ABSA GROUP LIMITED

Operational review

For the year ended 31 December 2007

Member of the BARCLAYS Group

ABSA

Contents

OPERATIONAL REVIEW

Introduction

The aim of this document is to provide a detailed perspective of the Group’s business operations.

THE YEAR UNDER REVIEW

- During 2007, Absa’s **retail banking** business unit improved customer service excellence, extended the Group’s distribution footprint further, enhanced its offering to the mass market, expanded the Group’s wealth management offering and transformed the Absa Card business.
- Within **corporate and commercial banking**, initiatives have been put in place for the successful completion of the Absa-Barclays synergy initiatives, including the implementation of value aligned performance management (VAPM), a more effective sales operating model for Large and Medium Business, better end-to-end credit processes and the general up-skilling of employees. In addition to this, the business segment also focused on the diversification of income streams, such as debtor finance, specialised finance, new industry focuses, affordable housing opportunities and new product innovations.
- **Absa Capital** delivered a stellar performance in 2007 and became the third largest investment bank in South Africa by revenue.
- The Group’s **African operations** invested in delivery capacity with a focus on outlets and ATMs, and experienced strong growth in the number of customer accounts. During the year, Banco Austral, Sarl was rebranded as Barclays Bank Mozambique S.A.
- **Bancassurance** experienced an excellent performance by Absa Trust and good growth in assets under management.

FUTURE FOCUS

Absa has strategies designed to entrench market leadership, enhance its competitiveness, further diversify the Group's earnings mix, continuously improve operational excellence and reduce risk across the organisation.

Deliver market leadership and enhance Absa's competitiveness

- Key to this will be protecting and entrenching Absa's leadership position in the South African retail banking market. Attention will be given to:
  - retaining longer-dated anchor products;
  - further enhancing service levels; and
  - promoting customer loyalty.
- Absa also aims to grow customer numbers and assets through:
  - further expansion of the Group’s distribution footprint;
  - enhancing the value proposition of anchor products; and
  - leveraging the Absa brand to grow the customer base and sell products.

Diversify earnings mix

- To reduce cyclicality and volatility of earnings and to enhance predictability of the Group's earnings, Absa aims to:
  - change the mix between lower and higher yielding retail assets by increasingly focusing on the emerging middle class market through micro-lending, credit cards and retailer finance products;
  - change the mix between retail and non-retail earnings by positioning Absa as a top-two player in investment, corporate and business banking by 2010 (Absa aims to grow the contribution of non-retail earnings to 40% of total earnings by December 2009, from a share of 35,4% at present.);
  - change the mix between bank and non-bank earnings by entrenching Absa's position as a leading bancassurer (This will be achieved by expanding Absa's bancassurance distribution network, improving product usage, growing assets under management and expanding into the non-traditional customer base.); and
  - change the mix between South African and non-South African earnings by pursuing opportunities beyond South Africa's borders where the Group can achieve acceptable returns.

Improve operational excellence

By enhancing operational efficiency, the Group aims to achieve a cost-to-income ratio of 49,5% by 2009. This will be achieved through the adoption of the Lean approach, which will further enhance process automation and streamlining.

Reduce risk

Collections and risk management will remain key focus areas. It is going to become increasingly important to invest in resources and technology to ensure that the Group has the right collections capability and optimal scorecards to ensure the correct balance between risk and reward.

Owing to the increased rate of change in the financial services industry and the economy, further attention will be given to identifying global and domestic macroeconomic trends in an effort to identify potential long-term cyclical, predictable and unpredictable, but probable, opportunities and threats that could impact the Group. This initiative includes evaluating the Group's current enterprise architecture to ensure that it is well positioned for future growth.

FINANCIAL REPORTING STRUCTURE

Group financial reporting structure

Absa Group Limited

RETAIL BANKING
- Absa Private Bank
- Retail Bank
- Absa Home Loans (includes Repossessed Properties)
- Absa Card
- Absa Vehicle and Asset Finance (AVAF)
- AllPay Consolidated Investment Holdings (Proprietary) Limited

CORPORATE AND COMMERCIAL BANKING
- Absa Corporate and Business Bank (ACBB)
- Absa Development Company Holdings (Proprietary) Limited

INVESTMENT BANKING
- Absa Capital

AFRICAN OPERATIONS
- Barclays Bank Mozambique S.A.
- National Bank of Commerce Limited (NBC) (Tanzania)
- Banco Comercial Angolano (Angola)

BANCASSURANCE

Insurance
- Absa Life Limited
- Absa Insurance Company Limited
- Global Insurance Company Limited
- Absa Insurance Risk Management Services Limited

Investments
- Absa Fund Managers Limited
- Absa Mortgage Fund Managers (Proprietary) Limited
- Absa Stockbrokers (Proprietary) Limited
- Absa Investment Management Services (Proprietary) Limited
- Absa Asset Management (Proprietary) Limited and Portfolio Managers (Proprietary) Limited

Fiduciary
- Absa Trust Limited
- Absa Consultants and Actuaries (Proprietary) Limited
- Absa Health Care Consultants (Proprietary) Limited

Other
- Absa Brokers (Proprietary) Limited
- Absa Manx Insurance Company Limited
- Absa Syndicate Investments Holdings Limited

OTHER GROUP ACTIVITIES

Other companies
- Real Estate Asset Management (excludes Repossessed Properties)

International operations
- Absa Bank London

Other – management perspective
- Shared services
- Specialist functions

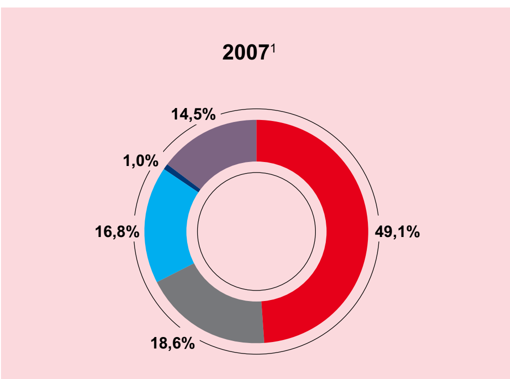
Other – financial perspective
- Capital and funding centre
- Corporate centre

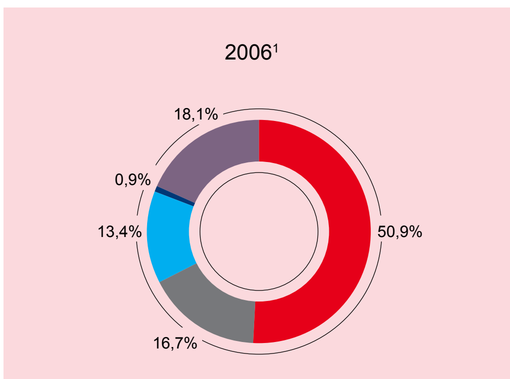
GROUP EXECUTIVE COMMITTEE STRUCTURE

The Group's management structure as at December 2007 has evolved to better deliver on the Group's strategies. The Absa website contains the Group's updated management structure .

PROFIT CONTRIBUTION BY BUSINESS AREA

Year ended 31 December





Retail banking ACBB Absa Capital African operations Bancassurance

[1]*Calculated after the allocation of profits/losses from the capital, funding and corporate centre.*

	2007 Rm	2006[1] Rm	Change %
Banking operations			
Retail banking	**5 071**	4 222	20,1
Absa Private Bank	**237**	178	33,1
Retail Bank	**2 070**	1 479	40,0
Absa Home Loans and Repossessed Properties	**1 288**	1 086	18,6
Absa Card	**706**	700	0,9
Absa Vehicle and Asset Finance	**770**	779	(1,2)
Absa Corporate and Business Bank[2]	**1 922**	1 384	38,9
Absa Capital[3]	**1 733**	1 115	55,4
African operations[4]	**103**	77	33,8
Corporate centre[5]	**(3)**	203	>(100,0)
Capital and funding centre	**59**	131	(55,0)
Total banking	**8 885**	7 132	24,6
Bancassurance	**1 502**	1 500	0,1
Total earnings from business areas	**10 387**	8 632	20,3
Synergy costs (after tax)[6]	**(479)**	(454)	(5,5)
Minority interest – preference shares	**(313)**	(73)	>(100,0)
Profit attributable to ordinary equity holders	**9 595**	8 105	18,4
Headline earnings adjustments	**(182)**	(233)	21,9
Total headline earnings	**9 413**	7 872	19,6

[1] *The comparative period has been restated for:*

- *Migration of customers from Absa Private Bank to Retail Bank in the current year.*
- *AllPay Consolidated Investment Holdings (Proprietary) Limited was moved from the corporate centre to retail banking during the year under review.*
- *Absa Development Company Holdings (Proprietary) Limited was moved from the corporate centre to Absa's corporate and commercial banking operations during the year under review.*

[2] *Absa's corporate and commercial banking operations.*

[3] *Absa's investment banking operations.*

[4] *To provide comparability, the equity-accounted earnings of Capricorn Investment Holdings Limited, which was sold in 2006, has been moved to the corporate centre.*

[5] *In the prior year, the corporate centre included the profit on disposal of Bankhaus Wölbern & Co, Capricorn Investment Holdings Limited, AST and JSE Limited shares.*

[6] *Synergies relate to the Absa-Barclays integration programme following the acquisition by Barclays of a majority share in Absa. Synergy costs are one-off costs incurred in achieving synergy benefits.*

RETAIL BANKING

Introduction

Absa is a leading player in the South African retail banking market. A number of focussed business units provide the full array of customised banking solutions to individuals and small enterprises throughout South Africa.

THE YEAR UNDER REVIEW

The year 2007 was characterised by:

- Improved customer service excellence.
- Further extension of the distribution footprint.
- Expansion of the Group’s wealth management offering.
- Enhanced offering to the mass market.
- Transformation of the Absa Card business.
- Leveraging of strategic alliances.
- Synergy-related initiatives flowing from the Barclays transaction.
- Establishment of a micro-lending unit.
- Change in the Small Business operating model to a relationship based model.

FUTURE FOCUS

In further enhancing the Group's position in the retail market, the following will receive attention going forward:

- A strong focus on customer excellence, with a specific focus on further enhancing convenience through an enlarged distribution footprint.
- Changing the mix between lower and higher yielding retail assets by increasing the focus on the emerging middle class market through micro-lending, credit cards and retailer finance products.
- Improving the profitability of the secured lending businesses.
- Focusing on attracting savings and investments, with the aim of positioning the Group as the savings bank of the nation.
- Enhancing the Group's value proposition to the affluent and high net worth market.
- Further improving the collections capability.
- Profitable operations in the unsecured lending arena.

SALIENT FEATURES

Year ended 31 December

Balance sheet

	2007 Rm	2006 Rm	Change %
Total advances	**328 603**	275 190	19,4
Investments in associated undertakings and joint ventures	**341**	283	20,5
Other assets	**104 839**	75 403	39,0
Other assets – external	**35 166**	24 799	41,8
Other assets – internal[1]	**69 673**	50 604	37,7
Total assets	**433 783**	350 876	23,6
Total deposits	**96 952**	80 855	19,9
Other liabilities	**315 469**	255 330	23,6
Other liabilities – external	**24 333**	9 211	>100,0
Other liabilities – internal[1]	**291 136**	246 119	18,3
Total assets	**412 421**	336 185	22,7

[1] *Internal assets and liabilities for the Group are eliminated in "Other".*

Income statement

	2007 Rm	2006 Rm	Change %
Net interest income	**12 816**	10 006	28,1
Impairment losses on loans and advances	**(2 235)**	(1 195)	(87,0)
Non-interest income	**9 083**	8 267	9,9
Operating expenses	**(11 957)**	(10 566)	(13,2)
Other	**(270)**	(278)	2,9
Operating profit before income tax	**7 437**	6 234	19,3
Taxation expense	**(2 341)**	(1 989)	(17,7)
Profit for the year	**5 096**	4 245	20,0
Attributable to:			
Ordinary equity holders of the Group	**5 071**	4 222	20,1
Minority interest – ordinary shares	**25**	23	(8,7)
Minority interest – preference shares	**-**	-	-
	5 096	4 245	20,0

Selected ratios

	2007 %	2006 %
Financial performance		
Return on average equity	**26,8**	29,1
Return on average assets	**1,28**	1,35
Operating performance		
Net interest margin on average assets	**3,25**	3,21
Advances margin	**2,80**	2,90
Deposit margin	**3,85**	3,67
Impairment losses on loans and advances as a percentage of average loans and advances to customers	**0,74**	0,49
Non-interest income as a percentage of operating income	**41,4**	45,2
Cost-to-income ratio	**54,5**	57,8
Top-line growth[2]	**19,8**	24,9
Cost growth[2]	**13,2**	16,1
Cost-to-assets ratio	**3,1**	3,4

[2] *Compared to an unaudited pro forma*

Delivery footprint statistics (South Africa)

	2007	2006	Change %
Absa's points of presence			
• Traditional points of presence	**773**	726	6,5
• Alternative points of presence	**99**	13	>100,0
• Business centres and business satellites	**20**	20	0,0
Absa's self-service network			
• Absa standard ATMs	**4 047**	3 753	7,8
• Non-standard ATMs	**3 646**	3 300	10,5
• Internet kiosks	**362**	208	74,0
• Self-service kiosks	**269**	115	>100,0
Telephone banking			
• Absa Group telephone banking customers	**653 253**	633 933	3,0
• Absa Group transacting telephone banking customers	**68 787**	75 511	(8,9)
• Retail banking telephone banking customers	**651 624**	632 401	3,0
• Retail banking transacting telephone banking customers	**68 540**	75 258	(8,9)
Internet banking			
• Absa Group internet banking customers	**797 245**	696 831	14,4
• Absa Group transacting internet banking customers	**556 917**	588 726	(5,4)
• Retail banking internet banking customers	**766 196**	668 458	14,6
• Retail banking transacting internet banking customers	**530 666**	542 170	(2,1)
Cell phone banking (excluding WAP)			
• Absa Group cell phone banking customers (excluding WAP)	**409 129**	252 373	62,1
• Absa Group transacting cell phone banking customers (excluding WAP)	**157 525**	109 298	44,1
• Retail banking cell phone banking customers (excluding WAP)	**404 573**	249 422	62,2
• Retail banking transacting cell phone banking customers	**155 814**	108 177	44,0
NotifyMe			
• NotifyMe customers	**1 789 903**	360 962	>100,0

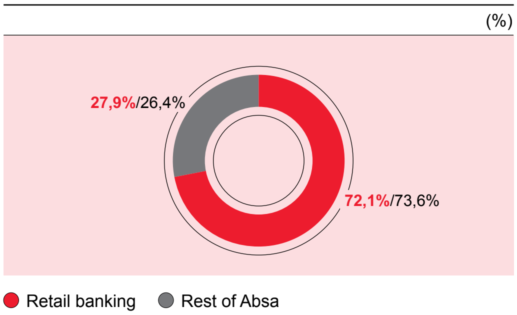
Notes:

(1) The management of the Group's delivery network is undertaken within the Group's retail banking structure. It is for this reason that the Group's total delivery position is reflected in the table above.

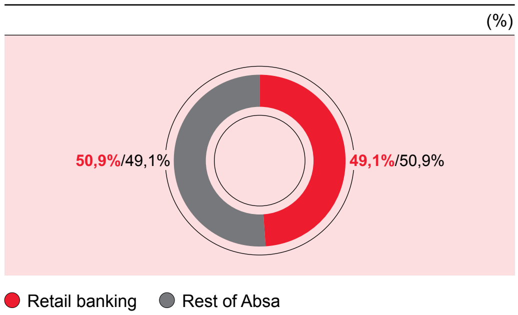
(2) Retail banking includes all customers residing in the affluent, retail affluent, middle, mass and small business markets.

CONTRIBUTION ANALYSIS

TOTAL LOANS AND ADVANCES TO CUSTOMERS



ATTRIBUTABLE EARNINGS



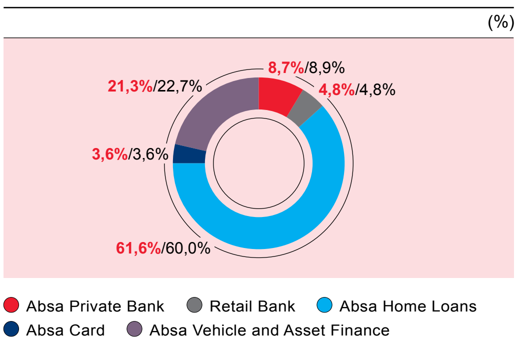
BUSINESS UNIT ATTRIBUTABLE EARNINGS

Year ended 31 December

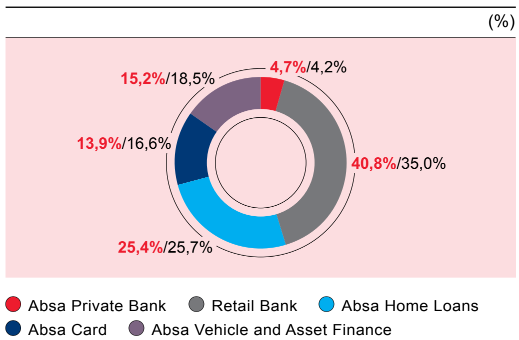
	2007 Rm	2006 Rm	Change %
• **Affluent market** ➔ Absa Private Bank	**237**	178	33,1
• **Retail affluent, middle, mass and small business markets** ➔ Retail Bank	**2 070**	1 479	40,0
• **Credit cards** ➔ Absa Card	**706**	700	0,9
• **Home loans** ➔ Absa Home Loans[1]	**1 288**	1 086	18,6
• **Instalment finance** ➔ Absa Vehicle and Asset Finance	**770**	779	(1,2)
Retail banking	**5 071**	4 222	20,1

[1] *Includes Repossessed Properties.*

LOANS AND ADVANCES TO CUSTOMERS



ATTRIBUTABLE EARNINGS CONTRIBUTION



Absa Private Bank

Absa Private Bank is working towards becoming the country's leading provider of banking and wealth solutions to affluent individuals. With its heritage as a true South African bank and with roots firmly entrenched in this country, as well as the powerful international influence of Barclays, Absa Private Bank offers its customers the best of both worlds. Through dedicated personal bankers and wealth planners, it caters for both the banking and wealth creation needs of customers delivered through digital, telephony as well as an expanding range of exclusive private bank suites nationally.

SALIENT FEATURES

Year ended 31 December

	2007	2006	Change %
Balance sheet (Rm)			
Total assets	**31 030**	26 520	17,0
Total loans and advances to customers	**28 709**	24 548	17,0
Total deposits due to customers	**18 879**	14 409	31,0
Total liabilities	**29 314**	25 151	16,6
Income statement (Rm)			
Attributable earnings	**237**	178	33,1
Selected ratios (%)			
Contribution to the Group's attributable earnings	**2,3**	2,1	
Return on average equity	**15,4**	13,3	
Impairment losses on loans and advances as a percentage of average loans and advances to customers	**0,26**	0,27	
Cost-to-income ratio	**69,2**	71,5	
Other salient features			
Permanent employee complement	**947**	989	(4,2)
Number of customers	**154 620**[1]	199 750	(22,6)

[1] *Negative growth of new customers is as a result of the movement of customers into a newly-created Platinum segment in Retail Bank at the beginning of 2007.*

PRODUCT AND SERVICE OFFERING

Products and services focus on banking, wealth creation, wealth maintenance and wealth preservation – both from a local and an offshore perspective. Private Bank branded products include:

- transactional accounts (local and offshore);
- money management and consolidation facilities;
- investments solutions;
- alternative and specialised wealth solutions;
- offshore investment products; and
- specialised and customised services.

In partnership with Absa Capital and Absa Financial Services, Absa Private Bank also offers customers access to a broad range of alternative investment, risk management and estate and retirement planning products.

THE YEAR UNDER REVIEW

Financial performance

Absa Private Bank showed strong growth across all key financial metrics in 2007. The bank achieved attributable earnings of R237 million for 2007, representing a growth of 33,1% year-on-year. Solid advances growth of 17,0% can primarily be ascribed to the strong growth of Private One. Year-on-year deposits grew by 31,0% to R18,9 million, driven primarily by savings deposits.

