cents) | **1 409** | 1 161 |
| February 2008 final dividend number 43 of 323,8 cents per ordinary share (February 2007: 208,2 cents) | **980** | 630 |
| | **2 389** | 1 791 |
| A final dividend of 323,8 cents per ordinary share was approved by the board on 19 February 2008. The total dividend amounts to R980 million and the STC payable by the Company in respect of the dividend approved and declared subsequent to the balance sheet date, amounts to R98 million. No provision has been made for this dividend and the related STC in the financial statements for the year ended 31 December 2007. | | |
| **Dividends paid to preference equity holders during the year** | | |
| February 2007 final dividend number 2 of 3 784,3 cents per preference share (February 2006: Rnil) | **114** | — |
| September 2007 interim dividend number 3 of 4 056,0 cents per preference share (September 2006: 2 435,42 cents) | **199** | 73 |
| | **313** | 73 |
| **Dividends paid to preference equity holders relating to income for the year** | | |
| September 2007 interim dividend number 3 of 4 056,0 cents per preference share (September 2006: 2 435,42 cents) | **199** | 73 |
| February 2008 final dividend number 4 of 4 453,9 cents per preference share (February 2007: 3 784,3 cents) | **219** | 114 |
| | **418** | 187 |

A final dividend of 4 453,9 cents per preference share was approved by the board on 19 February 2008. The total dividend amounts to R219 million and the STC payable by the Company in respect of the dividend approved and declared subsequent to the balance sheet date amounts to R22 million. No provision has been made for this dividend and the related STC in the financial statements for the year ended 31 December 2007.

## 40. Related parties

Refer to note 43 of the Bank's financial statements for the disclosure of related party transactions.

| | COMPANY | |
|---|---|---|
| | **2007 Rm** | 2006 Rm |
| **41. Managed funds** | | |
| Other | **2 111** | 2 111 |
| Portfolio management | **1 420** | 1 340 |
| Unit trusts | **155** | 145 |
| | **3 686** | 3 596 |
| **42. Financial guarantee contracts** | | |
| Financial guarantee contracts | **824** | 560 |

Financial guarantee contracts represent contracts where the Company undertakes to make specified payments to a counterparty, should the counterparty suffer a loss as a result of a specified debtor failing to make payment when due in accordance with the terms of a debt instrument.

| | COMPANY | |
|---|---|---|
| | **2007 Rm** | 2006 Rm |
| **43. Commitments** | | |
| **Authorised capital expenditure** | | |
| Contracted but not provided for | **83** | 116 |

The Company has capital commitments in respect of computer equipment and property purchases. Management is confident that future net revenues and funding will be sufficient to cover these commitments.

| | COMPANY | |
|---|---|---|
| | **2007 Rm** | 2006 Rm |
| **44. Contingent liabilities** | | |
| Guarantees | **13 815** | 14 726 |
| Irrevocable facilities | **40 040** | 37 265 |
| Letters of credit | **2 790** | 1 994 |
| Other contingencies | **23** | 16 |
| | **56 668** | 54 001 |

The Company is subject to legal claims and legal action, in the normal course of business. Each claim is evaluated on its merit and where considered probable that an obligation exists, which may result in an economic outflow, a provision is raised. The Company does not expect the ultimate resolution of any of the proceedings in which the Company is involved, to have a significant adverse effect on the financial position of the Company. Consequently, the Company 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.

Irrevocable facilities are commitments to extend credit where the Company does not have the right to terminate the facilities by written notice. Commitments generally have fixed expiry dates. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

| | COMPANY | |
|---|---|---|
| | **2007 Rm** | 2006 Rm |
| **Operating lease payments due** | | |
| No later than one year | **857** | 653 |
| Later than one year and no later than five years | **1 780** | 1 396 |
| Later than five years | **274** | 506 |
| | **2 911** | 2 555 |

Operating lease payments represent rentals payable by the Company 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.

| | COMPANY | |
|---|---|---|
| | **2007 Rm** | 2006 Rm |
| **45. Cash and cash equivalents** | | |
| Cash, cash balances and balances with central banks | **4 658** | 3 494 |
| Loans and advances to banks | **347** | — |
| | **5 005** | 3 494 |

## 46. Fair value of financial instruments

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Company's balance sheet at their fair value.