Performance against 2007 strategic objectives

Strategic objectives	Performance
Acquiring and developing talent.	• Created added convenience by successfully adding seven new points of presence in strategic locations. The most successful of these being Newcastle and Montana suites.
Re-engineering processes and systems to ensure that their value chains are appropriate.	• Completed alignment within the Retail Bank operating model and optimised key frontline sales and support processes.
Implementing legislative requirements.	• Successfully implemented changes relating to the National Credit Act.

Commentary

During the year under review, Absa Private Bank continued to expand its physical infrastructure and achieved appropriate footprint penetration across all major geographies in South Africa.

Absa Private Bank achieved oversubscription to the Absa Private Bank Equity Fund and achieved the R1 billion mark in the Absa Private Bank money market and dividend funds within four months of the initial launch. It also delivered a greater-than-expected take-up of Barclays offshore products during 2007.

Absa Private Bank realised scale through an additional skills boost as a result of Absa Private Bank's academy graduates and further achieved key efficiencies by an optimisation drive of the front line.

FUTURE FOCUS

Absa Private Bank aims to enable the ambitions of affluent customers by:

- enhancing its wealth proposition;
- relationship management; and
- realising the synergies of Barclays and Absa to add value.

Over the short to medium term, emphasis will be placed on acquiring, developing and retaining talent, embedding a competitive yet rationalised customer value proposition and focussing on process driven service improvement.

Absa Islamic Banking

Absa Islamic Banking provides the end-to-end Shariah requirements for Absa's products. The Shariah process covers product development, execution and monitoring, which includes an internal Shariah review, an annual Shariah audit and oversight by the audit and governance committee. Although Absa Islamic Banking's current offering is in South Africa, the global standards make it easy to extend this offering to Africa as well as that of the Barclays footprint globally by attracting a valuable niche market.

PRODUCT AND SERVICE OFFERING

- **Absa Islamic Banking cheque account** ➔ This product is a Shariah-compliant cheque account linked to a debit card but with no overdraft facility. It provides full access to the Absa branch and ATM network as well as internet and cell phone banking.
- **Absa Islamic Banking savings account** ➔ This product is a Shariah-compliant transactional savings account that provides 24/7 access to banking services. Profit share is paid annually.
- **Absa Islamic Banking TargetSave account** ➔ This product is a targeted, Shariah-compliant investment account with no service or administration fees. Profit share is paid annually.
- **Absa Islamic Banking vehicle and asset finance** ➔ This product is Shariah-compliant and is based on a fixed monthly rental with the option to own at the end of the period. It also provides bullet or balloon payment options if the purchaser wishes to shorten the payment period.
- **Islamic wills** ➔ Absa Islamic Banking offers the services of drafting and administering wills that comply with Shariah principles, as well as the distribution of estate by Shariah legal experts.
- **Murabaha equity conduit** ➔ This product is designed to cater for liquidity management. Many institutional and large depositors mobilise funds through this product to meet their short- to medium-term requirements with guaranteed returns.
- **Commercial property finance** ➔ This product is designed for property development finance and meets regulatory and Shariah compliance requirements. The product tenure, pricing, features and benefits are market related.

THE YEAR UNDER REVIEW

Financial performance

The balance sheet reflected a 53% growth in total loans and advances during 2007, with customer deposits increasing by 76%. The number of customers grew by 464%. This was achieved with a 29% increase in permanent employees.

Absa Islamic Banking provided above-average economic returns on Islamic TargetSave and the Islamic savings accounts. The returns paid were more attractive than those offered on their conventional counterparts in Absa. The sales enablement process is supported by the full range of Absa channels, including digital, telephony, external sales, internal sales as well as community sales. Customer service is delivered through branches and portfolio managers.

Performance against 2007 strategic objective

Strategic objective	Performance
Mobilising Absa's resources, product development and sales to assist in achieving a successful Islamic banking offering.	• Revised sales operating model rolled out a dedicated Islamic sales force to take banking to customers. • Increased marketing and communication drive for Ramadan and Hajj, during which 19 consultants brought in 1 538 new accounts. • Built global awareness through participation in conferences, international publications and winning international Islamic banking awards. • Sales incentive for dedicated consultants. • Active participation in community activities built brand awareness and increased sales.

Commentary

Absa Islamic Banking has been in business since March 2006 and has grown from employing a single staff member to a fully-fledged division of Absa in a period of two years. During the 2007 financial year, this business unit grew in excess of 400%, with a retention rate of 93%. Absa Islamic Banking is building its suite of retail, business and investment products towards a full product offering that will enable customers to conduct all of their financial affairs in accordance with the dictates of Shariah.

FUTURE FOCUS

Above-the-line new business promotion initiatives this year will take place around the differentiator of "Islamic Banking anywhere, any time" and the annual Ramadan promotion. Additional direct sales agents are being recruited to ensure capitalisation on the success of face-to-face sales initiatives.

Absa Islamic banking is already building awareness in the international Islamic banking market, contributing thought leader articles to major international publications and playing a key role in the Barclays project to explore the extension of Islamic banking services within Barclays. It has attracted significant international recognition, with Absa being awarded "Best Shariah Deal in South Africa for 2006" from Islamic Finance News 2007, the "Best Islamic Offering from a Conventional Bank" from World Finance Magazine and "2007 Best Islamic Bank" from Islamic Finance News.

Absa Islamic Banking aspires to be a centre of excellence in producing and managing world-class Shariah products both locally and abroad, in order to generate sustainable economic value to all stakeholders.
The business unit has a team of passionate and dedicated people providing customers with solutions supported by a robust Shariah process.

Retail Bank

Retail Bank includes Absa Retail Bank, which offers financial solutions to individuals ranging from those who are just entering the banking market up to affluent individuals, the Group's micro-lending operations, Absa Small Business, the disbursements of social grants though AllPay Consolidated Investment Holdings Limited, the Group's digital delivery channels and the Group's contact centre.

SALIENT FEATURES

Year ended 31 December

	2007	2006	Change %
Balance sheet (Rm)			
Total assets	**90 359**	65 626	37,7
Total loans and advances to customers	**15 749**	13 082	20,4
Total deposits due to customers	**75 977**	64 159	18,4
Total liabilities	**87 864**	65 486	34,2
Income statement (Rm)			
Attributable earnings	**2 070**	1 479	40,0
Selected ratios (%)			
Contribution to the Group's attributable earnings	**20,0**	17,8	
Return on average equity	**102,7**	114,3	
Impairment losses on loans and advances as a percentage of average loans and advances to customers	**4,35**	2,78	
Cost-to-income ratio	**65,7**	70,2	
Other salient features			
Permanent employee complement	**16 546**	15 286	8,2
Number of customers (million)			
• Mass market	**4,9**	4,5	8,9
• Middle and retail affluent market	**3,4**	3,1	9,7
• Small and micro enterprises	**0,5**	0,4	25,0

Absa Retail Bank

Absa Retail Bank offers financial solutions to individuals ranging from those who are just entering the banking market with basic formal banking needs up to affluent individuals who require more sophisticated banking solutions. Absa Retail Bank's diverse product range is delivered though an integrated multi-delivery approach, including a diverse range of physical outlets, remote sales points and digital channels[1].

[1] *The Group's physical delivery structure is housed in this business unit. The Group's digital infrastructure and contact centre are managed in separate business units.*

SEGMENT APPROACH

This business unit's primary differentiator is offering tailored solutions for specific market segments through enabling value propositions that talk to the particular needs and nuances of a specific customer grouping.

Absa Retail Bank continued its focus on a number of strategic market segments:

- The youth and students market is significant, owing to banks trying to establish cradle-to-grave relationships. Furthermore, government's focus to ensure that 20% of the population between the ages of 18 and 25 are registered for further studies at institutes for higher education by 2015, will ensure that this market will continue to grow.
- Growing the entry-level banking market is a strategic long-term objective of the bank, which also supports the "banking the unbanked" national agenda. This segment is characterised by a significant number of customers who serve as the feeder stream into the core middle market.
- The core middle market segment has experienced significant growth in recent years, owing to economic growth and transformation. However, the Group is also cognisant of the fact that the financial sophistication of these new customers might not be as well developed as those of customers that have been in this segment for a number of years. This has resulted in an increased emphasis on financial education initiatives across all segments to ensure that customers respond in an informed and responsible manner on financial matters.
- The retail affluent market has experienced strong growth in customer numbers with customers progressing from the core middle market into the retail affluent segment. These customers have strong relationship needs that are driven by life events.
- There are a number of niche markets which receive attention. These have unique needs and requirements and include the seniors market (55 years of age and older) which requires a diverse range of options to enable customisation not only from a product but also from a value-add perspective.

The retail branch network is still the primary delivery channel, with the majority of sales fulfilled through this channel. However, Absa is making a significant investment in promoting digital and other self-service channels as alternative options which allow customers convenience and cost effective access.

PRODUCT AND SERVICE OFFERING

The key products for Absa Retail Bank include transactional, savings and investments, lending and insurance products. The product bundles for every segment are tailored to meet the financial needs in a particular income group or life stage:

- **Transactional** ➔ A range of current account products including Silver, Gold and Platinum in the core middle and retail affluent market, as well as Flexi and Mzansi accounts for entry-level banking customers.
- **Savings and investments** ➔ A range of savings and investment options, including Mega U, Target Save, MoneyBuilder, Investment Advantage, AbsaClub account, notice deposits and fixed deposits.
- **Unsecured lending** ➔ Unsecured personal lending options that include personal loans, overdrafts, revolving loans, student loans.
- **Insurance** ➔ Specific insurance solutions such as Absa Flexi Funeral Plan, Absa Personal Accident and Hospital Plan, FlexiSure short-term insurance, Flexi Estate Protector (including Flexi Will) and credit life policies.

THE YEAR UNDER REVIEW

Financial performance

Absa Retail Bank experienced strong growth in attributable income as a result of the growth in customer advances, deposits and fee income. The driver of advances growth was unsecured lending in the form of personal loans and micro loans. Growth in deposits can be attributed to a strategic focus on attracting retail investments. The launch of the on-balance sheet money market product, Investment Advantage, was a major contributor to this growth. Transaction volumes continued to reflect a healthy growth on the back of the growth in customer numbers.

Performance against 2007 strategic objectives

Strategic objectives	Performance
Acquisition of young Black customers.	• Absa Retail Bank continued its focus on this market with delivering attractive youth, student and entry-level transactional propositions. • In particular, more points of presence were opened to enable Absa to be more accessible to rural Black consumers, including an expanded mobile sales team. • The accessibility of the student loan product was improved to enable a wider range of students to gain access to credit. • A new range of packaged current account offerings to appeal to the emerging Black middle class was launched. These enable access to credit, life cover and a transactional capability in one simply-priced proposition.
Retention of current profitable customer base.	• Absa Retail Bank developed and launched an enhanced Platinum offering for its retail affluent customers in order to retain and grow relationships with this higher value customer group. • The central retention capability was enhanced with tests put in place via dedicated call centre teams to welcome and retain at risk customers. This will be rolled out in 2008.
Enhanced cross-selling to the customer base.	• The launch of the packaged current account drove an increase in the sale of transactional products in the core middle and affluent markets. • Direct marketing campaigns were implemented to cross-sell savings and unsecured loans to the existing customer base. • Established a dedicated cross-sell team in the Absa contact centre for unsecured lending, which led to an increase of 10% in personal loan sales.

Performance against 2007 strategic objectives

Strategic objectives	Performance
Up-skilling employees.	• Induction of new employees through a socialisation process and the Retail Bank Frontline Academy. • Specific "role based training" for key roles was introduced. • Overview product training through "product essentials" and "product-specific training" was introduced for all sales teams. • Fundamental sales skills and techniques were instilled through "sales essentials" and "sales excellence". • Created alignment of what service really is in Absa through "taking the lead with service" training programmes. • In keeping with regulatory requirements, introduced training with regards to the NCA, Competition Act and sanctions. • Reduced risk through the introduction of a fraud awareness series. • Developed managers through the Absa management programme. • Aligned with the transformation agenda through conducting "valuing diversity" workshops.
Assisting in facilitating a saving culture.	• Absa Retail Bank significantly contributed to the Group's aim of becoming the savings bank of the nation through offering an attractive range of savings and investment products, including MoneyBuilder, which allows customers to start saving from as little as R50, as well as encouraging customers with more than R25 000 on hand to open Investment Advantage accounts for lucrative returns. • Investing in the education of customers about the value of saving through a number of awareness programmes, such as the SABC radio talk show campaign and other advertising and marketing activities. • Incentivising Absa employees to start saving by offering a special deal on savings and investment products.

Performance against 2007 strategic objectives

Strategic objectives	Performance
Continuing to invest in customer education.	• In an effort to assist consumers, predominantly in the LSM 1-5 group, with taking control of their financial affairs, Absa invested more than R17 million to educate more than 30 000 consumers around the country on financial literacy. • Encouraged an improved understanding of Absa's products and offerings through on-site education initiatives by mobile sales teams and the Group's extensive branch network.

Commentary

Absa Retail Bank refined its operating model during 2007 with the aim of fulfilling an end-to-end role by focusing on the customer, the solution and the delivery channel. This enabled the business unit to serve the needs of the customer holistically, by providing the right offering at the right price through the right channel. Furthermore, Absa Retail Bank also enhanced its segmentation model to ensure that the appropriate customer value propositions are developed and targeted at the relevant segments.

Absa Retail Bank implemented a number of initiatives during the year. These included the following:

- Silver, Gold and Platinum packages were relaunched to attract and retain customers. Packages involve the provision of a comprehensive and complete banking offering to customers at a fixed monthly fee.
- Platinum Professional was taken to market in the first quarter, targeting the professional market.
- Various new savings and investment propositions, with improved interest rate structures, were launched in 2007. This was further supported by Absa Retail Bank's new "on line" opening functionality.

Physical delivery

The business objectives of Absa Retail Bank's 2007 physical distribution strategy were to increase market share and transactional volumes through the expansion of the physical distribution footprint. Absa continued to invest in traditional bricks and mortar solutions and introduced a number of innovative solutions to bring banking closer to the people.

Expanding bricks and mortar solutions

- Traditional bricks and mortar branches remain an important outlet in areas where a full spectrum of banking services is required. 19 more full service branches were opened during 2007.
- Absa further provides exclusivity and an upmarket service to Absa Private Bank customers at its private banking suites. These suites are located in high-density affluent areas. Three new suites were opened by the end of December 2007, bringing the total to ten suites.
- The need to provide cost-effective lending options for walk-in mass market customers prompted Absa to open specialised micro-loan centres. These loan centres provide a convenient outlet to sell specific credit products and provide advice on responsible borrowing practices. 26 micro-loan centres were opened in 2007, bringing the total to 36 centres.
- A renewed emphasis was placed on the emerging small business segment. For this reason, Absa invested in opening a number of small business advisory centres. These centres offer new and existing entrepreneurs the opportunity to have access to financial services. Another five centres were opened in 2007
- Absa caters for the student market through its specialised lifestyle centres, which include a younger and funkier environment for students to feel at home in close proximity to university campuses.

Non-traditional solutions

- To ensure speed to market, Absa fabricated special cost-effective demountable full service branches which can be easily deployed in convenient locations. The benefit of the demountables is not only that they cost on average 50% less than traditional bricks and mortar outlets, but that they can be utilised to test the feasibility of making Absa's presence permanent in a particular area. Nine additional demountable outlets were placed in previously disadvantaged urban areas in 2007.
- Absa further expanded its reach in communities by partnering with a number of franchises, educational institutions and government agencies to introduce a point of presence on their premises:
  - An innovative channel was introduced in 2006 with specially constructed containers serving as a convenient facility for communities to access a variety of services. This is made possible through a strong partnership between Blue Label Investments, Zion Christian Church (ZCC), Vodacom and soccer clubs Orlando Pirates and Kaizer Chiefs. The Group utilised these sites to further extend its service by placing remote sales points in close proximity to these containers with ATMs, in order to provide a convenient basic product sales capability in close proximity to the community.
  - Absa produced a variety of portable retail kiosks to secure an in-store presence in retail franchises. The Group partnered with OBC Chicken (a well-known retailer with a large network of retail stores in previously disadvantaged areas) and the Computer Corporation to place retail kiosks in their stores. These retail kiosks are also being placed at strategic locations in shopping malls.
  - Absa partnered with the Small Enterprise Development Agency (SEDA), to provide a small business banking advisory service at SEDA's nine provincial offices in the latter part of 2007. Absa is also currently testing the feasibility of providing banking services to customers in local government rates halls and providing teller functionality for payments of basic services.
- To go where banking services are in demand, Absa has introduced a "bank on wheels" concept, by converting the interior of vehicles to a full service outlet. These mobile outlets include an ATM capability which allows for cash withdrawals, account opening and transactional capabilities. The solution enables Absa to service communities in remote locations with a drive-in, drive-out branch.

FUTURE FOCUS

Absa Retail Bank will continue to focus on protecting and entrenching its leadership position in retail banking. It aims to grow its customer base, while ensuring that customer stickiness is encouraged through the effective use of cross-selling initiatives, retaining longer dated anchor products, improving customer service and promoting customer loyalty.

Furthermore, the expansion of footprint and channels, enhancement of value propositions and the strong brand will enable Absa to offer customers more value for money and convenient access to banking facilities. To that end, strategies are also being developed to lower the cost of service for high volume, lower value customer groups. However, in all the segments and all the initiatives planned for the year, the Group will not chase advances volumes to the detriment of the quality of the book. Responsible volume growth balanced by book quality will remain a key focus.

On a segment level, various key focus areas have been identified for 2008:

- There will be a renewed focus and intense marketing drive on the youth and student market for 2008. Initiatives have been launched to improve localised (grassroots) acquisition.
- In entry-level banking, the major focus in 2008 is on taking banking to the people by enhancing access through appropriate distribution solutions (physical, self-service and digital).
- The focus in the core middle market is to reinforce and embed a deposit-led strategy to attract and retain deposits in the savings and investments and transactional cheque portfolio.
- Enhancing the distribution model that is relevant to the retail affluent segment will remain a focus to cater for changing customer needs.
- Absa's women's proposition aims to leverage the increasing power and importance of women customers and constitutes a longer term strategic initiative that that covers individuals from entry-level to retail affluent, with no specified income criteria.

Strategic investment in the Absa footprint is planned through the innovative deployment of traditional branches, alternative solutions, as well as through specialised outlets focusing on small businesses, micro-lending and convenience banking.

Absa Micro Lending

Absa Micro Lending serves 376 000 predominantly mass market customers through multiple sales channels.

PRODUCT AND SERVICE OFFERING

- Absa Micro Lending offers employed individual customers loans ranging from R2 000 to R15 000 over a term of 12 to 60 months at varied risk-based prices.
- These loans are offered through the Absa retail branch network, Absa loan centres, Absa contact centres and via leads generators, who engage personally with customers and assist with the application process.

THE YEAR UNDER REVIEW

Performance against 2007 strategic objectives

Strategic objectives	Performance
Organic growth of the debtors' book and subsequent market share gain.	• The debtor's book grew strongly during 2007. Market share grew from 3% to over 7% in the same period.
Expansion of the micro-lending distribution footprint.	• During 2007, 26 loan centres were opened.
To create shareholder value by posting a break-even profit before tax result in the first year of trading.	• Absa Micro Lending was accounted for on a stand-alone basis from 1 August 2007.

Commentary

The business enjoyed a very successful year in terms of expansion, market share growth, customer growth and hiring top talent. Absa's intent of serving the mass market with affordable small loans was firmly established.

FUTURE FOCUS

2008 will be focused on increasing the sales distribution footprint, increasing the leads generator pool, increasing the customer base, increasing sales and thereby growing market share to over 10%.

Absa Small Business

Absa Small Business is aggressively moving towards becoming the country's leading provider of financial solutions to small and micro enterprises. Leveraging off global best practice by utilising Barclays expertise and experience, Absa Small Business has designed a business model geared towards high value through serving established and profitable small and micro enterprises (SMEs) and high volume through serving the emerging SME market. Through dedicated relationship managers and business managers and an innovative approach to credit, the unit caters for the banking needs of customers delivered through digital, telephony as well as an expanding range of Small Business points of presence including branches, support and advisory centres nationally.

PRODUCT AND SERVICE OFFERING

Products and services focus on providing solutions to different customer needs, to provide holistic banking to the SME market, including unsecured lending.

- **Transactional** ➔ Business cheque account, BizStart and BizTransact (for the emerging market), business internet banking and telephone/cell phone banking, business integration products.
- **Credit** ➔ Overdrafts, revolving loans, term loans, Khula credit guarantee financing, mortgage loans, business credit cards, garage cards and the Small Business Fund.
- **Asset finance** ➔ Vehicle and asset financing and commercial property finance.
- **Investments** ➔ Call accounts, fixed deposits, notice deposits and savings accounts.
- **Business information** ➔ Khula credit guarantee mentoring, Business Advantage and iLearning.
- **Micro enterprise finance** ➔ Graduated enterprise loans (Yanda), leveraged enterprise loans, Group Lending, retail enterprise loans and wholesale funding.

THE YEAR UNDER REVIEW

Performance against 2007 strategic objectives

Strategic objectives	Performance
Introduction of a new operating model.	• A transformed business model was introduced. The aim of the model was to re-focus sales employees on value and service delivery. • This has resulted in the re-investing of freed time to pro-actively up-sell, cross-sell and serve customers. • A hub and spoke model was created, moving support functions and administration away from the front-line. • Relevant customer value propositions were implemented to facilitate value extraction through cross-selling, retention and the acquisition of valuable customers.
Review lending value chain for growth.	• Sales, credit and fulfilment processes were improved to ensure that loan applications are processed and paid out seamlessly.
Increased property finance funding.	• Improved property finance offering through the provision of mortgaged-backed business loans.

Performance against 2007 strategic objectives

Strategic objectives	Performance
Innovative distribution strategies.	• Grew the Absa Small Business customer and asset base by attracting groups of customers through the use of alternative channels and approaches, including micro enterprise service centres, market development enterprise development centres and advisory centres.

Commentary

Absa Small Business implemented the Barclays target operating model, differentiating the customer base into core and priority markets and providing relevant value propositions. In addition, a relationship based model was implemented through the introduction of relationship managers and business managers. Absa Small Business continued to expand its distribution footprint to address the emerging SME market through service centres, development centres and advisory centres in addition to utilising the retail branch network.

FUTURE FOCUS

Small Business aims to embed and enhance its new operating model. Customer segmentation will be used as a platform to introduce geographic, sector and product segmentation to ensure profitable lending and the removal of unprofitable activity. Over the medium term, the emphasis will be on obtaining a further understanding of customer needs and developing tailored solutions (including bundles of products and services) to address the full value chain of customers' financial needs. The distinction between core and priority customers and facilitating unsecured lending is a key strategic imperative for Absa Small Business.

Social grants - AllPay Consolidated Investment Holdings (Proprietary) Limited

AllPay Consolidated Investment Holdings (AllPay) has a compelling social grant market offering backed by years of solid service experience. It provides a business solution which, supported by enabling technology, a strong workforce and a proven management system, provides high service standards and added value to customers.

AllPay's service offering includes the distribution of:

- social grants via cash distribution;
- social grants via an Absa bank account, the Absa Sekulula debit card, which makes use of remote opening technology;
- on a project basis, wage payments to individuals without bank accounts or in areas without a formal financial services infrastructure;
- on a project basis, disaster relief payments; and
- other payment and distribution-related services.

PRODUCT AND SERVICE OFFERING

- **Cash distribution** ➔ Cash distribution to social grant beneficiaries.
- **Debit cards** ➔ Absa Sekulula debit card.
- **Facilitating access to financial services** ➔ Remote opening of Mzansi accounts.
- **Value-added products** ➔ Customer notification letters, wage payments and disaster relief payments.

THE YEAR UNDER REVIEW

Performance against 2007 strategic objectives

Strategic objectives	Performance
Extending AllPay's footprint and growing market share.	• AllPay has a footprint in four provinces. • This footprint has remained the same since 2006. • The cash payment footprint can only be extended through a bid process, as these payments are administered and overseen by the South African Social Security Agency (SASSA). AllPay is currently in the middle of a bidding process for cash payments of grants in other provinces. • AllPay has 2,4 million beneficiaries.
Offering other value-add services through the AllPay brand.	• AllPay provides the choice of receiving a grant via a cash payment or through a bank account (Sekulula). • AllPay's investment into local communities and commitment to uplifting the community' through direct participation and/or social interventions. This ensures AllPay's social contribution goes far beyond just corporate social responsibility.

Commentary

Bank accounts, the Mzansi account in particular, grew steadily in 2007. AllPay, along with other service providers, have seen more beneficiaries migrate to a bank account. This unfortunately continues to negatively affect the growth of AllPay.

Despite the limited growth in customer numbers, AllPay has retained its focus on customer services to improve service levels.

FUTURE FOCUS

In the short to medium term, AllPay is placing emphasis on extending its footprint and growing market share by securing new contracts. Attention will continue to be placed on integrating the banking needs of beneficiaries into the social grant delivery model. Emphasis will also be placed on increasing alternate revenue streams through footprint expansion and offering new value-add services.

Digital Channels

At the heart of **Digital Channels** are internet and cell phone banking, and the variety of applications associated with these. The division is also responsible for "NotifyMe" messaging alerts, electronic bank statements, the Absa website (www.absa.co.za), and iLearning and iPayroll products - among other functions.

Products and services are differentiated according to unique customer requirements in each segment, both in terms of technology and behaviour.

THE YEAR UNDER REVIEW

Performance against 2007 strategic objectives

Strategic objectives	Performance
Enhance customer experience.	• Implemented immediate inter-bank payments. • Implemented SARS UIF and tax payments. • Implemented process whereby business customers are able to authorise transactions via cell phone banking. • Implemented a process that enables cell phone banking registrations via the branch infrastructure. • Implemented mobile number portability.
Ensure that Digital Channels' services and users are secure and protected.	• The mandatory delivery of random verification numbers (RVN) via short message service (SMS) was implemented in July 2007. • The provision of free anti-virus software was provided for internet and cell phone banking customers.
Ensure compliance with new regulatory requirements.	• Implemented changes as stipulated by the National Credit Act regarding billing, language options, transaction history, and removal of overdraft functionality.
Increase Digital Channels' market share (grow the customer base).	• The cell phone banking registered customer base (excluding WAP) grew to 409 129 registered services by the end of December 2007.

Commentary

Absa's electronic channels maintained their strong industry position, with significant growth in internet banking, which closed the year with just under 800 000 registered customers. The investments in cell phone banking, plus the continuation of the Group's free cell phone banking offer, saw the base (excluding WAP) grow to just over 400 000 registered users. The introduction of NotifyMe, a message alert system on movement on customer accounts, exceeded customer registration expectations and closed the year with just under 1,8 million registered customers. During the year, certain of Absa Internet Access assets were sold to @tlantic Internet Services (Proprietary) Limited.

FUTURE FOCUS

Attention will be given to growing Digital Channels' customer base. Digital Channels' services will be enhanced by adding new functionalities and making changes to existing features to improve the customer experience. There will also be a drive to increase online sales fulfilment through internet banking. There will, as always, be a focus on security enhancements to ensure that Digital Channels' services stay abreast of the latest security threads, to keep customers and services secure and protected.

Telephony

Banks are continuously realising that customers prefer to access their financial services and products through multiple channels. Within Absa's multi-channel distribution network, the contact centre is the optimal servicing and support function for branches, internet-based channels and ATMs. It provides convenient, 24/7 person-to-person conversations that fully automated channels lack. Hence, the contact centre's role is both as a complementary channel to branches, ATMs and the internet, and as a primary sales and service channel in its own right.

With its three main sites and more than 2 000 seats, Absa Telephony's core business is selling high-volume and low- to medium-value offerings and providing services in support of Absa Retail Banks' customer value propositions. The main advantage of Telephony is its ability to handle large volumes of inquiries by fully or partially automating these interactions (such as telephone banking self service), as well as handling high-value products and improving Absa's ability to sell to customers (such as the Absa Home Loans contact centre).

THE YEAR UNDER REVIEW

Performance against 2007 strategic objectives

Strategic objectives	Performance
Implementation of a new operating model.	• The introduction of the operating model assisted in aligning the governance of Telephony across the Group. • A new leadership structure was approved and implemented, seeing enhanced capabilities in commercial engagement, operations, human resources and sales.
Increasing revenue-generating activities and sales performance.	• Notwithstanding organic growth in its activities, the contact centre increased its sales potential through an increased focus on micro-lending sales, a new home loans retention unit, a new unsecured lending unit, and by adopting a relational-based premium telephone service for affluent customers. • Sales performance in most lines of business were exceeding targets or sustained throughout the year.
Achieve superior customer service levels.	• The contact centre service performance rated third in the banking industry as measured by the Orange Index, and indicated that responsiveness, assurance and empathy were positive drivers of customer delight. • The year ended with the implementation of Absa Lean in business-critical processes, including Home Loans, AVAF and Micro Lending. Owing to these and other process interventions, the average issue resolution rate increased from 67% (year start) to 75% at year end.

Performance against 2007 strategic objectives

Strategic objectives	Performance
Ensure alignment to new legal requirements. Increase flexibility and scalability.	• The alignment of outbound activities to the new NCA regulations was implemented successfully. • A third site with a flexible architecture was enabled during the review period, creating more capacity and site resilience. • A feasibility study was completed to test an alternative operating model to address the rising cost of operations in the metro areas. The model is ready to be launched in 2008, in support of the national accelerated and shared growth initiative for South Africa (AsgiSA) strategy for job creation.

Commentary

The contact centre was repositioned as a shared centre of excellence for all business units, and plays a critical role in a multi-channel distribution environment.

The year saw the expansion of existing contact centre activities to include the following:

- The launch of a contact centre, undertaking micro-lending application, approval and payouts, as well as a support centre for field agents.
- The launch of the Small Business Support Centre (SBSC), which is a telephone-based service solution, enabling the fulfilment of customer service queries.
- The launch of a new Absa Home Loans retention unit.

During the review period, the Absa Contact Centre came second in the Contact Centre World Awards (Europe, Africa and Middle East) in the category "Best Large Contact Centre".

FUTURE FOCUS

Key strategies will be deployed to realise the vision to become a contact centre that South Africa can be proud of. Telephony's purpose of delivering value to stakeholders through winning conversations will be realised through the following themes:

- How people feel (Go green).
- How customers feel (Go orange).
- Growth (Go big).
- Enabling tools (Go bold).
- In control of risks (Sleep well).

In the year ahead, the strategies underpinning these themes will focus on enhancing issue resolution capabilities and the customer experience when using the Telephony channel, stabilising and standardising the technology infrastructure, reducing cost through governance and process improvements, significantly increasing the channel's contribution to Group revenue, and implementing a compelling employee value proposition and talent strategy. Furthermore, the telephone banking and transactional offering will be repositioned to unlock more value for the Group. Key initiatives will include investing in standardised routing technologies across all sites, as well as a front-end solution that will enable superior customer service. The implementation of a total quality framework will enjoy priority, as well as a big focus on talent attraction, nurturing and development.

In the year ahead, the new branding of the contact centre as "Connectzone" will be entrenched in support of an innovative, vibrant new work place offering to employees and business partners alike.

Absa Home Loans

Absa Home Loans offers innovative residential property-related ownership solutions to Absa's target market segments and aims to be the pre-eminent home loan provider in Africa. The mortgage product is offered through the Group's internal channels (specialist and generic branch sales consultants, branch sales outlets, telephone, internet and mobile express agents), as well as through external intermediaries (estate agents, aggregators, mortgage originators, developers, as well as leads generators).

SALIENT FEATURES[1]

Year ended 31 December

	2007	2006	Change %
Balance sheet (Rm)			
Total assets	**219 947**	177 762	23,7
Total loans and advances to customers	**202 497**	165 218	22,6
Total deposits due to customers	**-**	-	
Total liabilities	**210 124**	170 489	23,2
Income statement (Rm)			
Attributable earnings	**1 288**	1 086	18,6
Selected ratios (%)			
Contribution to the Group's attributable earnings	**12,5**	13,1	
Return on average equity	**15,1**	16,5	
Impairment losses on loans and advances as a percentage of average loans and advances to customers	**0,26**	0,13	
Cost-to-income ratio	**34,6**	39,6	
Other salient features			
Permanent employee complement	**1 243**	1 093	13,7
Number of accounts	**697 306**	683 739	2,0
Market share (%)			
• Residential mortgage advances	**33,3**	33,9	
• New bonds approved (Deeds Office)	**28,9**	27,4	
Business origination at registration (%)			
• Mortgage originators and other external intermediaries	**63**	59	
• Other	**37**	41	
Business origination at application (%)			
• Electronic	**62**	54	
• Manual	**32**	45	
• Internet	**6**	1	
Average loan size – total book (R)	**290 399**	292 784	(0,8)
Average loan size – new registrations (R)	**581 467**	562 563	3,4
Average loan to value – total book (%)	**48,9**	48,7	
Average loan to value – new business (%)	**89,4**	81,6	
Average purchase price of properties (R)	**963 570**	813 462[2]	18,5

[1] *Includes the results of Repossessed Assets (or elsewhere referred to as "Repossessed Properties").*

[2] *80-400m2, value up to R2,7 million.*

PRODUCT AND SERVICE OFFERING

- **Core products** ➔ Absa home loan and pension-backed loan.
- **Tailor-made home loans** ➔ MyHome, first-time home loan, Private Bank home loan and gold facility product.
- **Home loan options** ➔ FastForward, FlexiReserve, building loan, further advances, Multiplan and variable and fixed interest rates.
- **Special purpose loans** ➔ Bridging finance.
- **Value adds** ➔ Homeowners Comprehensive Insurance, Mortgage Protection Cover, BondSaver, Absa Rewards and Telkom SmartMoves.

THE YEAR UNDER REVIEW

Financial performance

During 2007, Absa Home Loans delivered strong financial results. Attributable earnings growth of 18,6% was recorded. The growth in advances remained strong at 22,6%, with the advances book growing to R202 billion at the end of December 2007.

2007 has seen an increase in the impairment numbers, mainly owing to the rising interest rate cycle and pressure on the repayment ability of customers. Impairments are closely monitored, taking into consideration the rate of growth of the advances book.

Performance against 2007 strategic objectives

Strategic objectives	Performance
Improving customer acquisition and retention.	• During 2007, specific emphasis was placed on enhancing the proposition to the affordable housing market segment through the customisation of the product offering and key processes. • Enhancements to the Absa Home Loans customer retention capabilities were implemented and expanded. • The Absa Home Loans express agent proposition was further expanded and enabled to enhance customer convenience. Specialisation with regard to the home loan product and delivery thereof was enabled through the introduction of specialist consultants in retail outlets. • An international mortgage offering was introduced, aimed at both local and international investors. • The Absa Home Loans strategic pricing capability was strengthened to ensure optimal profitability and decision-making capability.
Technology enablement.	• Emphasis was placed on the enablement of express agents to ensure maximum speed and convenience to customers. • Technology enhancements and a focus on process efficiency in application, credit and valuation environments were introduced. • Business and customer insight and decision-making capabilities were enhanced through the introduction of technology partnerships.

Performance against 2007 strategic objectives

Strategic objectives	Performance
Improving intellectual capital.	• During 2007, the focus was on strengthening Absa Home Loans' leadership, talent retention and talent attraction capability through various interventions. • Leadership development, as well as the identification, development of and reward of talent remained a priority.
Serving the community.	• With the aim to serve communities and make a sustainable contribution, Absa Home Loans launched project Vuka. The project consisted of one national and six regional community projects initiated and conducted by employees, which in total benefited seven communities to a monetary value of R1,4 million, excluding the effort and time of employees. This initiative will be continued during 2008.

Commentary

During the year under review, Absa Home Loans gave specific attention to improving the customer experience. This was achieved by re-engineering and automating key processes, introducing regional customer care centres, implementing a shortened electronic application form, renewing the focus on service delivery through Absa's internal delivery channels, and expanding the regional home loan processing footprint to the Eastern Cape.

In addition to this, emphasis was also placed on enhancing operational efficiencies through initiatives such as automating the pension-backed lending system, shortening electronic application forms and aligning with and implementing international risk management processes and reporting standards. The development of business simulation models contributed to enhanced business and customer insight, as well as improved management decision-making capabilities and pricing management.

FUTURE FOCUS

Absa Home Loans will continue its emphasis on enhancing service delivery to customers through focussed employee training interventions.

Over the short to medium term, the unit will remain focussed on maintaining momentum in achieving top-line growth, enhancing operational efficiencies, further technology enablement and strengthening the internal control environment. Focus will further remain on people by recruiting and developing talent, as well as the communities served through sustainable community involvement.

Repossessed Assets

Repossessed Assets is responsible for the disposal of properties that come into the Group's possession as a result of loan defaults and third party sales.

SALIENT FEATURES

Year ended 31 December

	2007	2006	Change %
Number of properties in possession	**1 229**	1 707	(28,4)
Number of Servcon properties	**311**	683	(54,5)
Average holding cost per property per month (rand)	**2 352**	1 876	25,4

THE YEAR UNDER REVIEW

Financial performance

The average holding costs per repossessed property increased from R1 876 to R2 352, owing to the reduction in the number of repossessed properties on the portfolio.

Performance against 2007 strategic objectives

Strategic objectives	Performance
Maintain the portfolio below 1 000 units.	• The target set at the beginning of the trading year was determined without anticipation of the alarmingly huge changes in interest rates, resulting in the increased number of new buy-ins. • In the current market it is difficult to achieve the selling prices (valuations). This has impacted negatively on the number of successful disposals of properties.
Further reduction of the Servcon portfolio.	• Although there has been a significant reduction of this portfolio, problems were experienced in the disposal of these properties.

Commentary

At 1 540, the number of properties in possession is at its lowest level in the history of Absa. During the year under review, 507 properties were sold and 957 transferred. There was a significant increase in the number of new properties bought in, resulting primarily from the interest rate hikes, a decrease in buyer confidence and the lack of bidders at the Sales in Execution unit. During the year under review, 149 properties were bought in. Of the overall total, 311 are managed in the Servcon portfolio and 1 229 in the Absa portfolio.

FUTURE FOCUS

Repossessed Assets aims to reduce and maintain its portfolio at below 1 000 units from a high of 18 000 properties in 2001. In addition to this, Repossessed Assets aims to reduce the Servcon portfolio to zero in terms of the agreement reached with the national government.

Absa Card

Absa Card provides global card acceptance, electronic payment and financial solutions in selected market segments. Services are distributed through Absa Bank's branch network, corporate and business bankers, over the internet and through direct sales channels - including a new "Face-To-Face" channel that was launched "air side" at O R Tambo International Airport. Product users include individuals and businesses from small and medium enterprises to corporates. The division also provides generally accepted electronic payment and financial solutions in selected market segments. The Merchant Acquiring team is responsible for providing a point of sale solution for merchants, be they retailers, restaurants or the travel industry.