| | COMPANY | | | |
|---|---|---|---|---|
| | **2007** | | 2006 | |
| | **Carrying value Rm** | **Fair value Rm** | Carrying value Rm | Fair value Rm |
| **Financial assets** | | | | |
| Balances with SARB and other central banks | **10 395** | **10 395** | 8 402 | 8 402 |
| Coins and bank notes and money on call | **4 658** | **4 658** | 3 619 | 3 619 |
| **Cash, cash balances and balances with central banks (refer to note 2)** | **15 053** | **15 053** | 12 021 | 12 021 |
| **Loans and advances to banks (refer to note 4)** | **39 656** | **39 712** | 20 830 | 20 830 |
| **Other assets (refer to note 6)** | **4 219** | **4 219** | 2 604 | 2 604 |
| Retail banking | **318 559** | **318 323** | 269 946 | 269 920 |
| Cheque accounts | **6 036** | **6 036** | 4 880 | 4 880 |
| Credit cards | **12 941** | **12 941** | 10 834 | 10 834 |
| Instalment credit agreements | **54 690** | **54 530** | 51 162 | 51 136 |
| Loans to associated undertakings and joint venture companies | **6 466** | **6 466** | 6 226 | 6 226 |
| Microloans | **2 459** | **2 459** | 1 188 | 1 191 |
| Mortgages | **225 575** | **225 520** | 185 820 | 185 817 |
| Other | **1 182** | **1 182** | 810 | 810 |
| Personal loans | **9 210** | **9 189** | 9 026 | 9 026 |
| Absa Capital | **39 339** | **38 162** | 26 462 | 32 901 |
| Absa Corporate and Business Bank | **60 892** | **60 971** | 47 180 | 48 831 |
| Corporate | **10 640** | **10 643** | 6 249 | 6 249 |
| Large and Medium | **50 166** | **50 242** | 40 454 | 40 585 |
| Other | **86** | **86** | 477 | 1 997 |
| Africa and other | **468** | **468** | 859 | 857 |
| **Loans and advances to customers – net of impairment (refer to note 8)** | **419 258** | **417 924** | 344 447 | 352 509 |
| **Loans to Absa Group companies** | **10 931** | **10 931** | 4 291 | 4 291 |
| **Total** | **478 186** | **476 908** | 379 902 | 387 964 |

**46. Fair value of financial instruments** *(continued)*

| | COMPANY | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| | Carrying value Rm | Fair value Rm | Carrying value Rm | Fair value Rm |
| **Financial liabilities** | | | | |
| **Deposits from banks (refer to note 17)** | **36 696** | **36 696** | 29 452 | 29 452 |
| **Other liabilities (refer to note 19)** | **8 011** | **8 011** | 6 275 | 6 275 |
| Call deposits | **45 726** | **45 726** | 42 168 | 42 168 |
| Cheque account deposits | **94 776** | **94 776** | 88 774 | 88 774 |
| Credit card deposits | **2 173** | **2 173** | 2 291 | 2 291 |
| Fixed deposits | **89 053** | **110 808** | 86 722 | 87 751 |
| Foreign currency deposits | **8 330** | **8 330** | 12 002 | 12 002 |
| Liabilities to clients under acceptances | **108** | **108** | 20 | 20 |
| Notice deposits | **6 863** | **6 857** | 6 879 | 6 879 |
| Other deposits | **999** | **999** | 1 066 | 1 066 |
| Saving and transmission deposits | **35 270** | **35 270** | 25 396 | 25 396 |
| **Deposits due to customers (refer to note 20)** | **283 298** | **305 047** | 265 318 | 266 347 |
| **Debt securities in issue (refer to note 21)** | **124 296** | **160 689** | 83 866 | 108 421 |
| **Borrowed funds (refer to note 22)** | **4 951** | **5 118** | 5 900 | 6 296 |
| **Total** | **457 252** | **515 561** | 390 811 | 416 791 |