SALIENT FEATURES

Year ended 31 December

	2007	2006	Change %
Balance sheet (Rm)			
Total assets	**13 995**	11 189	25,1
Total loans and advances to customers	**11 817**	9 998	18,2
Total deposits due to customers	**2 065**	2 247	(8,1)
Total liabilities	**12 807**	10 380	23,4
Income statement (Rm)			
Attributable earnings	**706**	700	0,9
Selected ratios (%)			
Contribution to the Group's attributable earnings	**6,8**	8,4	
Return on average equity	**70,7**	104,4	
Impairment losses on loans and advances as a percentage of average loans and advances to customers	**3,50**	2,08	
Cost-to-income ratio	**40,8**	42,1	
Other salient features			
Permanent employee complement	**1 208**	1 011	19,5
Number of main accounts (million)	**1,9**	1,8	5,5
Number of transactions (million)	**309,7**	268,2	15,5
• Issuing	**102,2**	97,7	4,6
• Acquiring	**207,5**	170,5	21,7
Value of transactions (Rm)	**121,9**	105,3	15,7
• Issuing	**55,2**	50,8	8,7
• Acquiring	**66,7**	54,5	22,4
Market share (%)	**25,1**	25,6	
Percentage of revolvers/extended credit takers based on account balances (%)	**84**	83	

PRODUCT AND SERVICE OFFERING

Absa Card provides the full range of Visa and MasterCard products, merchant services and world-class customer services to a broad spectrum of the market.

THE YEAR UNDER REVIEW

Financial performance

The year under review saw increased competition, including:

- continued pressure on merchant discount commissions from fierce competition between acquirers; and
- reduced recruitment volumes, owing to more stringent credit approval mechanisms required by the National Credit Act enacted in June 2007, in conjunction with a number of new white label cards introduced to the market over the preceding 18 months.

Despite these and other challenges, Absa Card managed to deliver on its growth strategy, which it embarked on in August 2005. As a result, market share was boosted to 25,1%. This growth was achieved while improving profitability at account level, resulting in headline earnings growth.

Performance against 2007 strategic objectives

Strategic objectives	Performance
Increasing the card penetration of Absa customers.	• Alignment of scoring criteria and optimising customer analytics has enabled Absa Card to further leverage off the broader Absa customer base.
More actively recruit non-Absa customers under the Absa brand.	• A direct sales channel was developed. • Partnerships were launched to compliment traditional Absa channels. This allowed Absa Card to actively acquire traditionally non-Absa customers.
Optimising account terms and business models.	• A number of tailored balance transfer offers were introduced to the market, in conjunction with the honing of the product value proposition.
Improving operational efficiency and flexibility.	• Absa Card successfully applied the principles of the Lean Sigma process to its fraud prevention and investigation and new application processes.
Develop and grow the merchant acquiring business.	• Absa Card Merchant Acquiring maintained its market-leading position by building on its unique service model, being the only South African acquirer with regional merchant service representatives. • This has enabled Merchant Acquiring to preserve its acquiring margins, while continuously attracting new merchants.
Bring together the best capabilities of Absa, Absa Card, Barclays and Barclaycard.	• Absa Card proudly participated in the mutual exchange of skills, strategies and experiences with Barclaycard.

Commentary

Absa Card has the second largest market share in the South African credit card market. This was achieved through applying the principles of managing for value.

In addition to this, Absa Card improved its risk management decisioning and collections capability, increased the credit card penetration of Absa customers and improved customer service levels.

A number of new products and services were provided to the market during the year under review. Absa introduced a card in partnership with Momentum Limited, aimed at reinvesting accrued loyalty rewards into insurance and investment products. The Barclaycard brand was re-launched in South Africa, with the Premium product aimed at the high income segments and the Classic product aimed at the medium income segments.

FUTURE FOCUS

Absa Card aims to be the leading card business in South Africa and the pre-eminent consumer lending business in sub-Saharan Africa in each of its chosen markets. This will be achieved by:

- optimising the product value proposition from a customer-centric perspective;
- increasing the card penetration of Absa's customer base;
- more actively recruiting non-Absa customers under the Absa brand using a range of direct/alliance channels;
- optimising account terms and business models to improve account performance, while also seeking to provide high quality customer service and propositions;
- improving operational efficiency and flexibility;
- continuing to develop and grow Absa's merchant acquiring business; and
- bringing together the best capabilities of Absa, Absa Card, Barclays and Barclaycard to create a competitive advantage in the market.

In addition to this, emphasis will be placed on:

- enhancing the customer experience by providing world-class products and services;
- sustained growth in transaction volumes and customer balances, particularly revolving balances;
- controlling impairments within acceptable risk appetite frameworks;
- attracting the best talent; and
- retaining key employees.

Absa Vehicle and Asset Finance

Absa Vehicle and Asset Finance (AVAF) offers customised vehicle and asset finance products (ranging from the financing of manufacturing and mining equipment, to leases, office automation and the financing of private vehicles) and services to customers in the corporate, commercial and personal markets. AVAF also offers vehicle management solutions (such as fleet management and administration) to these markets and fleet partners.

With the aim of being the leading asset finance institution that finances and manages movable assets in its chosen markets, AVAF accesses customers through a multi-channel approach. Electronic capturing, approval and contract delivery remains a strategic focus area. Channels include AVAF's managed sales force situated in the Absa branches, business centres, the contact centre, approved motor dealers, suppliers and manufacturers, and the internet.

SALIENT FEATURES

Year ended 31 December

	2007	2006	Change %
Balance sheet (Rm)			
Total assets	**78 452**	69 779	12,4
Total loans and advances to customers	**69 831**	62 344	12,0
Total deposits due to customers	**31**	40	(22,5)
Total liabilities	**72 312**	64 679	11,8
Income statement (Rm)			
Attributable earnings	**770**	779	(1,2)
Selected ratios (%)			
Contribution to the Group's attributable earnings	**7,5**	9,4	
Return on average equity	**13,7**	16,8	
Impairment losses on loans and advances as a percentage of average loans and advances to customers	**1,02**	0,80	
Cost-to-income ratio	**43,9**	44,9	
Other salient features			
Permanent employee complement	**1 990**	1 670	19,2
Number of accounts	**650 547**	684 319	(4,9)
Market share (%)			
• DI900			
• • Excluding AVAF's securitisation transactions	**23,1**	24,4	
• • Including AVAF's securitisation transaction	**25,2**	25,9	
• New vehicles (Naamsa)	**14,9**	17,0	
• Pre-owned vehicles (Nada)	**40,3**	44,9	
Average loan size (R)	**151 898**	123 858	22,6
Composition of AVAF's book (%)			
• Passenger (new)	**27,3**	26,6	
• Passenger (pre owned)	**27,8**	29,9	
• Commercial (new)	**18,2**	17,3	
• Commercial (pre-owned)	**10,5**	11,1	
• Industrial and agricultural	**13,0**	12,4	
• Other	**3,2**	2,7	

PRODUCT AND SERVICE OFFERING

- **Standard asset finance** ➔ Instalment sales, leases and rentals.
- **Dealer stock financing** ➔ Floor plan and demonstrator plan.
- **Fleet finance** ➔ Full maintenance leases and operating rentals.
- **Fleet management** ➔ Managed maintenance, fixed price maintenance, fleet and fuel cards.
- **Service administration** ➔ Administration of value-added products.
- **Aircraft finance** ➔ Aviation bonds.
- **Specialised needs** ➔ Structured products/finance.
- **Value-added products** ➔ Insurance, warranties, extended cover.
- **ICT finance** ➔ Office automation, communication and technology finance.

THE YEAR UNDER REVIEW

Financial performance

The overall vehicle and commercial market contracted by approximately 5% in 2007 and AVAF increased advances by 12,0% during the period. The unit's performance was negatively impacted by increased impairments, largely brought about by increasing indebtedness of customers as the South African Reserve Bank increased interest rates. The introduction of the National Credit Act (NCA) and the subsequent change to monthly products (previously term) impacted fee income from insurance products. On a positive side, continued efficiency enhancements led to a further decrease in the cost-to-income ratio to 43,9%.

Performance against 2007 strategic objectives

Strategic objectives	Performance
Increasing penetration of the Absa customer base.	• Increased use of electronic channels. • Increased sales into the Absa Retail Bank and Small Business customer base. • Implemented an improved call centre model in the fleet business. • Implemented an improved AVAF retail sales operating model to better focus on Absa's retail footprint.
Optimising the cost of delivery in all channels.	• Roll-out of SAP leasing solution. • Implemented an end-to-end document tracking delivery solution. • Implemented a new operating model in business processing centres to improve turnaround times. • Streamlined key processes and rationalised management structures.
Increasing commercial and corporate asset finance sales into non-alliance suppliers.	• Increased year-on-year total production • Established a successful preferred finance relationship in the construction industry. • All commercial alliances were above targets, owing to healthy economic activity and deal flows in commercial market. • Improved market share year on year in medium and heavy commercial vehicles/assets.
Reviewing alliances and joint venture models.	• Rationalised working arrangements with joint venture and alliance partners, resulting in increases in the commercial business. • Increased the quality of service delivery, especially in the credit and application processing functions. • Provided dedicated managers responsible for alliances and joint ventures.
Redesigning AVAF's small business proposition.	• Aligned AVAF operating model with the Absa Small Business footprint. • Increased production in Small Business. • Created innovative solutions for the market.

Commentary

2007 witnessed increased penetration and support from AVAF's alliance partners. In addition to this, AVAF experienced strong growth in the technology finance area (office automation and IT) small business, corporate and commercial segments.

During 2007, AVAF took part in the Group's R20 billion securitisation programme with the securitisation of R3,5 billion of its vehicle finance receivables portfolio (instalment sale agreements in relation to new, demonstration and used passenger vehicles and light commercial vehicles).

AVAF established a dedicated small business vehicle and asset finance unit that resulted in the successful penetration of the SME market and the ability to leverage BEE opportunities also took on a renewed focus. The repositioning of the retail vehicle finance sales force, which generated increased sales and improved penetration into the Absa customer base.

AVAF also entered into further alliances with dominant independent dealer groups and rolled out the commercial value-added products (VAPs) programme at selected alliance partners.

FUTURE FOCUS

The combined effect of interest rate hikes, reduced levels of personal disposable income, new vehicle price inflation and the National Credit Act (NCA) legislation will all continue to impact total new vehicle sales in 2008. Tactically in the short term, AVAF will continuously adjust credit assessment scorecards to restrict lending to customers with certain risk profiles. In addition, AVAF will also adjust price margins to match the increased risk profile in the market, focus on writing quality business, increase collections and recovery resources, and contain cost growth.

In the medium term, AVAF has the following focus areas:

- Focus on sources of business and channels to improve volumes and the quality of business.
- Rationalise and extend the product range.
- Improve customer retention rates and cross-sell into the Absa Group customer base.
- Develop a new market niche and increase market penetration.
- Continuously streamline processes and bed down key technology projects to improve efficiency and effectiveness.

CORPORATE AND COMMERCIAL BANKING

Introduction

Absa's corporate and commercial banking operations provide banking services and solutioning to corporates and medium and large businesses.

THE YEAR UNDER REVIEW

The year under review was characterised by the following:

- The implementation the Absa-Barclays synergy initiatives, which included value-aligned performance management (VAPM), a more effective sales operating model for the Large and Medium Business segments, better end-to-end credit processes and a general up-skilling of employees.
- Increased diversification of income streams.
- Growing the client base and enhancing cross-selling ratios.
- Installing civil and electrical engineering infrastructure in respect of Absa Development Company Holdings (Proprietary) Limited's (Absa DevCo) first fully sustainable integrated development.

FOCUS GOING FORWARD

Focus is being placed on a number of strategies to optimise market opportunities. These are:

- Expanding on the already established platform for success.
- Further diversifying income streams.
- Aggressive client and business acquisition.
- Expanding ACBB's client coverage footprint.
- Attracting and retaining the best people in the market.
- Capitalising on investment-led growth.
- Creating serviced erven in residential developments, catering for all segments of the residential market, with the emphasis on providing 100 000 residential units by 2010.

SALIENT FEATURES

Year ended 31 December

Balance sheet

	2007 Rm	2006 Rm	Change %
Total advances	**70 370**	56 140	25,3
Corporate	**9 325**	8 926	4,5
Large Business	**39 502**	29 416	34,3
Medium Business	**21 543**	17 798	21,0
Investments in associated undertakings and joint ventures	**1 059**	344	>100,0
Other assets	**19 456**	24 934	(22,0)
Other assets – external	**8 024**	6 447	24,5
Other assets – internal[1]	**11 432**	18 487	(38,2)
Total assets	**90 885**	81 418	11,6
Total deposits	**76 301**	67 691	12,7
Corporate	**9 237**	7 412	24,6
Large Business	**44 794**	41 731	7,4
Medium Business	**22 270**	18 548	20,1
Other liabilities	**7 614**	8 470	(10,1)
Other liabilities – external	**6 528**	7 354	(11,2)
Other liabilities – internal[1]	**1 086**	1 116	(2,7)
Total liabilities	**83 915**	76 161	10,2

[1] *Internal assets and liabilities for the Group are eliminated in "Other".*

Income statement

	2007 Rm	2006 Rm	Change %
Net interest income	**3 897**	3 092	26,0
Impairment losses on loans and advances	**(148)**	(331)	55,3
Non-interest income	**2 255**	2 076	8,6
Operating expenses	**(3 241)**	(2 841)	(14,1)
Other	**13**	(14)	>100,0
Operating profit before income tax	**2 776**	1 982	40,1
Taxation expense	**(851)**	(598)	(42,3)
Profit for the year	**1 925**	1 384	39,1
Attributable to:			
Ordinary equity holders of the Group	**1 922**	1 384	38,9
Minority interest – ordinary shares	**3**	-	>(100,0)
Minority interest – preference shares	**-**	-	-
	1 925	1 384	39,1

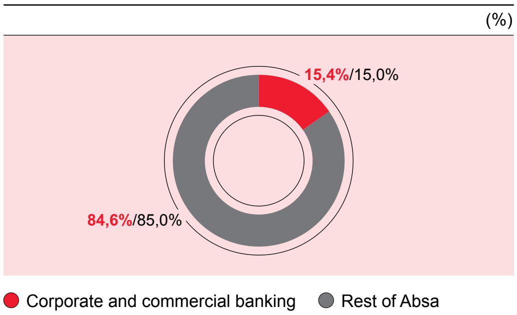
Selected ratios

	2007 %	2006 %
Financial performance		
Return on average equity	**30,0**	27,4
Return on average assets	**2,13**	1,70
Operating performance		
Net interest margin on average assets	**4,38**	4,09
Advances margin	**3,21**	3,44
Deposit margin	**1,94**	1,82
Impairment losses on loans and advances as a percentage of average loans and advances to customers	**0,23**	0,67
Non-interest income as a percentage of operating income	**36,6**	40,2
Cost-to-income ratio	**52,7**	55,0
Top-line growth[2]	**19,0**	17,8
Cost growth[2]	**14,1**	15,1
Cost-to-assets ratio	**3,8**	3,8

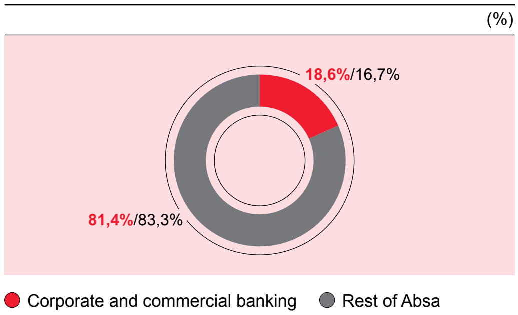
[2] *Compared to an unaudited pro forma*

CONTRIBUTION ANALYSIS

TOTAL LOANS AND ADVANCES TO CUSTOMERS



ATTRIBUTABLE EARNINGS



FINANCIAL PERFORMANCE

Attributable earnings increased to R1 922 million from the R1 384 million achieved for 2006, an earnings growth of 38,9%. This performance was driven by strong growth in advances, deposits, transaction volumes and clients. Total advances and deposit levels held up well under increasing interest rates, growing by 25,3% and 12,7% respectively. The quality of the advances book improved further, as evidenced by an impairment loss ratio of 0,23% compared with 0,67% for 2006.

Non-interest income achieved a modest growth of 8,6% when compared with 2006. This growth was primarily driven by electronic banking fees, which experienced strong growth of 17,4% to represent 19,8% of non-interest income. Transaction income on cheque and corporate overdraft accounts increased moderately by 4,1%, but still represented the majority of non-interest income (34,8%). The listed commercial property finance (CPF) investment portfolio performed in line with expectations, but its performance was slightly lower than in 2006 owing to the disposal of Paramount Property Fund Limited in 2006 as well as the equity market slowdown.

Operating expenses grew by 14,1%, mainly owing to an increased employee complement, which is aimed at increasing the sales and service capacity.

The Large Business segment increased profits by 41,8%. The two main leading profit drivers - the number of clients and the number of transactions - increased by 6,9% and 23,2% respectively. Together with advances growth of 34,3% and deposits growth of 7,3%, this resulted in top-line income growth of 29,4%. The Large Business segment contributed 44,2% to the corporate and commercial banking segment's top-line income.

The Medium Business segment increased profits by 30,0%. Solid growth was recorded in client numbers and electronic banking transactions, which increased by 4,0% and 9,1% respectively. Top-line income increased by 20,0% as a result of strong advances and deposit growth of 21,0% and 20,1% respectively. The Medium Business segment contributed 42,8% to the corporate and commercial banking segment's top-line income.

The Corporate segment businesses sustained their growth and contributed 13,0% to the corporate and commercial banking business unit's top-line income in 2007. Significant effort was made to design a new operating model focusing on enhancing the middle and back office processes.

CPF continued its strong performance of the past few years. Advances grew by 30,4%, resulting in a 29,5% profit increase. Absa Debtor Finance has grown strongly during the year. A specific emphasis was placed on specialised finance. Establishing a dedicated business unit also helped to improve revenue growth.

Absa Corporate and Business Bank

Absa Corporate and Business Bank (ACBB) offers a comprehensive range of corporate and commercial banking products and specialised services, ranging from off-the-shelf transactional products to complex financial solutions, to meet corporate and commercial client needs. A relationship management model is used to serve clients through business centres for corporate and large business and business cells for medium businesses.

ACBB is active in the commercial property finance market as well the debtor financing arena and offers a number of specialised funding solutions in trade, acquisition, project and infrastructure finance. There is also a strong focus on black economic empowerment transactions and a focus on a number of sectors, including agriculture, the public sector, franchising, construction, logistics, financial intermediaries, professional services, manufacturing and retail. In these areas, ACBB has developed specialist expertise to assist client interactions.

SALIENT FEATURES

Year ended 31 December

	2007	2006	Change %
Permanent employee complement	**3 140**	2 502	25,5
Number of clients	**90 211**	84 076	7,3

PRODUCT AND SERVICE OFFERING

- Transactional banking products.
- Short- and long-term loans.
- Commercial property finance loans.
- Investment products.
- Electronic banking and payments products.
- Debtor financing products.
- International banking products.
- Specialist funding products in the trade, commodity acquisition and project finance areas, as well as advisory services and feasibility studies.
- Agricultural products such as crop insurance and funding.

THE YEAR UNDER REVIEW

Performance against 2007 strategic objectives

Strategic objectives	Performance
Building the platforms for success.	• VAPM has been fully implemented on a client contribution basis and will be fully completed once ACBB's risk models are refined and integrated. • The first iteration of credit processes were implemented successfully, thereby making remote application processes possible. This has accelerated sanctioning and substantially enhanced turnaround times. • A first iteration of the sales operating model has been implemented. Some areas required further attention, which will be provided in a second round of refinements, together with general process re-engineering. • ACBB has now established a dedicated training academy and training processes are refined on an ongoing basis.
Strategies to diversify income streams.	• A specialised finance area has been established and is now reaching a point where it can function as 'business as usual'. Several new products are being introduced and there is an aggressive focus on new business. • Absa Debtor Finance is growing strongly, with the product offering being more robust than in the past. • New sectors have been introduced, notably manufacturing, retail, construction and logistics and financial intermediaries. • Product teams for new product focuses have been introduced, notably a derivative team. In addition, Commercial Asset Finance is being integrated with ACBB.
Client and business acquisition strategies.	• A dedicated team has been established to drive new client acquisition, campaigns and cross-selling initiatives.
Strategies to build infrastructure.	• ACBB has commenced implementing a global transactional and payments capability in conjunction with Barclays. This is a large project and will take more time before it drives new business opportunities.
Strategies to build the organisation and culture.	• ACBB has implemented a comprehensive change programme, which continues to build resilience with employees, teams and leadership. • A pipeline for new talent in the form of a graduate programme was implemented.