# Annexure A: Reclassifications

## Balance sheet

### As at 31 December 2006

| | Commentary | COMPANY As previously reported Rm | Reclassifi-cations Rm | Reclassified balance Rm |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash, cash balances and balances with central banks | | 12 021 | — | 12 021 |
| Statutory liquid asset portfolio | | 20 829 | — | 20 829 |
| Loans and advances to banks | | 20 830 | — | 20 830 |
| Trading assets | 1 | 17 711 | 31 | 17 742 |
| Hedging assets | 1 | 672 | (31) | 641 |
| Other assets | | 2 872 | — | 2 872 |
| Loans to Absa Group companies | | 4 291 | — | 4 291 |
| Loans and advances to customers | 2 | 357 677 | (1 121) | 356 556 |
| Deferred tax assets | | 22 | — | 22 |
| Investments | 2 | 2 890 | 1 121 | 4 011 |
| Investments in associated undertakings and joint venture companies | | 408 | — | 408 |
| Subsidiaries | | 3 040 | — | 3 040 |
| Intangible assets | | 35 | — | 35 |
| Property and equipment | | 3 436 | — | 3 436 |
| **Total assets** | | 446 734 | — | 446 734 |
| **Liabilities** | | | | |
| Deposits from banks | 3 | 39 791 | (10 339) | 29 452 |
| Trading liabilities | 1 | 15 498 | 642 | 16 140 |
| Hedging liabilities | 1 | 1 898 | (642) | 1 256 |
| Other liabilities and sundry provisions | | 7 310 | — | 7 310 |
| Current tax liabilities | | 914 | — | 914 |
| Deposits due to customers | 3 | 343 123 | (73 527) | 269 596 |
| Debt securities in issue | 3 | — | 83 866 | 83 866 |
| Deferred tax liabilities | | 2 114 | — | 2 114 |
| Borrowed funds | | 8 268 | — | 8 268 |
| **Total liabilities** | | 418 916 | — | 418 916 |
| **Equity** | | | | |
| **Capital and reserves** | | | | |
| Attributable to equity holders of the Company: | | | | |
| Share capital | | 303 | — | 303 |
| Share premium | | 5 415 | — | 5 415 |
| Preference share capital | | 1 | — | 1 |
| Preference share premium | | 2 991 | — | 2 991 |
| Other reserves | | 1 481 | — | 1 481 |
| Retained earnings | | 17 627 | — | 17 627 |
| **Total equity** | | 27 818 | — | 27 818 |
| **Total equity and liabilities** | | 446 734 | — | 446 734 |

# Annexure A: Reclassifications

## Income statement

For the year ended 31 December 2006

| | Commentary | COMPANY<br>As previously reported<br>Rm | Reclassifi-cations<br>Rm | Reclassified balance<br>Rm |
|---|---|---|---|---|
| Net interest income | 4 & 6 | 13 500 | (4) | 13 496 |
| Interest and similar income | | 35 497 | (26) | 35 471 |
| Interest expense and similar charges | | (21 997) | 22 | (21 975) |
| Impairment losses on loans and advances | | (1 468) | — | (1 468) |
| **Net interest income after impairment losses on loans and advances** | | 12 032 | (4) | 12 028 |
| Net fee and commission income | | 9 413 | (472) | 8 941 |
| Fee and commission income | 5 & 6 | 9 447 | 17 | 9 464 |
| Fee and commission expense | 6 | (34) | (489) | (523) |
| Gains and losses from banking and trading activities | 6 | 1 274 | (40) | 1 234 |
| Gains and losses from investment activities | | 928 | — | 928 |
| Other operating income | 5 | 790 | (17) | 773 |
| **Operating income before operating expenses** | | 24 437 | (533) | 23 904 |
| Operating expenditure | | (15 802) | 533 | (15 269) |
| Operating expenses | 6 | (14 936) | 533 | (14 403) |
| Non-credit related impairments | | (72) | — | (72) |
| Indirect taxation | | (794) | — | (794) |
| **Operating profit before income tax** | | 8 635 | — | 8 635 |
| Taxation expense | | (2 333) | — | (2 333) |
| **Profit for the year** | | 6 302 | — | 6 302 |
| **Attributable to:** | | | | |
| Ordinary equity holder of the Company | | 6 229 | — | 6 229 |
| Preference equity holders of the Company | | 73 | — | 73 |
| | | 6 302 | — | 6 302 |

1. **Trading and hedging assets and liabilities**

   Certain trading assets and liabilities previously aggregated with hedging assets and liabilities have been separated.

2. **Equity and shareholder loans**

   Shareholder loans granted to private equity, commercial property finance (CPF) and Incubator Fund clients have been reclassified as part of the net investment. Previously these were shown as "Loans and advances to customers".

3. **Debt securities in issue**

   Negotiable certificates of deposit and other funding paper issued were previously reported as a subcategory of "Deposits due to customers" and "Deposits from banks". This is disclosed on a separate line on the face of the balance sheet, called "Debt securities in issue".