Commentary

Absa Corporate and Business Bank (ACBB) is working towards its vision of becoming a pre-eminent corporate and business bank. ACBB's plan for pre-eminence addresses opportunities in five main areas:

- Firstly, emphasis has been placed on "building muscle" in ACBB, owing to the successful completion of the Absa-Barclays synergy initiatives. Initiatives that form part of this focus included the implementation of VAPM, a more effective sales operating model for the Large and Medium Business segments, better end-to-end credit processes and a general up-skilling of employees.
- Secondly, a series of initiatives have been undertaken to diversify income concentrations. These included the aggressive growth of debtor finance, development of a specialised finance (Specfin) capacity, new industry focuses, a focus on affordable housing opportunities (SID's) and new product capacity or innovations (treasury sales for foreign exchange and derivatives, new deposit products and the integration of the commercial part of asset financing into ACBB's business model).
- Thirdly, increased focus was placed on the aggressive acquisition of new clients as well as cross-selling.
- Fourthly, focus was placed on driving short-term and long-term infrastructure development initiatives. With Barclays, ACBB is now developing the required global electronic banking and transactional execution capability.
- Lastly, attention is being given to building the organisation by driving a focused short-term talent acquisition effort, developing a future talent pipeline and developing the organisation leadership and performance culture (a focused change support programme).

FUTURE FOCUS

Focus will continue to be placed on positioning ACBB as a pre-eminent corporate and business bank. This will be achieved by:

- Expanding on the already established platform for success and specifically focusing on training and capacity building.
- Implementing strategies to become more prominent in the corporate franchise.
- Further diversifying income streams by focusing on a number of additional product areas and capabilities.
- Further enhancing efficiency through process re-engineering. Specific attention will be placed on compliance and credit processes.
- Aggressive client and business acquisition and cross-selling.
- Expanding ACBB's client coverage footprint.
- Expanding commercial product capabilities into Africa.
- Leveraging Barclays global footprint.
- Implementing strategies to ensure the more efficient use of capital.
- Attracting and retaining the best people in the market.

Absa Development Company Holdings (Proprietary) Limited

Absa Development Company Holdings (Absa DevCo) specialises in middle-market and sustainable integrated township development and the sale of primarily serviced residential erven.

THE YEAR UNDER REVIEW

Performance against 2007 strategic objectives

Strategic objectives	Performance
Provision of 100 000 residential units in sustainable integrated developments.	• 2 004 of the 3 005 fully-subsidised houses were completed in 2007 and handed over to the City of Tshwane Metropolitan Municipality. The remaining 1 001 fully-subsidised houses are due for completion in 2008. The affordable and free market bonded residential and institutional housing components, consisting of an additional 2 431 housing units, have been fully serviced and will come onto the market in 2008. • Negotiations with the Mogale and Emalahleni local municipalities to commence with developments which will yield 9 400 and 12 400 housing units in Kagiso and Klarinet (Witbank), respectively, have reached the final stage and phased implementation is to commence in 2008, with delivery of 13 100 units scheduled by 2010. • Phased developments in Ekurhuleni (Chief Albert Luthuli Ext 6), Ndlambe (Thornhill, Port Alfred) and Cape Town (Blueberry Hill) are due to come on stream in 2008 and are expected to provide a further 9 000 units by 2010. • The acquisition of land suitable for sustainable integrated developments is undertaken on an ongoing basis, with the emphasis on land acquisitions where development rights have been granted and municipal bulk infrastructure has the capacity to support the development. Land has also been acquired in Soshanguve, which will yield an estimated 56 000 residential units in phased developments from 2011 onwards.

Performance against 2007 strategic objectives

Strategic objectives	Performance
Enhanced co-operation with government and key role players.	• During 2007, Absa DevCo was introduced on a country-wide basis to all three tiers of government, with the emphasis on provincial housing departments and the six metropolitan municipalities. • Memorandums of understanding, recording the intention of the parties to co-operate in the development of sustainable integrated human settlements, were concluded with the provincial departments of housing of the Western Cape and KwaZulu-Natal and similar agreements with the Provincial Housing Departments of the Free State, Eastern Cape and Gauteng are expected to follow in 2008. • Project-specific memorandums of understanding have also been concluded with the Provincial Department of Housing, Gauteng, in respect of the Chief Albert Luthuli Ext 6 development in Ekurhuleni, and that of the Eastern Cape in respect of the Thornhill development in Ndlambe. A memorandum of understanding has been concluded with Bela-Bela Local Municipality and is with the Provincial Housing Department of Limpopo for signature. • Discussions with the City of Tshwane Metropolitan Municipality and Thubelisha Homes are expected to culminate in memorandums of understanding being concluded in 2008. • A memorandum of understanding was concluded with the National Housing Finance Corporation in November 2007 and a similar memorandum of understanding with the Development Bank of Southern Africa is expected to be signed in 2008. • Pursuant to the conclusion of memorandums of understanding, various development projects are being investigated country-wide, with the view to conclude project specific agreements during the course of 2008. • Networking with all tiers of government in conjunction with Absa Home Loans, CPF, Public Sector, and ACBB (Specialised Finance) to identify and pursue opportunities to assist government to meet its housing and bulk infrastructure targets remains a key objective.

Commentary

Rising interest rates and the implementation of the National Credit Act have resulted in the sale of serviced residential erven tapering off in the second half of 2007. With further rises in interest rates expected during 2008, projected sales targets are expected to come under pressure.

The lack of capacity in respect of municipal bulk infrastructure (water, sanitation and electricity) has also delayed implementation of township developments and in conjunction with ACBB (Specialised Finance) and provincial housing departments, discussions with affected local authorities are pursued in an endeavour to facilitate financing arrangements for the upgrade, replacement and installation of new municipal bulk infrastructure. This initiative will result in delays being obviated and at the same time unlocking new development opportunities.

Despite the worsening market conditions, steady sales in the second and third phases of the Zambezi development in Tshwane and the fourth phase of the Amberfield development in Centurion were recorded and these phases are expected to be sold out during the course of 2008. Absa DevCo's Welgevonden development in Stellenbosch, as well as the last phase of the Zambezi development, was sold out in 2007, whilst the first phase of the Cedar Creek development in Fourways, which was launched at the end of 2006, has almost been sold out.

Installation of infrastructure in the second phase of Cedar Creek has been completed and this phase will be launched in the second quarter of 2008. In 2007, Absa DevCo acquired land for middle-market residential township development in Hazyview (Mpumalanga), Ballito (KwaZulu-Natal), Gonube (East London), Bronkhorstspruit and at the Hartbeespoort Dam. All the required township establishment and environmental approvals are being obtained to ensure that implementation of the developments can proceed when market conditions improve. This also applies to the remainder of Absa DevCo's Brakfontein, Centurion land on which it has already developed four Amberfield townships.

The phased installation of civil and electrical engineering infrastructure in respect of Absa DevCo's first fully sustainable integrated development, known as Olievenhoutbosch, which comprises 3 005 subsidised, 1 263 institutional and 1 168 bonded housing units as well as schools, crèches, churches and public amenities, was effectively completed by the end of 2007, as well as construction of all the fully subsidised houses, 2 004 of which were handed over to the City of Tshwane Metropolitan Municipality for occupation by beneficiaries. The first transfers of houses to beneficiaries have also been registered in the Deeds Office.

Negotiations with Mogale Local Municipality and Emalahleni Local Municipality for implementation of similar developments, which will yield 21 800 housing units, were at an advanced stage and commencement with the projects is expected during the course of 2008. The phased developments of Chief Albert Luthuli Ext 6 (Ekurhuleni) and Thornhill (Ndlambe) are also scheduled to come on stream.

Land earmarked for development of sustainable integrated human settlements has been acquired in Mangaung (Bloemfontein), Meyerton and Polokwane and approval of development rights is receiving attention.

A joint bid with Standard Bank to develop Blueberry Hill, an area of approximately 75 hectares, in Blue Downs, Cape Town, has been accepted by the Department of Housing, Western Cape, and planning is at an advanced stage.

FUTURE FOCUS

Absa DevCo aims to create serviced erven in residential developments, catering for all segments of the residential market, with the emphasis on providing 100 000 residential units in sustainable integrated developments in all nine provinces and the six metropolitan municipalities by 2010.

In order to achieve this, Absa DevCo will continuously engage and co-operate with all tiers of government as well as other role players to significantly contribute towards the creation of cross-selling opportunities for the Group, with the emphasis on home loans and development bonds, and the Group achieving its targets in terms of the Financial Sector Charter.

It is Absa Devco's aim to play a large role in transferring knowledge to municipal and provincial role players to establish a common framework for sustainable development efforts.

Absa DevCo also feels that it can do more to leverage the affordable housing value stream by playing a role to facilitate and take fees for the erection of top structures, commercial facilities and infrastructure.

INVESTMENT BANKING

Introduction

Absa offers investment banking services through Absa Capital, whose primary business is to act as an intermediary between suppliers and users of capital. Absa Capital has a unique business model, representing a combination of fully local specialist knowledge (as a part of Absa) and fully global expertise (through its alliance with Barclays Capital).

The business model is centred on delivering specialist investment banking financing, risk management and advisory solutions across asset classes to corporations, financial institutions, and government clients. These capabilities are delivered through a client-centric approach, with an emphasis on origination and distribution of risk.

SALIENT FEATURES

Year ended 31 December

Balance sheet

	2007 Rm	2006 Rm	Change %
Total advances	**53 011**	38 800	36,6
Investments in associated undertakings and joint ventures	**-**	-	-
Other assets	**371 432**	243 110	52,8
Other assets – external	**97 872**	56 462	73,3
Other assets – internal[1]	**273 560**	186 648	46,6
Total assets	**424 443**	281 910	50,6
Total deposits	**130 663**	126 197	3,5
Other liabilities	**288 071**	151 416	90,3
Other liabilities – external	**232 967**	141 452	64,7
Other liabilities – internal[1]	**55 104**	9 964	>100,0
Total liabilities	**418 734**	277 613	50,8

[1] *Internal assets and liabilities for the Group are eliminated in "Other".*

Income statement

	2007 Rm	2006 Rm	Change %
Net interest income	**1 655**	1 092	51,6
Impairment losses on loans and advances	**(1)**	2	>(100,0)
Non-interest income	**2 155**	1 427	51,0
Operating expenses	**(1 320)**	(945)	(39,7)
Other	**(77)**	(108)	28,7
Operating profit before income tax	**2 412**	1 468	64,3
Taxation expense	**(679)**	(353)	(92,4)
Profit for the year	**1 733**	1 115	55,4
Attributable to:			
Ordinary equity holders of the Group	**1 733**	1 115	55,4
Minority interest – ordinary shares	**-**	-	-
Minority interest – preference shares	**-**	-	-
	1 733	1 115	55,4

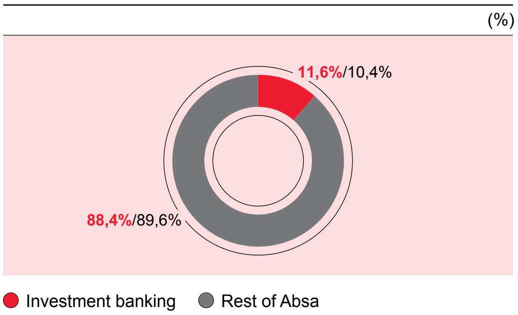
Selected ratios

	2007 %	2006 %
Financial performance		
Return on average equity	**34,6**	27,1
Return on average assets	**0,49**	0,44
Operating performance		
Impairment losses on loans and advances as a percentage of average loans and advances to customers	**0,00**	0,00
Non-interest income as a percentage of operating income	**56,6**	56,6
Cost-to-income ratio	**34,6**	37,5
Top-line growth[2]	**51,2**	29,8
Cost growth[2]	**39,6**	6,1
Cost-to-assets ratio	**0,4**	0,4

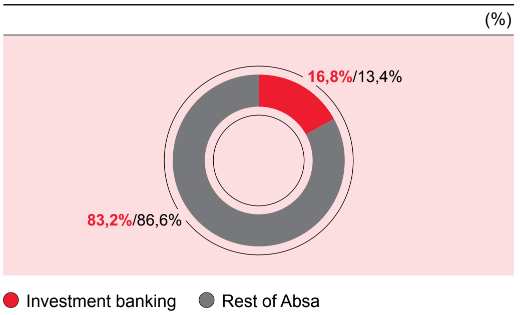
[2] *Compared to an unaudited pro forma*

CONTRIBUTION ANALYSIS

TOTAL LOANS AND ADVANCES TO CUSTOMERS



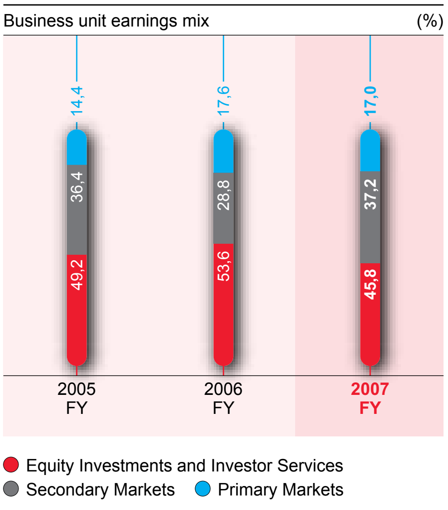
ATTRIBUTABLE EARNINGS



PRODUCT AND SERVICE OFFERING

- **Primary Markets** ➔ Provides various forms of debt financing solutions to corporate and government clients.
- **Secondary Markets** ➔ Provides risk management solutions and other traded products, across asset classes, to both institutional investors and corporate and government clients.
- **Investor Services and Equity Investments** ➔ The main business units in this division are Equity Investments, which acts as a principal by investing in equity exposures to companies and other entities, and Investor Services, which provides a range of services to large investors such as custodial services, trustee services, clearing and settlement and securities lending.

ABSA CAPITAL



THE YEAR UNDER REVIEW

Financial performance

Absa Capital increased attributable earnings to R1 733 million from R1 115 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 by 95,6% in 2007, and now contributes 37,2% of Absa Capital's revenue. 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.

The revenue of Primary Markets grew by 29,1% in 2007 and contributed 45,8% of Absa Capital's revenue for the year. Fee income, in particular, grew by 149,0% compared with 2006. 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.

The business of Equity Investments and Investor Services grew by 45,0% in 2007 and contributed 17,0% of Absa Capital's revenue for the year. A significant proportion of earnings came from 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.

Performance against strategic objectives

Strategic objectives	Performance
Diversification of revenue mix.	• Significant progress was made in varying earnings away from a reliance on traditional lend-and-hold loan income towards a more balanced business, driven by fee income in Primary Markets. • Improved contribution of trading and private equity businesses to overall earnings mix.
Attraction and retention of top talent.	• Completion of a number of senior appointments and key hires. • Aggressive talent upgrading and development across all business areas. • Successful execution of inaugural graduate recruitment programme.
Improved sophistication of derivatives and risk management offering.	• Introduced a number of product firsts into the South African market. • Leveraged Barclays Capital derivatives and risk management capabilities in conclusion of significant trades.

Performance against strategic objectives

Strategic objectives	Performance
Developing the risk and cost control environment.	• Overall, revenues grew faster than risks. • Developed a comprehensive counterparty credit risk framework. • Continued to build control culture and the importance of internal and external audit. • Embedding cost-conscious culture within the organisation.
Development of infrastructure.	• Established a dedicated investment banking infrastructure model. • Good progress was made on the Absa Capital/Barclays Capital technology integration. • Plans for business and IT migration to new premises in Sandton on track.

Commentary

Absa Capital delivered a stellar performance in 2007, with accelerating growth in both total revenues and attributable earnings. This performance was driven by strong growth in all of the underlying business units. The year under review was characterised by:

- Absa Capital becoming the third largest investment bank in South Africa by revenue;
- the differentiated business model delivering strong deal flow;
- leveraged synergies with Barclays Capital;
- investment in talent;
- investment in organisational infrastructure;
- strong growth in client franchise; and
- product innovation.

Absa Capital also received a number of industry awards, including:

- Second place overall in the SA Risk Management survey.
- Recognised by KMPG/SAVCA as having led/participated in five of the top ten largest private equity transactions in South Africa and acting as debt provider in three of the top ten transactions.
- Best local captive private equity player in the 2007 KPMG Dealmakers awards.
- Euromoney Project Finance "African Power Deal of the Year" award for the Bujagali hydropower deal.
- Five awards at the 2007 Bond Exchange of South Africa (BESA) Spire awards.
- Top-rated bank for Investor Services in the 2007 Global Custodian Survey of Agent Banks in Major Markets.
- Ranked third place in "Dealing: Fixed-Interest Securities" by the Financial Mail.

Business unit commentary

Secondary Markets

The strong revenue growth in Secondary Markets was driven by a number of factors, including:

- an increase in client trading volumes and growth in the client franchise;
- an increase in the sale and trading of derivative products;
- a broadening and deepening of the product suite; and
- increased synergies with Barclays Capital across a broad range of risk management products.

The business also benefited from heavy investment in trading systems and infrastructure, which has allowed Secondary Markets to capitalise on the increased volumes and ever increasing complexity of the products on offer. The business has developed a good mix of clients and asset classes and is continuously diversifying its revenue streams.

In addition to this, Absa Capital continued to innovate in the Secondary Markets space. This included:

- closing the first "Best of CPI (Consumer Price Index) or Mutual Fund Performance transaction" with Investec;
- launching new derivative products, Forward Plus and Booster Forward; and
- launching the Index Performer product, which is distributed through Absa Retail Bank.

Primary Markets

Primary Markets experienced solid year-on-year revenue growth. This growth is highly commendable, given that this was achieved while significantly de-risking the business and making substantial moves away from margin-based income to higher quality fee-based income.

Another key development in this area was the introduction of a portfolio management capability, which will, on an ongoing basis, actively manage the credit profile of the book and continuously seek to optimise the return on capital.

In addition to this, Absa Capital participated in several landmark transactions in 2007. These included:

- Mandated lead arranger, underwriter, facility agent and physical book runner of the R25 billion Edcon leveraged buyout by Bain Capital (largest ever South African leveraged finance transaction).
- Mandated lead arranger on the National Treasury $1 billion foreign bond and $2,6 billion Export Credit Agency (ECA) restructuring (largest ever South African international debt refinancing).
- Sole programme arranger on Transnet's (R30 billion) domestic medium term note (DMTN) programme (largest DMTN programme of the year).
- Sole adviser/arranger on the $2 billion Transnet ECA facility (complex cross-border finance transaction).
- Mandated as a ratings adviser to Gold Fields Limited for their first issuer rating.
- Mandated lead arranger, book runner and DMTN arranger for the R4 billion Telkom bond.
- Ratings advisory mandate for Barloworld.
- Mandated lead arranger for the Development Bank of South Africa for a R2 billion domestic bond issue.

Equity Investments and Investor Services

Equity Investments performed very well in the year, with the performance being driven by a focus on acquiring quality assets, timely sales and the application of a rigorous investment process. Absa Capital has also made several strategic investments in empowerment companies, which continue to deliver value to both parties. Investor Services continued to deliver solid cash flow and is well positioned for future growth.

FUTURE FOCUS

bsa Capital will continue to implement its strategic objectives, focusing on those activities that will give it a competitive edge in the market and building on the world-class investment banking platform that has been established over the past two years. Aggressive pursuit of the best talent in the market will continue, as will the strong focus on risk management. The increased volatility of the markets and the potential fall-out from the credit crunch present both opportunities and risks. Working in concert with other Absa Group business units, such as retail banking and ACBB, presents significant market opportunities.