4. **Reclassification of interest**

   Hedging income and expenses have been reclassified to better eliminate mismatches.

5. **Fees from trust and other fiduciary activities**

   Unit and property trust income has been reclassified from "Other operating income" to "Fee and commission income".

6. **Fee expenses and similar items**

   While implementing IFRS 7, the Company adopted a policy where all fees paid, relating to either a financial instrument or fee income, should be classified as a fee expense. Similarly, any fees related to trading should be moved to "Gains and losses from banking and trading activities".

# SHAREHOLDER AND ADMINISTRATIVE INFORMATION

CONTENTS

# Shareholders' information

## ORDINARY SHAREHOLDERS

As at 31 December 2007

| | Shares held Number | % |
|---|---|---|
| **Major ordinary shareholder** | | |
| Absa Group Limited (including "A" ordinary shares) | 337 285 416 | 100,0 |
| **Shareholder type** | | |
| Principal shareholder | 337 285 416 | 100,0 |
| Private investors | 0 | 0,0 |
| **Total** | 337 285 416 | 100,0 |

## ORDINARY SHAREHOLDERS – PUBLIC AND NON-PUBLIC SHAREHOLDERS

As at 31 December 2007

| | Number of shareholders | Shares held Number | % |
|---|---|---|---|
| **Public shareholders** | 0 | 0 | 0,0 |
| **Non-public shareholders** | | | |
| • Absa Group Limited | 1 | 337 285 416 | 100,0 |
| **Total** | 1 | 337 285 416 | 100,0 |

## PREFERENCE SHAREHOLDERS

As at 31 December 2007, Absa Bank Limited had issued a total of R4,6 billion in non-cumulative, non-redeemable preference shares (preference shares). During the year, R1,6 billion was raised through the issue of preference shares. Most of this capital (R1,4 billion) was raised in a single issue in April 2007 at an effective dividend yield of 75% of the prime overdraft lending rate. Five tranches of Absa Bank's monthly preference share issuance programme comprised the balance.

The Absa Bank preference shares have an effective coupon rate of 63% of the prime overdraft lending rate.

## MAJOR PREFERENCE SHAREHOLDERS

As at 31 December 2007

| | Shares held Number | % |
|---|---|---|
| Coronation Fund Managers | 746 735 | 15,1 |
| Liberty Group | 492 349 | 10,0 |
| Investment Solutions | 144 367 | 2,9 |
| Old Mutual Group | 133 473 | 2,7 |
| Stanlib Asset Management | 117 925 | 2,4 |
| Sanlam Limited | 100 918 | 2,0 |

# Shareholders' information

## DISTRIBUTION OF PREFERENCE SHAREHOLDERS

As at 31 December 2007

| | Shares held | |
|---|---|---|
| | Number | % |
| Mutual funds | 1 656 394 | 33,5 |
| Individuals | 1 041 518 | 21,1 |
| Nominees and trust companies | 660 402 | 13,4 |
| Private companies | 533 890 | 10,8 |
| Insurance companies | 381 625 | 7,7 |
| Pension funds | 348 261 | 7,0 |
| Banks | 129 583 | 2,6 |
| Endowment funds | 85 587 | 1,7 |
| Public companies | 38 826 | 0,8 |
| Close corporations | 24 682 | 0,5 |
| Medical schemes | 19 579 | 0,4 |
| Other corporations | 14 045 | 0,3 |
| Investment companies | 9 947 | 0,2 |
| Share trusts | 500 | 0,0 |
| **Total** | **4 944 839** | **100,0** |

## PUBLIC AND NON-PUBLIC PREFERENCE SHAREHOLDERS

As at 31 December 2007

| | | Shares held | |
|---|---|---|---|
| | Number of shareholders | Number | % |
| **Public shareholders** | 4 108 | 4 184 242 | 84,6 |
| **Non-public shareholders** | | | |
| • Directors and associates of the Company | 8 | 13 862 | 0,3 |
| • Strategic holdings | 1 | 746 735 | 15,1 |
| **Total** | **4 117** | **4 944 839** | **100,0** |

## PREFERENCE DIVIDENDS

The following preference dividends were declared for the year ended 31 December 2007:

| | Dividend number | Dividend amount (cents per share) |
|---|---|---|
| 1 March 2007 – 31 August 2007 | 3 | 4 056,0 |
| 1 September 2007 – 29 February 2008 | 4 | 4 453,9 |