AFRICAN OPERATIONS

Introduction

Absa has an interest in three banks in African countries apart from South Africa: Angola, Mozambique and Tanzania. Absa's African operations offer banking and financial products and services to a broad customer base through an extensive branch network, agencies and ATMs. The banks are situated in major cities and rural communities, in keeping with the social and business imperatives of providing banking services to the majority of the population. Absa's African operations leverage off Absa for technology, infrastructure support and the expansion of their products and services.

THE YEAR UNDER REVIEW

- Rebranding of Banco Austral, Sarl to Barclays Bank Mozambique S.A.
- Investment in delivery capacity with a focus on outlets and ATMs.
- Strong growth in number of customer accounts.

FOCUS GOING FORWARD

Recognising that the African continent offers exciting prospects, Absa will continue to pursue opportunities beyond South Africa's borders where the Group is confident of acceptable returns. Discussions with Barclays are continuing with respect to Tanzania, where the operations of the Group and Barclays could be combined to the satisfaction of all stakeholders.

Absa is looking at driving expansion in the Group's current African operations, as well as establishing a presence in those countries where neither Barclays nor Absa has a presence and which are in close proximity to the Group's primary operations in South Africa.

SALIENT FEATURES

Year ended 31 December

Balance sheet

	2007 Rm	2006 Rm	Change %
Total advances	**3 340**	2 291	45,8
Investments in associated undertakings and joint ventures	**49**	46	6,5
Other assets	**4 820**	4 283	12,5
Other assets – external	**4 781**	4 158	15,0
Other assets – internal[1]	**39**	125	(68,8)
Total assets	**8 209**	6 620	24,0
Total deposits	**6 119**	4 974	23,0
Other liabilities	**1 099**	718	53,1
Other liabilities – external	**1 046**	663	57,8
Other liabilities – internal[1]	**53**	55	(3,6)
Total liabilities	**7 218**	5 692	26,8

[1] *Internal assets and liabilities for the Group are eliminated in "Other".*

Income statement

	2007 Rm	2006 Rm	Change %
Net interest income	**533**	376	41,8
Impairment losses on loans and advances	**(41)**	(52)	21,2
Non-interest income	**256**	216	18,5
Operating expenses	**(479)**	(383)	(25,1)
Other	**(9)**	(1)	>(100,0)
Operating profit before income tax	**260**	156	66,7
Taxation expense	**(68)**	(19)	>(100,0)
Profit for the year	**192**	137	40,1
Attributable to:			
Ordinary equity holders of the Group	**103**	77	33,8
Minority interest – ordinary shares	**89**	60	(48,3)
Minority interest – preference shares	**-**	-	-
	192	137	40,1

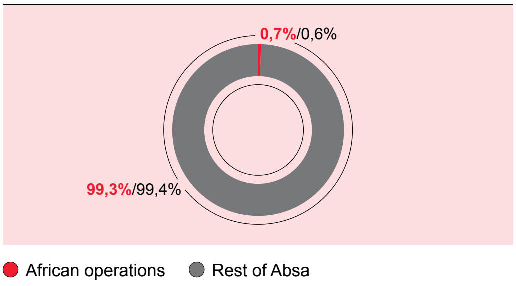
Selected ratios

	2007 %	2006 %
Financial performance		
Return on average equity	**20,1**	17,1
Return on average assets	**1,39**	1,28
Operating performance		
Net interest margin on average assets	**7,49**	6,26
Advances margin	**4,86**	5,71
Deposit margin	**5,06**	3,86
Impairment losses on loans and advances as a percentage of average loans and advances to customers	**1,47**	2,56
Non-interest income as a percentage of operating income	**32,4**	36,5
Cost-to-income ratio	**60,7**	64,7
Top-line growth	**33,3**	(7,1)
Cost growth	**25,3**	(12,6)
Cost-to-assets ratio	**6,5**	6,4

CONTRIBUTION ANALYSIS

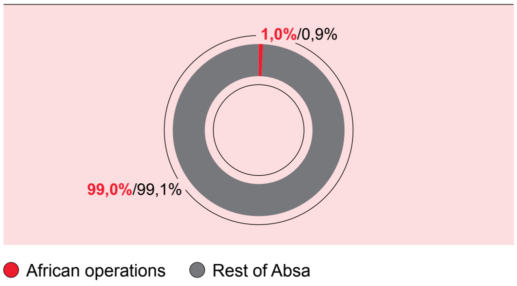
TOTAL LOANS AND ADVANCES TO CUSTOMERS

(%)



ATTRIBUTABLE EARNINGS

(%)



National Bank of Commerce Limited (Tanzania)

The National Bank of Commerce Limited (NBC) provides a comprehensive range of banking products and services to corporate entities and individuals in Tanzania. NBC has the country's largest online branch and ATM network.

SALIENT FEATURES

Year ended 31 December

	2007	2006	Change %
Absa's shareholding	**55%**	55%	
Return on average equity (%)	**33%**	38,1%	
Network			
• Points of presence	**52 branches and 3 sales centres**	37 branches	48,6
• ATMs	**111**	68	63,2
Permanent employee complement	**1 134**	857	32,3
Number of accounts	**320 661**	234 670	36,6

PRODUCT AND SERVICE OFFERING

- **Transactional** ➔ Cheque accounts, money transfers, travellers' cheques, bank drafts.
- **Deposits** ➔ Savings accounts, fixed deposits, term deposits, foreign currency deposits, student and chanua savings accounts.
- **Lending services** ➔ Overdrafts, term loans, foreign currency loans, guarantees, acceptances, bills negotiated, letters of credit, group personal loan, personal loans, home loans, vehicle financing loans.

THE YEAR UNDER REVIEW

Financial performance

Loans and advances grew by 28,7%. Deposits grew by 15,5% for the year under review, resulting in a total deposit base of Tzs 789 775 million.

Net interest margin increased by 35,7% and non interest income grew by 30,0%, owing to an increase in transaction volumes as well as the better-than-expected performance in the dealing room. Operating expense increased, owing to the retail expansion project.

Performance against 2007 strategic objectives

Strategic objectives	Performance
Entering new customer segments and expanding delivery channels.	• Specific attention was given to the retail market. • The number of ATMs and branches was increased to 111 and 51, respectively, and, in addition, 3 kiosks were opened.
Introducing new products for newly-identified segments.	• The bank managed to introduce student and chanua savings accounts for students aged 18 to 25. • Personal loans, vehicle loans and home loans, to cover customers in the affluent market segment, were added.
Improving and enhancing NBC's existing operating model through automation and centralisation.	• Introduction of operational risk and compliance framework to ensure compliance to relevant governance, regulators and Barclays Group. • Alignment of IT strategies to ensure IT delivery of products and services which exceeds customer requirements. • Upgrade of IT infrastructure, 32 branch servers and 300 workstations.
Increasing focus on risk management, compliance and assurance.	• Strengthening the risk department by increasing the workforce. • Training of the staff in the department.
Human capital management enhancements.	• Identified talents with the aim of developing them into future leadership roles. • Implementation of a performance development programme, coupled with the participation at international recruitment fairs and summits (UK).
Driving the sharing of infrastructure between banks.	• The process is still ongoing.

Commentary

NBC maintained its competitive position in the Tanzanian banking market and experienced strong growth in core products. The bank also experienced above-average deposit growth as a result of retail sales in branches as well as a continued corporate funding desk initiative, which has a specific focus on institutional investors and other non-retail segments of the market.

NBC grew non-interest income as a result of an increase in transaction volumes and enhanced forex trading.

FUTURE FOCUS

During the next twelve months, the focus will be on the following:

- Entering new customer segments and expanding delivery channels.
- Introducing new products for newly-identified segments.
- Increasing focus on risk management compliance and assurance.
- Enhancing human capital management.
- Strengthening trade finance.
- Re-platforming the IT environment.

Barclays Bank Mozambique S.A.

Barclays Bank Mozambique S.A. provides the full range of banking products and services through branch representation in all provinces as well as internet banking. It is the only MasterCard and Visa acquirer in Mozambique.

SALIENT FEATURES

Year ended 31 December

	2007	2006	Change %
Absa's shareholding	**80%**	80%	
Return on average equity	**31%**	1,4%	
Network			
• Points of presence	**52 branches and 6 sales centres**	47 branches	23,4
• ATMs	**80**	77	3,3
Permanent employee complement	**748**	704	6,3
Number of accounts	**381 288**	313 018	21,8

PRODUCT AND SERVICE OFFERING

- **Transactional** ➔ Current accounts.
- **Deposits** ➔ Call accounts, savings accounts.
- **Lending services** ➔ Loans and overdrafts, mortgage advances, industrial and service loans, instalment finance, agricultural loans, personal loans, trade finance, credit cards, cash passport.
- **Other services** ➔ Fund transfers, service and salary packages, foreign exchange, stock exchange operations, trade and commodity finance.

THE YEAR UNDER REVIEW

Financial performance

The bank posted the highest profit in its history during the review period. This growth was as a result of a strong increase in total income, below inflationary expenditure growth and significantly lower impairments.

The good results of 2007 created a stable base, on the back of the re-branding, to significantly reposition the bank to deliver better returns to shareholders.

Performance against 2007 strategic objective

Strategic objective	Performance
Launching comprehensive value propositions focused on the middle and affluent market, SMEs and group schemes.	• Two prestige suites in the Maputo region were opened during December 2007. • Product approvals for the prestige products and group schemes were obtained in the first quarter of 2008 • Aggressive selling of these also commenced in the first quarter of 2008.

Commentary

2007 was a year of considerable change at the bank. In December 2007, the bank re-branded from Banco Austral, Sarl to Barclays Bank Mozambique, S.A.; an event that will assist in further enhancing the customer experience at all levels.

In addition, the bank continued to make excellent progress in improving its corporate governance policies and structures to align with the Barclays Group and international best practice. As a subsidiary of Absa, this included aligning to the King Report on Corporate Governance (King II) for South Africa, as well as ensuring full compliance with the Basel II 'standardised approach' by January 2008.

The bank also increased its footprint in the more remote areas of the country by opening a branch in Marromeu early in 2007, with a further ten outlets opening late in 2007 on the back of the re-branding.

FUTURE FOCUS

Barclays Bank Mozambique S.A. aims to become the preferred supplier of financial services in Mozambique. This will be achieved by further aggressive selling of value propositions focused on the middle and affluent market, SMEs and group schemes. Emphasis will also be placed on aggressive selling of asset-based finance, mortgages, scheme lending and credit cards.

Banco Comercial Angolano (Angola)

Banco Comercial Angolano (BCA) provides a comprehensive range of banking products and services to predominantly corporate and government institutions through its branch network and personal services.

SALIENT FEATURES

Year ended 31 December

	2007	2006	Change %
Absa's shareholding	**50%**	50%	
Return on average equity (%)	**3.1%**	1,2%	
Network			
• Points of presence	**6 branches**	5 branches	20,0
• ATMs	**9**	6	50,0
Permanent employee complement	**164**	135	21,5
Number of accounts	**22 576**	15 175	48,8

PRODUCT AND SERVICE OFFERING

- **Transactional** ➔ Cheque accounts, money transfers, letters of credit.
- **Deposits** ➔ Fixed deposits, term deposits, foreign currency accounts.
- **Lending services** ➔ Overdrafts, advances, foreign currency loans, salary accounts, vehicle finance.
- **Other services** ➔ ATMs, point-of-sale terminals, discounting of promissory notes, treasury bills.

THE YEAR UNDER REVIEW

Financial performance

2007 was a turning point for BCA. The bank entered a consolidation phase where the main focus was the implementation of Absa's policies, procedures and controls. The objective was to ensure that the bank is in a strong position regarding controls and procedures relating to international standards. This is required to ensure that BCA is able to grow and provide services to its customers that meets Barclays and Absa's standards.

Performance against 2007 strategic objectives

Strategic objectives	Performance
Increasing the branch network.	• One additional branch was opened in 2007, in Cabinda, with another five in progress, which will be opened in 2008.
Strengthening the corporate banking unit.	• Significant changes were made to the corporate team with the appointment of a head of Corporate and additional staff members.

Commentary

As mentioned above, the focus during the past twelve months was primarily internal. Attention was devoted to the implementation of controls, processes and systems.

The major challenges faced in 2007 were:

- recruiting and retaining skilled employees; and
- a significant increase in the number of competing banks.

FUTURE FOCUS

BCA's strategic focus is on increasing its branch network and the implementation of a new banking IT system which will enable the bank to increase its product offering and delivery methods.

The recruitment and retention of skilled employees will also be key to ensuring the success and sustainability of the bank going forward.

BANCASSURANCE

Introduction

Absa's bancassurance operations include entities that provide long- and short-term insurance, investment, fiduciary and insurance broking services to all market segments in South Africa through a well-established bancassurance operating model. This operating model facilitates the seamless provision of uncomplicated bancassurance products as well as best-of-breed products and services.

THE YEAR UNDER REVIEW

- Short-term insurance underwriting cycle continuing to harden.
- Excellent performance by Absa Trust.
- Good growth in assets under management.
- Improved investment performance, with a number of top-quartile funds.

FOCUS GOING FORWARD

Absa Group aims to increase its non-bank earnings. This will be achieved by focusing on improving the insurance product penetration rate into retail products such as mortgages, vehicle finance and credit cards, as well as increasing the emphasis on selling insurance products to mass market customers. In addition, the Group will focus on increasing its bancassurance distribution capacity and product range.

Growing assets under management will also continue to receive attention. Emphasis will be placed on strengthening capabilities and expanding the asset management offerings.

SALIENT FEATURES

Year ended 31 December

Balance sheet

	Note	2007 Rm	2006 Rm	Change %
Assets				
Cash balances and money market assets		**3 644**	2 403	51,6
Insurance operations	1	**3 200**	2 025	58,0
Other		**444**	378	17,5
Other assets[1]		**22 483**	10 890	>100,00
Investments		**11 362**	10 626	6,9
Insurance operations	1	**10 058**	9 382	7,2
Other		**1 304**	1 244	4,8
Property and equipment		**37**	30	23,3
Total assets		**37 526**	23 949	56,7
Liabilities				
Current tax liabilities		**129**	223	(42,2)
Liabilities under investment contracts		**7 908**	5 655	39,8
Policyholders' liabilities under insurance contracts		**3 250**	3 111	4,5
Other liabilities and sundry provisions[1]		**22 089**	10 574	>100,0
Deferred tax liabilities		**242**	348	(30,5)
Total liabilities		**33 618**	19 911	68,8
Total equity		**3 908**	4 038	(3,2)
Total equity and liabilities		**37 526**	23 949	56,7

Note 1

Cash balances, money market assets and investments (insurance operations)

	2007			
	Listed	Unlisted	Cash and fixed interest	Total
	Rm	Rm	Rm	Rm
Shareholder investments	**2 561**	**181**	**1 199**	**3 941**
Life	**784**	**113**	**89**	**986**
Non-life	**1 777**	**68**	**1 110**	**2 955**
Policyholder investment	**381**	**4 771**	**4 165**	**9 317**
Insurance contracts	**-**	**817**	**1 656**	**2 473**
Investment contracts	**381**	**3 954**	**2 509**	**6 844**

	2006[2]			
	Listed	Unlisted	Cash and fixed interest	Total
	Rm	Rm	Rm	Rm
Shareholder investments	2 417	199	1 050	3 666
Life	686	150	231	1 067
Non-life	1 731	49	819	2 599
Policyholder investment	825	4 140	2 776	7 741
Insurance contracts	555	679	1 197	2 431
Investment contracts	270	3 461	1 579	5 310

1 *"Other assets and liabilities" include settlement account balances in Absa Stockbrokers (Proprietary) Limited.*

2 *Restated for structural change. "Insurance operations" only include Absa Life Limited and Absa Insurance Company Limited (short-term).*

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

Income statement

	Note	Life insurance 2007 Rm	2006[1] Rm	Change %
Net earned premium		**1 142**	1 265	(9,7)
Net insurance claims		**(401)**	(303)	(32,3)
Investment income	1			
• Policyholder investment contracts		**495**	520	(4,8)
• Policyholder insurance contracts		**170**	317	(46,4)
Changes in investment and insurance contracts				
• Investment contracts		**(482)**	(508)	5,1
• Insurance contracts		**45**	(240)	>100,0
Other income		**24**	16	50,0
Gross operating income		**993**	1 067	(6,9)
Commission[2]		**(196)**	(344)	43,0
Operating expenditure		**(187)**	(129)	(45,0)
Net operating income		**610**	594	2,7
Investment income on shareholder funds	1	**167**	216	(22,7)
Taxation		**(253)**	(219)	(15,5)
Profit attributable to ordinary equity holders of the Group		**524**	591	(11,3)
1. Investment income				
Policyholder – investment contracts		**495**	520	(4,8)
Net interest income		**44**	75	(41,3)
Dividend income		**13**	10	(30,0)
Fair value gains		**438**	435	0,7
Policyholder – insurance contracts		**170**	317	(46,4)
Net interest income		**93**	78	19,2
Dividend income		**23**	19	21,1
Fair value gains		**54**	220	(75,5)
Shareholder funds		**167**	216	(22,7)
Net interest income		**9**	15	(40,0)
Dividend income		**15**	12	25,0
Fair value gains		**143**	189	(24,3)
Total		**832**	1 053	(21,0)
Net interest income		**146**	168	(13,1)
Dividend income		**51**	41	24,4
Fair value gains		**635**	844	(24,8)

	Note	Short-term insurance 2007 Rm	2006[1] Rm	Change %
Net earned premium		**2 012**	1 660	21,2
Net insurance claims		**(1 244)**	(1 006)	(23,7)
Investment income	1			
• Policyholder investment contracts		**-**	-	-
• Policyholder insurance contracts		**73**	61	19,7
Changes in investment and insurance contracts				
• Investment contracts		**-**	-	-
• Insurance contracts		**-**	-	-
Other income		**12**	3	>100,0
Gross operating income		**853**	718	18,8
Commission[2]		**(333)**	(276)	(20,7)
Operating expenditure		**(204)**	(148)	(37,8)
Net operating income		**316**	294	7,5
Investment income on shareholder funds	1	**292**	363	(19,6)
Taxation		**(71)**	(180)	60,6
Profit attributable to ordinary equity holders of the Group		**537**	477	12,6
1. Investment income				
Policyholder – investment contracts		**-**	-	-
Net interest income		**-**	-	-
Dividend income		**-**	-	-
Fair value gains		**-**	-	-
Policyholder – insurance contracts		**73**	61	19,7
Net interest income		**73**	61	19,7
Dividend income		**-**	-	-
Fair value gains		**-**	-	-
Shareholder funds		**292**	363	(19,6)
Net interest income		**13**	40	(67,5)
Dividend income		**69**	53	30,2
Fair value gains		**210**	270	(22,2)
Total		**365**	424	(13,9)
Net interest income		**86**	101	(14,9)
Dividend income		**69**	53	30,2
Fair value gains		**210**	270	(22,2)

	Note	Other 2007 Rm	2006[1] Rm	Change %
Net earned premium		**38**	69	(44,9)
Net insurance claims		**42**	(10)	>100,0
Investment income	1			
• Policyholder investment contracts		**84**	-	100,0
• Policyholder insurance contracts		**-**	-	-
Changes in investment and insurance contracts				
• Investment contracts		**(52)**	-	(100,0)
• Insurance contracts		**-**	-	-
Other income		**1 203**	1 144	5,2
Gross operating income		**1 315**	1 203	9,3
Commission[2]		**-**	2	(100,0)
Operating expenditure		**(806)**	(777)	(3,7)
Net operating income		**509**	428	18,9
Investment income on shareholder funds	1	**112**	158	(29,1)
Taxation		**(180)**	(154)	(16,9)
Profit attributable to ordinary equity holders of the Group		**441**	432	2,1
1. Investment income				
Policyholder – investment contracts		**84**	-	100,0
Net interest income		**4**	-	100,0
Dividend income		**44**	-	100,0
Fair value gains		**36**	-	100,0
Policyholder – insurance contracts		**-**	-	-
Net interest income		**-**	-	-
Dividend income		**-**	-	-
Fair value gains		**-**	-	-
Shareholder funds		**112**	158	(29,1)
Net interest income		**51**	75	(32,0)
Dividend income		**17**	30	(43,3)
Fair value gains		**44**	53	(17,0)
Total		**196**	158	24,1
Net interest income		**55**	75	(26,7)
Dividend income		**61**	30	>100,0
Fair value gains		**80**	53	50,9

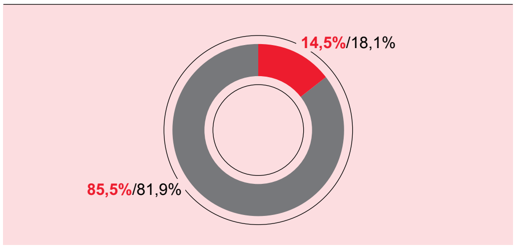
	Note	Total bancassurance 2007 Rm	2006[1] Rm	Change %
Net earned premium		**3 192**	2 994	6,6
Net insurance claims		**(1 603)**	(1 319)	(21,5)
Investment income	1			
• Policyholder investment contracts		**579**	520	11,3
• Policyholder insurance contracts		**243**	378	(35,7)
Changes in investment and insurance contracts				
• Investment contracts		**(534)**	(508)	(5,1)
• Insurance contracts		**45**	(240)	>100,0
Other income		**1 239**	1 163	6,6
Gross operating income		**3 161**	2 988	5,8
Commission[2]		**(529)**	(618)	14,4
Operating expenditure		**(1 197)**	(1 054)	(13,6)
Net operating income		**1 435**	1 316	9,0
Investment income on shareholder funds	1	**571**	737	(22,5)
Taxation		**(504)**	(553)	8,9
Profit attributable to ordinary equity holders of the Group		**1 502**	1 500	0,1
1. Investment income				
Policyholder – investment contracts		**579**	520	11,3
Net interest income		**48**	75	(36,0)
Dividend income		**57**	10	>100,0
Fair value gains		**474**	435	9,0
Policyholder – insurance contracts		**243**	378	(35,7)
Net interest income		**166**	139	19,4
Dividend income		**23**	19	21,1
Fair value gains		**54**	220	(75,5)
Shareholder funds		**571**	737	(22,5)
Net interest income		**73**	130	(43,8)
Dividend income		**101**	95	6,3
Fair value gains		**397**	512	(22,5)
Total		**1 393**	1 635	(14,8)
Net interest income		**287**	344	(16,6)
Dividend income		**181**	124	46,0
Fair value gains		**925**	1 167	(20,7)

[1] *Reclassified for structural change. "Insurance operations" only include Absa Life Limited and Absa Insurance Company Limited.*

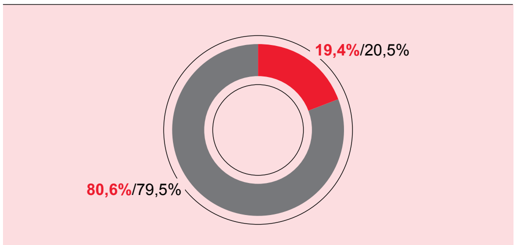
[2] *"Commission" includes internal commissions, eliminated on consolidation of Absa Group.*

CONTRIBUTION ANALYSIS

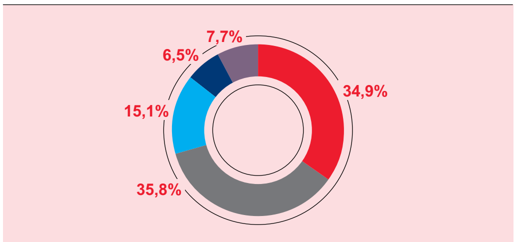
ATTRIBUTABLE EARNINGS

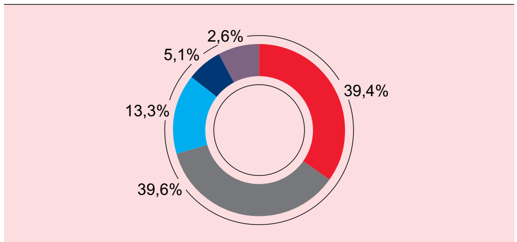


NON-INTEREST INCOME



ATTRIBUTABLE EARNINGS CONTRIBUTION





BUSINESS UNITS

Insurance ➔ Absa Life Limited, Absa Insurance Company Limited, Global Insurance Company Limited[1], Absa Insurance Risk Management Services Limited[1]

Investments ➔ Absa Fund Managers Limited, Absa Mortgage Fund Managers (Proprietary) Limited, Absa Stockbrokers (Proprietary) Limited, Absa Portfolio Managers (Proprietary) Limited, trading as Absa Asset Management Private Clients, Absa Investment Management Services (Proprietary) Limited (AIMS), Absa Asset Management (Proprietary) Limited

Fiduciary ➔ Absa Trust Limited, Absa Consultants and Actuaries (Proprietary) Limited, Absa Health Care Consultants (Proprietary) Limited

Other ➔ Absa Brokers (Proprietary) Limited, Absa Manx Insurance Company Limited[1], Absa Syndicated Investments Holdings Limited[2]

[1] *Not reported on in detail.*

[2] *Absa Syndicated Investments Holdings Limited ceased underwriting at the end of 2005.*

Insurance – Absa Life Limited

Absa Life is a long-term insurer focusing on risk and investment products that complement Absa's offerings to various market segments. It insures a large number of Absa's customers through various channels, including Absa Brokers, the branch infrastructure and direct delivery channels such as mail and telephone.

SALIENT FEATURES

Year ended 31 December

	2007	2006	Change %
Gross premium income (Rm)	**1 202**	1 331	(9,7)
Embedded value (Rm)	**2 091**	2 486	(15,9)
Embedded value of new business (Rm)	**213**	263	(19,0)
Embedded value earnings (Rm)	**543**	762	(28,7)
Return on embedded value (annualised) (%)	**21,8**	37,2	
Profit attributed to ordinary equity holders of the Group	**524**	591	(11,3)
Ratio on net assets to capital adequacy requirements	**4,7**[1]	5,5[1]	
Management expenses as a percentage of gross premiums (%)	**15,3**	9,3	
Permanent employee complement	**157**	152	3,3
Number of customers (million)	**2,4**	2,1	14,3

[1]*Subsequent to the dividend payout, the ratio was reduced to 3,1 (2007: 3,5).*

The embedded value report for Absa Life can be found in the financial statements.

PRODUCT AND SERVICE OFFERING

Home mortgage protection ➔ Life insurance covering death, disability and retrenchment or mortgages.

Absa Life@Ease ➔ Standalone life insurance covering death, disability and retrenchment, plus an investment option.

Credit life ➔ Life insurance covering death, disability, critical illness and retrenchment for credit transactions.

Funeral cover ➔ Funeral insurance focussing on the mass market.

Investment solutions ➔ Local and offshore investment products in co-operation with AIMS.

Alternative risk transfer solutions ➔ Customised solutions for corporate customers.

THE YEAR UNDER REVIEW

Financial performance

Operational earnings showed improvement over the prior year in a rapidly changing regulatory environment. The overall results were, however, negatively impacted by the lower equity market performance.

Performance against 2007 strategic objectives

Strategic objectives	Performance
Implementing and bedding down NCA solutions.	• All credit life products and selling methodologies have been adapted to comply with the NCA.
Designing and developing a new IT system.	• A vendor has been appointed to design and implement a new administration system. The project is currently in its definition phase.
Improving operational efficiencies.	• Good progress has been made in improving critical operational processes, and a strong focus will continue to be placed on improving efficiencies.
Launching new products.	• A number of products were launched in the year, the most important being Absa Life@Ease, a standalone life cover product.

Commentary

Absa Life achieved favourable growth in the embedded value of new business of R213 million, and an excellent return on embedded-value earnings of 21,8%, mainly as a result of the continued growth of credit life business related to personal loans and micro-loans, as well as the continued good support of mortgage protection products. During the period under review, a standalone life insurance product called Absa Life@Ease was launched, which is expected to contribute significantly to future earnings.

FUTURE FOCUS

In the year ahead, emphasis will be placed on distribution channels for mass market products, growing the Absa Broker market share, increasing the penetration into Africa, and enhancing current product offerings. Attention will continue to be given to the implementation of the new IT system, and to improve operational efficiencies and customer service. Over the longer term, the emphasis will be on developing solutions to significantly increase penetration into the Absa customer base.

Insurance – Short-term insurance

Absa Insurance Company Limited is a provider of short-term insurance products to Absa's customers. It provides products that are marketed and delivered mainly by means of the Group's delivery channels. Markets served include segments where economies of scale, low delivery costs and acceptable risk-return ratios can be achieved.

Global Insurance Company Limited is a provider of a limited range of short-term insurance products. The company will be positioned as a direct insurer delivering the I-Direct product range.

Absa Insurance Risk Management Services Limited is a short-term insurance company offering cell captive facilities to third parties.

SALIENT FEATURES

Year ended 31 December

	2007	2006	Change %
Gross premium income (Rm)	**2 305**	1 910	20,7
Profit attributed to ordinary equity holders of the Group (Rm)	**537**	477	12,6
Solvency margin (%)	**83,9**	105,7	
Loss ratio (%)	**62,5**	61,7	
Underwriting margin (%)	**10,3**	12,1	
Management expenses as a percentage of gross premiums (%)	**8,8**	7,8	
Permanent employee complement	**463**	429	7,9
Number of customers (million)	**1,1**	0,9	22,2

PRODUCT AND SERVICE OFFERING

- House owner insurance.
- Motor and personal lines insurance.
- Commercial insurance (including agricultural assets and crop).
- Personal accident, health and travel insurance.
- Warranties and other niche insurance products.

THE YEAR UNDER REVIEW

Financial performance

The overall financial performance was good and mainly driven by outstanding investment income.
The underwriting surplus was below expectation but was higher than that achieved in 2006, mainly driven by good new business volumes.

Weather conditions experienced during the year resulted in good profitability on business lines covering buildings, but results were poor relating to the agricultural crop. Results on motor insurance were better than 2006 but, together with personal lines insurance, were particularly impacted by high crime levels as well as the worsening road conditions, owing to increased congestion, deteriorating road infrastructure and poor driving ability. Despite strong competition, good new business volumes were achieved in most lines of business.

Performance against 2007 strategic objectives

Strategic objectives	Performance
Implementing and bedding down NCA solutions.	• Applications for own insurance increased less than expected, as Absa Home Loans customers still see huge value in having their house owners insurance with the company. The targets set for new business and retention were achieved at year-end.
Designing and developing a new IT system.	• A preferred vendor was chosen and the definition phase was completed.
Improving operational efficiencies.	• The Lean methodology was adopted and process efficiencies will be addressed during 2008.

Commentary

Underwriting margins of typical short-term insurers continued to decline and decreased from 12% as at 31 December 2004 to 6% as at 31 December 2007. The generally good weather conditions experienced during 2006 continued during 2007, affecting the relevant classes of business, like residential property, positively. However, the dry conditions experienced during the summer severely affected the agricultural crop. Although the underwriting margin on motor business improved during 2007, it was still not enough for sustainable profitability. The decline in the underwriting margin of personal lines and commercial and industrial business reported by most insurers as a result of crime levels, overall factors affecting motor vehicle exposure and contingencies, such as fire affecting the experience on commercial and industrial risks, continued. As a result of strong competition, industry rates under commercial and industrial business in general continued to decrease, following the peak of the underwriting cycle in 2004.

During the year under review, Absa Insurance Company continued to achieve good growth in non-mortgage-related personal and commercial property business. Gross premium income on personal lines and commercial and industrial business grew by more than 40% year on year. However, as a result of lower underwriting margins in these lines of business, the overall underwriting margin has deteriorated, albeit to a level still higher than the industry average.

FUTURE FOCUS

Absa Insurance Company will devote attention to growing profitable lines of business, focussing on controlling the cost of claims and superior risk pricing. The design and development of the new IT system and focus on customer centricity should assist in increasing the penetration into the Absa customer base.

Absa Investments

Absa Investments is the preferred provider of investment and wealth products to the Absa Group. It offers high-quality investment products manufactured in-house, as well as selected third-party products via its Absa Investment Management Services (AIMS) "open architecture" investment platform. Absa Investments has a vertically integrated operating model that embraces all five levels of the investment value chain, as indicated below.

- **Manufacturing:**
  - **Absa Asset Management (Proprietary) Limited** is an institutional asset management company with a value-oriented investment philosophy. The company manages most of Absa Fund Managers' unit trusts, as well as a number of segregated mandates for the Absa Group and external customers. Total assets under management at the end of 2007 amounted to R78 billion.
  - **Absa Portfolio Managers (Proprietary) Limited**, trading as Absa Asset Management Private Clients, manages segregated share portfolios for private clients. Portfolios are structured and managed to meet individuals' specific investment objectives.
  - **Absa Mortgage Fund Managers (Proprietary) Limited** is the manager of the Absa Participation Bond Fund, a collective investment scheme in participation bonds. The fund holds a portfolio of first mortgage bonds over commercial and industrial properties.
- **Execution:**
  - **Absa Stockbrokers (Proprietary) Limited** enjoys a market share of 10% of total value of shares traded on the JSE. The firm offers telephone and online trading services, as well as direct market access (DMA) trading to institutional customers. In addition, Absa Stockbrokers provides a top-class administration and custody service.
- **Packaging:**
  - **Absa Fund Managers Limited** offers a variety of unit trust investment products, ranging from low-risk fixed interest funds to higher-risk equity funds, investing both domestically and internationally. Absa Fund Managers is the second largest unit trust management company in South Africa, measured by assets under management.
- **Administration:**
  - **Absa Investment Management Services (Proprietary) Limited (AIMS)** offers an open-architecture investment administration platform that enables clients to "mix and match" in-house and third-party unit trusts and other investment products. AIMS also provides financial needs analysis advisory tools and multi-management of risk-profiled investment portfolios.
- **Distribution:**
  - **Absa Investments** distributes its products and services to the retail market through the various Absa channels and through independent financial advisers (IFAs). Distribution to the wholesale (institutional) market is handled by an in-house sales team.

SALIENT FEATURES

Year ended 31 December

	2007	2006	Change %
Assets under management and administration (Rbn)	**118**	97	21,6
Net flows (including money market) (Rm)	**16 042**	16 448	(2,5)
Profit attributed to ordinary equity holders of the Group (Rm)	**227**	200	13,5
Number of customers	**485 632**	487 338	(0,4)
Average assets per customer (R)	**243 510**	203 256	19,8
Permanent employee complement	**360**	315	14,3

THE YEAR UNDER REVIEW

Financial performance

Absa Investments' attributable income for the year under review was ahead of expectations. Net assets under management increased by 21,6% over the year, resulting in a significant rise in fees.

The Absa Money Market Fund grew substantially during the year, although at a slower rate than in 2006. The fund remains a major contributor to Absa Investments' gross revenue. Brokerage from online share trading was significantly higher and profitability improved accordingly.

Performance against 2007 strategic objectives

Strategic objectives	Performance
Building image and profile in the retail and wholesale investment environments.	• Significant progress was made during 2007. More aggressive advertising and a higher media profile is building Absa Investments' image and reputation as an asset manager in diverse categories. Absa Investments is now acknowledged as a serious player in the South African asset management industry.

Performance against 2007 strategic objectives

Strategic objectives	Performance
Improving the depth and breadth of talent pool.	• Absa Investments executes its talent management initiative in line with the Absa Financial Services talent management strategy. Key features of this strategy include: –Creating a culture of employee engagement and leader development by building and fostering coaching capacity. –Embedding the performance development system. –Participation in the Absa graduate development programme. –Recruiting 'A-players" into key positions within Absa Investments. –Identification, nomination, assessment and development of rising talent within the cluster. –Ensuring that reward structures are appropriate for the attraction and retention of high-performing employees. –During 2007, Absa Investments added four professionals to its asset management team.
Increasing the proportion of equity and absolute return funds in total assets under management.	• Although admittedly off a small base, non-money market unit trust assets under management more than doubled during the year under review. • Assets of the Absa Select Equity Fund grew four-fold. • The Absa Absolute Fund performed well and attracted a solid inflow of new funds.
Driving investment performance.	• Of 14 ranked unit trusts, ten were ranked in the top half in their respective categories over one year, of which four were in the first quartile. • Over three years, eight of twelve were in the top half, of which three were in the first quartile. • Insurance portfolios managed for the Absa Group outperformed their benchmarks.
Improving investment product penetration of the Absa customer base.	• Absa Group increased its customer numbers, especially in the mass and lower middle market. Customer numbers in Absa Investments, which predominantly serves the upper customer segments, remained static over the year, resulting in a decline in penetration of the total Absa customer base.
Rationalising the distribution strategy to better promote in-house manufactured products.	• Considerable progress was made in this regard. Better quality products and better investment performance have encouraged Absa's financial advisers to sell more in-house products.
Leveraging off Barclays capabilities.	• Dealing on behalf of Barclays Stockbrokers London has increased Absa Stockbrokers' market share of JSE trade five-fold.

Commentary

The six companies comprising Absa Investments are all well established and constitute a strong base on which to build a powerful investment house with Absa's backing and brand strength. Absa Asset Management has assembled a top-quality team of investment professionals under chief investment officer Errol Shear. The team is delivering top-quartile performance in many of its funds.

Absa Fund Managers further entrenched its position as one of the leading unit trust management companies in the country. The Absa Money Market Fund grew by 16% during 2007 and remains by far the largest unit trust in Africa. The fund's total assets ended the year at R56 billion. The Absa Dividend Income Fund had a net inflow of R6 billion over the year and an asset value in excess of R10 billion at year-end.

Absa Stockbrokers enjoyed another outstanding year in buoyant trading conditions on the JSE. The online trading business was boosted by the introduction of new trading technology and an aggressive advertising campaign. Online trading now accounts for more than half of Absa Stockbrokers' total brokerage income from retail business, against 40% a year ago and 20% two years ago. Absa Stockbrokers has already derived substantial benefit from the association with Barclays.

Absa Investments' net inflow of funds in 2007 was R16 billion. Total assets under management and administration at 31 December 2007 were R118 billion.

FUTURE FOCUS

In 2008, Absa Investments will continue building its image and profile in the retail and wholesale investment environments. High service quality, abundant expertise and a pioneering spirit are the pillars upon which Absa Investments will build its future as a major and leading investment house in South Africa.

The economic and financial environment will be challenging in the year ahead. The key issues are:

- Market growth is likely to be lower in 2008 than it has been in recent years. However, the predominance of money market and other income assets in Absa Investments' assets-under-management mix should reduce any negative impact there might be.
- Inflow of new business will be a major determinant of our success. The challenge will be to market aggressively and effectively.
- Innovation in respect of existing and new products and services will also be important in an increasingly competitive marketplace.

Fiduciary

Absa's Fiduciary consist of three business units, being:

- Absa Trust Limited;
- Absa Consultants and Actuaries (Proprietary) Limited; and
- Absa Health Care Consultants (Proprietary) Limited.

Fiduciary – Absa Trust Limited

Absa Trust is the largest trust company in South Africa. It has a domestic focus and its fiduciary consultants in selected Absa branches mainly serve Absa's personal customer segments. Services include will drafting and safe custody, deceased estate administration, establishing personal, family and charitable trusts, providing comprehensive trustee services (including investment management) and wealth structuring services for high net worth customers.

Estates branches are situated in Pretoria, Kempton Park, Bloemfontein, Bellville, Durban and Port Elizabeth. Trust branches are situated in Pretoria and Bellville, and the wills drafting and wills safe custody branches are situated in Pretoria and Johannesburg, respectively.