## SHAREHOLDERS' DIARY

| | |
|---|---|
| Financial year-end | **31 December 2007** |
| Announcement of results for the year ended 31 December 2007 | **19 February 2008** |
| Announcement of interim results[1] | **7 August 2008** |

## DIVIDENDS

| | Declaration date | Last day to trade | Ex dividend date | Record date | Payment date |
|---|---|---|---|---|---|
| **Final – December 2007** | **19 February 2008** | **7 March 2008** | **10 March 2008** | **14 March 2008** | **17 March 2008** |
| Interim – June 2008[1] | 7 August 2008 | 22 August 2008 | 25 August 2008 | 29 August 2008 | 1 September 2008 |

[1]*Dates subject to change.*

# Administration[1]

**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**

G Marcus (Chairperson)
D C Brink (Deputy Chairperson)
S F Booysen[2] (Chief Executive)
L N Angel
D C Arnold
B P Connellan
Y Z Cuba
S A Fakie
G Griffin
M W Hlahla
R A Jenkins (British)
L N Jonker
R Le Blanc (British)
N P Mageza[2]
E C Mondlane, Jr. (Mozambican)
T S Munday
J H Schindehütte[2]
F F Seegers (Dutch)
F A Sonn
L L von Zeuner[2]
B J Willemse

**Transfer secretaries**

***Computershare Investor Services (Proprietary) Limited***

70 Marshall Street
Johannesburg, 2001
*Postal address:* PO Box 61051
Marshalltown, 2107
*Telephone:* 011 370 5000
*Telefax:* 011 370 5271/2

**Auditors**

PricewaterhouseCoopers Inc.

Ernst & Young Inc.

**Company Secretary**

S Martin
*e-mail:* sarita.martin@absa.co.za

**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

**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

**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:* contactcard@absa.co.za

**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

**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

**Absa Home Loans**

9 Lothbury Street
Auckland Park, 2092
*Telephone:* 0860 111 007
*Telefax:* 011 276 5111
*e-mail:* home@absa.co.za

**Absa Islamic Banking**

61 Empire Road, Absa Investment Campus, Block E, Parktown
Johannesburg, 2193
*Telephone:* 011 551 4530
*Telefax:* 011 551 4521
*e-mail:* islamicbanking@absa.co.za

**Absa Micro Lending**

2nd Floor, Absa Building
278 Thirteenth Road
Erand Gardens, Midrand, 1685
*Postal address:* PO Box 7735
Johannesburg, 2000
*Telephone:* 011 697 8000
*Telefax:* 011 697 8023
*e-mail:* lawrence.twigg@absa.co.za

[1]*As at March 2008.*
[2]*Executive in Absa Bank.*

# Administration

**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:* privatebank@absa.co.za

**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

**Retail Bank**
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

**Provincial advisory boards**

**Eastern and Southern Cape**
B P Erasmus (Chairperson)
D D Tabata
D R Bruce
B C Qupe
J Schewitz
M Tom

**Free State**
E M Makotoko (Chairperson)
K M Charlwood
P C Luttig

**Gauteng**
L I Weil (Chairperson)
P J Muller (Vice-chairperson)
H P Africa
S Dakile-Hlongwane
B Mogale
Y A Moti
J J Sauer

**Gauteng North**
D J de Villiers (Chairperson)
S Adendorff
F B de Vos
D Motlatla
N R Mistry
S Vil-Nkomo

**KwaZulu-Natal**
N A Gasa (Chairperson)
W D Howie
K Makan
L Moloi
D Myeni
N T Oosthuizen
S J Sibeko

**Mpumalanga**
N M Phosa (Chairperson)
J J Claassen
J J Maritz
N P Mazibuko
H van der Merwe

**Northern Cape**
P Crouse (Chairperson)
J S Marais
R E Modise
C P van den Heever
M S Wookey

**Limpopo**
S N Mahomed (Chairperson)
I I Bower (Vice-chairperson)
T F Pretorius
H Ramaphosa
L Thembe
P G A Vorster

**North West**
I Klynsmith (Chairperson)
M Kropman (Vice-chairperson)
J P du Preez
R K Mokitime
S Roopa
G van der Merwe

**Western Cape**
Vacant (Chairperson)
Z Combi
C du Toit
A Floris
M Isaacs
P Krawitz
G Mallinick
S Young