SALIENT FEATURES

At 31 December

	2007	2006	Change %
Assets under management (Rbn)	**8,6**	7,2	19,4
Value of deceased estates distributed (Rbn)	**3,6**	3,2	12,5
Number of trusts under administration	**19 924**	19 013	4,8
Permanent employee complement	**412**	402	2,5
Number of customers with filed wills (million)	**1,3**	1,3	

PRODUCT AND SERVICE OFFERING

A comprehensive range of fiduciary services is offered:

- Drafting and safe custody of wills.
- Administration of deceased estates.
- Trustee services for personal, family, charitable and employee benefit trusts.
- Estate planning services.

THE YEAR UNDER REVIEW

Financial performance

Absa Trust achieved excellent financial results during 2007. This was attributable to solid revenue growth and a further decline in the cost-to-income ratio.

Performance against 2007 strategic objectives

Strategic objectives	Performance
Entrenching position as the preferred provider of fiduciary services to the affluent and middle markets.	• Significant progress has been made in this area, as is shown by a 24% increase in the average value per estate administered.
Increasing profits.	• Net operating income increased strongly.
Growing assets under management.	• Assets under management (net of distributions) grew by 19,4%.
Expanding the administration of employee benefit trusts.	• New umbrella trust deeds were established for 70 funds, with membership of up to 100 000 members.
Forming strategic partnerships with actuaries and consultants, pension fund brokers and trustees.	• These strategic relationships were successfully formed as evidenced by the growth in employee benefit trusts.

Commentary

The growth experienced in the property market had a positive impact on estate values. During the year under review, the business unit experienced two challenges. Firstly, the national civil service strike and secondly, the human resource challenges in the office of the Master of the High Court had a significant impact on the finalisation and distribution of estate assets. These challenges were overcome and assistance is being given to the Master's office in the form of training provided to new recruits. The new positioning of the advice and fulfilment team also led to increased new business and to refinement of the customer value proposition.

FUTURE FOCUS

Absa Trust's strategic intent is to further entrench its position as the preferred provider of fiduciary services to the affluent and middle markets. The drafting of new wills, from which a significant portion of future revenue will flow, will remain a key focus area.

While maintaining its strong position in the middle market, the company will also focus on serving the affluent market. Specific emphasis will be placed on further expanding the administration of employee benefit trusts through active interaction with retirement fund trustees and retirement fund consultants.

Innovative enhancements to existing products are contemplated, specifically in the area of communication to beneficiaries of estates. Initiatives focussing on higher productivity and more streamlined processes should result in both higher profit margins as well as an improved customer experience.

Fiduciary – Absa Consultants and Actuaries (Proprietary) Limited

Absa Consultants and Actuaries offers comprehensive administrative, actuarial and consulting services, including asset consulting services in respect of retirement funds and other employee benefit group schemes. It serves mainly the domestic business market.

SALIENT FEATURES

At 31 December

	2007	2006	Change %
Permanent employee component	**343**	301	14,0
Number of customers	**350 000 members**	300 000 members	16,7

PRODUCT AND SERVICE OFFERING

- **Services** ➔ Retirement fund administration services, retirement fund consultation services, actuarial services and asset consulting services.
- **Products** ➔ Domestic workers' retirement funds, farm workers' retirement funds, preservation retirement funds and domestic workers' payroll processing.

THE YEAR UNDER REVIEW

Financial performance

Absa Consultants and Actuaries maintained high profitability levels, owing to high customer retention levels as well as significant new business successes. This was enabled by skilled employees and advanced technology.

Performance against 2007 strategic objectives

Strategic objectives	Performance
Embedding the new technology platform and new business processes in terms of employee competency levels and customer experience levels.	• The technology platform and business processes were successfully bedded in, as evidenced by increased new business successes, specifically in the large corporate segment.
Developing services and products to meet the needs of retirement fund customers and their members.	• The further development of services - specifically asset consulting services - leads to the expansion of services to existing customers, as well as increased acquisition of new customers.

Commentary

The company continued to expand its human resource capabilities, which led to increased service levels to existing customers. Increased regulatory and compliance requirements necessitated increased capacity, as did the increased level of complexity associated with trends in retirement fund administration relating to member web enablement, member investment choices and flexible benefits.

FUTURE FOCUS

The technologically-advanced administration platform linked with the increased human resource capability means that the customer service offering is significantly enhanced.

The company is well positioned for growth and efforts are being focussed on new customer acquisition, especially in the large corporate market.

Over the longer term, emphasis will be placed on continuously developing services and products to meet the needs of retirement fund customers and their members, specifically in an environment of significant change as highlighted in the pension reform proposals formulated by the government.

Fiduciary – Absa Health Care Consultants (Proprietary) Limited

Absa Health Care Consultants (AHCC) is the custodian of health care products and services in the Group. AHCC is represented in all the main centres in South Africa and offers a comprehensive health care consulting service and absenteeism management services to employers, employees, unions, medical schemes, medical scheme administrators, managed-care providers and trustees.

For the retail market, AHCC develops and/or sources products and services to be distributed via the various distribution channels and provides the necessary fulfilment and after-sales services.

SALIENT FEATURES

At 31 December

	2007	2006	Change %
Permanent employee complement	**40**	34	17,6
Number of customers	**102 000**	69 007	47,8

PRODUCT AND SERVICE OFFERING

- Comprehensive corporate wellness end-to-end solutions to the employer market, including comprehensive absenteeism management.
- Risk identification and management services to employers, medical schemes and other risk takers.
- Affordable, quality health care products and services to retail customers.

THE YEAR UNDER REVIEW

Financial performance

The company's income levels showed satisfactory growth.

Performance against 2007 strategic objectives

Strategic objectives	Performance
Becoming the preferred health care solution for all Absa's customers.	• Progress had been made, as evidenced by the increased levels of new business obtained - significantly in the area of absenteeism management.
Securing a medical scheme administration platform.	• The company has, after in-depth investigations, decided not to follow this route, but to focus its efforts on new customer acquisition and expansion of its absenteeism management services.
Expanding market share with respect to consulting and intermediary services.	• The company has experienced growth in market share, specifically in relation to its absenteeism management services where significant growth was experienced.

Commentary

The health care industry remained dynamic during the year, providing many opportunities for end-to-end solutions and consulting assignments. In addition, its absenteeism management services were well received by customers and significant growth was achieved in this area.

FUTURE FOCUS

The aim of this company is to grow through the acquisition of new customers. Both the main lines of business are well positioned and well resourced for growth opportunities. The volatility in the health care market is creating opportunities for the health care consulting services, while a focus on employee wellbeing, as well as a cost focus by employers, is creating opportunities for absenteeism management services.

Other – Absa Brokers (Proprietary) Limited

Absa Brokers is one of the largest financial, investment and risk advisory companies in South Africa and provides the full spectrum of financial advisory services, ranging from risk management, to estate planning to wealth creation and preservation. Absa Brokers acts as an intermediary between Absa's customers and various product providers such as Absa Group, Sanlam, Old Mutual, Momentum, Santam and Mutual & Federal. It also provides a delivery channel (both physical and electronic) for financial products and advice to various market segments.

SALIENT FEATURES

At 31 December

	2007	2006	Change %
Number of policies written	**240 320**	288 304	(16,6)
• Life (long-term)	**143 203**	180 208	(20,5)
• Short-term	**97 117**	108 096	(10,2)
Lapse ratio (%)	**12,9**	14,0	
Number of employees			
• Life (long-term)	**558**	576	(3,1)
• Short-term	**404**	386	4,7
• Data	**180**	201	(10,4)
• Telebrokers	**34**	17	100,0
• Other	**304**	485	(37,3)
Number of agents	**147**	140	5,0
Number of customers	**1 698 155**	1 721 501	(1,4)

PRODUCT AND SERVICE OFFERING

- **Advisory services - long-term** ➔ Life insurance, endowment insurance, investments, annuities, unit trusts, business insurance.
- **Advisory services - short-term** ➔ Short-term personal insurance, short-term commercial and industrial insurance.
- **Advisory services - general** ➔ Advice regarding personal financial planning, retirement and estate planning and investment planning.

THE YEAR UNDER REVIEW

Performance against 2007 strategic objectives

Strategic objectives	Performance
Migrating lower-premium, short-term business from the physical channel to electronic delivery.	• The setting up of the I-Direct platform has been scoped and a pilot has been run. The Websure system (Brolink) was selected to be used and final development has been scoped. • The leads flow process for AVAF business has been enhanced and will be implemented during the first quarter of 2008. Sales have been negatively impacted by three prime rate increases during the last half of the year, as well as the introduction of the NCA during June 2007.
Simplifying the sales process to ensure that customer service is optimised.	• Negotiations with all major project providers have been completed and all are comfortable to varying degrees to move data onto the Websure (Brolink) platform. • Fee structures and responsibilities have all been agreed in principle and the scope of the first phase of the project has been completed. • Implementation will be completed at the end of 2009, or by the latest during the first quarter of 2010.
Expanding the short-term commercial and industrial business in ACBB.	• Commercial property finance has been targeted as a pilot and this has been completed very successfully, especially in the coastal areas. In Gauteng, territorial proprietary needs to be smoothed over to obtain the same result as at the coast. • Commercial asset finance has also been tested but, owing to their internal restructure, it has not completely vested. Best successes are with agriculture, manufacturing and construction and retail. In these three areas, growth rates for 2007 within the Medium and Large Business sectors exceeded 40% growth. Targets for 2008 will specifically include franchises, aviation, commercial asset finance and, very importantly, the public sector.

Commentary

The life industry is finding conditions tougher than before. Savings products are under pressure as a result of negative market perceptions. Many intermediaries therefore prefer to sell risk products, as these products offer more value.

The short-term business tends to ride the economic storm with less volatility than the life business. However, with less disposable income, people tend to shop around for lower premiums, which create both a threat and opportunity for business.

FUTURE FOCUS

The future focus is on building sales capacity and productivity. The launch of an interim model and the development of alternative distribution channels will drive capacity, while continued systems development will drive productivity.

The business will also change in terms of the operating model to be more focused on the bank segments and developing appropriate solutions for these segments. In line with this focus, an agency business will be built to cater for the mass market and a corporate capacity will be built to cater for the upper end of Absa Corporate and Business Bank.

OTHER GROUP ACTIVITIES

Introduction

A number of divisions provide services that assist the Group with its service delivery to all its stakeholders. These divisions provide specific areas of expertise relating to, inter alia, direction setting, governance, compliance, control, information technology, operations and communication.

THE YEAR UNDER REVIEW

- Absa-Barclays synergies achieved ahead of target date.
- Basel II successfully implemented on 1 January 2008.
- Ongoing training and development of employees.
- Maintained "A" rating with regard to the FSC scorecard.
- Absa was once again rated as the most caring financial services institution in South Africa.
- The Absa brand retained both the coveted "number-one banking brand" and "coolest bank" titles for the second year running.
- Launched the "Tell someone that cares - me" campaign.
- Introduced and entrenched the "Treating customers fairly" programme.

FOCUS GOING FORWARD

- Continued refinement of process, policies, procedures and methodologies in line with best practice, thereby assisting in the positioning of Absa as a world-class financial services organisation.
- Meeting and exceeding transformation requirements.
- A specific focus on operational efficiency and productivity.
- Attracting and retaining top talent.
- Further positioning Absa as a caring company.

Group Marketing

Group Marketing is a centrally-managed specialist unit that partners with business units in the development and execution of appropriate marketing communication strategies. Their purpose is to position Absa in the marketplace by implementing and managing innovative marketing campaigns and constantly measuring the success of their initiatives.

ABSA'S MARKETING STRATEGY

Group Marketing strives to position the Absa brand as a leading brand in South Africa by:

- creating and maintaining a consistent brand identity and values, and communicating this effectively both internally and externally;
- creating significant market awareness of Absa's offerings through innovative and pro-active segment, product, channel and sponsorship marketing projects;
- pro-actively providing marketing support to generic and specialist sales forces across the Group;
- using and deploying customer and competitor information to enable targeted and profitable marketing; and
- ensuring the delivery of consistently excellent marketing results in all of Absa's market sectors.

THE YEAR UNDER REVIEW

2007 was a successful year for the Absa brand, which retained both the coveted "number -one banking brand" and "coolest bank" titles for the second year running.

Absa was rated the leading financial institution among the top five employers in South Africa as part of the "Best Employers in SA" 2007 awards, and in the 2007 Deloitte's "Best Company to Work for" survey in the large companies category Absa was ranked second. These awards contributed towards the strengthening of the Absa brand both in terms of the Group's image as well as its ability to appeal to top talent as an employer of choice.

The Absa brand maintained share of mind in the market place through advertising and the strategic use of sponsorship properties. The conclusion of sponsorship deals for the South African Premier Soccer League and Bafana Bafana added to an already premium list of sponsorship properties. A number of these properties received awards at the 2007 Marketing Excellence awards:

- **Gold:** Absa Cape Epic.
- **Gold:** Absa KKNK.
- **Silver:** Absa Cup.

These awards are particularly significant as they not only rate the brand exposure gained, but also the overall returns generated through effective leveraging of sponsorship properties. In addition to these awards, the marketing industry's most prestigious award, "Marketing Person of the Year", was clinched by Absa's Executive Director: Marketing Communications, Happy Ntshingila.

In June 2007, the Group was recognised by Business and Arts South Africa (BASA) by being awarded the "Strategic Sponsorship" award. This category examined the best use of a sponsorship programme as an integral part of the sponsor's overall marketing strategy.

Absa's dedication to arts and culture in South Africa was further recognised when Absa won in the category "Company Partnerships" (inaugural award) for the Absa KKNK at the Mail & Guardian "Investing in the Future" awards.

On the advertising front, consumers rated Absa's TV the most liked, and media efficiency measurements showed that Absa's media buying was significantly more efficient than that of its major competitors.

Highlights of major campaigns that were launched in 2007 include:

- Absa Small Business was successfully repositioned and, despite fierce competition, leadership was maintained within this segment of the market.
- Absa Corporate and Business Bank positioning campaign.
- Combined Absa Vehicle and Asset Finance, Absa Home Loans and Absa Card promotion, leveraging off the Absa Currie Cup sponsorship.
- Launched the first multi-product press broad sheet advertising, which was well received owing to the innovative approach; the exposure resulted in strong sales growth for the advertised products.
- Products such as the micro-loans offering in the lower end of the market with its compelling value proposition contributed to substantial sales growth for 2007.

FUTURE FOCUS

In 2008, Group Marketing will continue to build on the basics that were established in 2006 and 2007. The focus for the year will be to implement the 2008-2010 marketing strategy with high creativity and strong tactics to break through the clutter:

Focus will be placed on:

- Championing remarkable marketing solutions in terms of offers that resonate with Absa's customers and the market.
- Developing more depth around the core brand proposition and thereby supporting sales and market share objectives, based on business targets.
- Improving cost efficiency in Group Marketing through rigorous budget management and marketing spend analysis.
- Building sustainability through depth of relationships by focussing on addressing the needs of the Group's existing customer base.

Group Communication and Public Relations

Group Communication and Public Relations (AGCPR) is a centrally-managed specialist communications unit, contributing towards building, nurturing and protecting Absa's image by establishing mutually beneficial relationships with Absa's stakeholders. It is the custodian of the dissemination of information on corporate matters to the media, the broader community and the Group's employees.

ABSA'S COMMUNICATION AND PUBLIC RELATIONS STRATEGY

AGCPR has a twofold strategic objective in aligning the communication strategy with the Absa business strategy, which is:

- to provide communication products and services to all the Absa stakeholders - including employees and business units as internal stakeholders - regarding the activities of Absa as a professional and trustworthy financial services organisation; and
- to create a sustainable environment of goodwill amongst all the internal and external stakeholders for Absa to optimally function as a responsible South African corporate citizen.

THE YEAR UNDER REVIEW

The main activities of AGCPR in 2007 were:

- the re-organisation and strengthening of the division as a professional function in Absa with specialised communication support to business units;
- the repositioning of internal communication channels as the preferred printed and electronic internal communication media to employees and business units;
- the strengthening of the employee complement of the division with talented specialists providing a critical service to the business; and
- strengthening the voice of the Group Chief Executive both inside and outside Absa.

FUTURE FOCUS

AGCPR's focus will be on:

- the positioning of Absa as a world-class financial services organisation, serving all the people of South Africa by means of transparent and professional corporate communication;
- the integration of the concept of full-value banking in the communication to the Absa stakeholders;
- the positioning of personal capital formation as a crucial empowerment instrument in the development and upliftment of all South Africa's citizens;
- creating a centre of excellence in AGCPR and recentralising all communication resources within AGCPR;
- the establishment of a world-class public and media relations division;
- aligning the Group's language focus to be more relevant to the South African community; and
- enhancing the Group's ability to communicate more effectively to customers and stakeholders.

Group Public Affairs

Black Economic Empowerment (BEE) is a division that seeks to facilitate the structured and focused implementation of Absa's transformation agenda as espoused in the principles of the FSC. The portfolio also provides the framework and process to develop, enable and monitor Absa's implementation of its BEE strategy.

Government Relations provides an integrated approach to managing involvement with the government, parliamentary bodies and other relevant groups.

Corporate Social Investment (CSI) represents Absa's involvement in sustainable community development, which is enabled through partnership with relevant stakeholders. It is a strategic means for the Group to make a positive impact on the broader society. Through CSI interventions, the Group seeks to:

- enhance its reputation and image;
- contribute towards the corporate citizenship agenda;
- build stable and empowered communities in which business operates;
- enhance employee loyalty and pride; and
- enhance access to stakeholder groups.

THE YEAR UNDER REVIEW

The key highlights and achievements for 2007 were as follows:

- Assisted the Group maintain its "A" rating, achieving 92,5 points on the FSC scorecard and improving its transformation performance relative to previous years.
- Contributed to the Group being rated the most caring financial services institution and second most caring company in South Africa (Corporate and Market Research, Corporate Care Check).
- Drove the corporate citizenship agenda to a level where the Group was rated best in terms of involving its employees in community volunteerism and the second best corporate grantmaker in South Africa over a period of eight years (Trialogue).
- Continued to address community needs through partnerships with civil society, public benefit organisations (PBOs) and non-profit organisations (NPOs), public sector institutions and other private sector organisations.
- Supported key women's initiatives for the 2007 Women's Month celebrations.
- Participated in the campaign against violence towards women and children.
- Reinforced relations with strategic stakeholders.

FUTURE FOCUS

Going forward, the BEE division aims to

- ensure that Absa plays a meaningful role in the transformation agenda of the country and, through the BEE process, create a sustainable future by increasing market growth and profitability; and
- align the FSC with the Codes of Good Practice within Absa.

Regarding the Government Relations department, emphasis will be placed on:

- providing Group-wide strategic leadership and guidance to position Absa as a preferred government financial services provider;
- developing, nurturing and managing strategic partnerships with stakeholders; and
- providing inputs to shape and influence the policy and legislative environment impacting the Absa Group.

Corporate Social Investment's key focus areas are:

- Supporting socio-economic development through a Group-wide CSI strategy, policy and process.
- Facilitating increased employee involvement in community development.
- Maintaining and improve Absa CSI industry ratings.
- Aligning CSI with the Absa footprint.
- Developing new partnerships and leveraging off existing strategic partnerships.

A new area has been added to the Public Affairs portfolio commencing 2008, being Consumer Education. Its future focus can be summarised as follows:

- Ensuring leadership in transformation and empowerment through consumer education in the financial services industry.
- Educating 150 000 consumers in financial literacy in 2008 through a network of registered and trained facilitators, using multiple community platforms.
- Building a platform for educating all South Africans in all market segments in financial literacy, banking and wealth.

Group Customer Experience

Group Customer Experience seeks to drive the Group's service vision of enabling customers to achieve their dreams and ambitions through providing customer-centric, quality and innovative service offerings, thereby placing the customer first, and in doing so, delivering superior benefits to all stakeholders.

THE YEAR UNDER REVIEW

The key highlights for the period under review included:

- The launch of a service vision and service promise.
- The enterprise-wide launch of the "What have you done today?" programme, seeking to gain Absa employees' commitment to the service vision and promise statement.
- Identification of leadership competencies that support a service culture through the "Winning the hearts and minds of our people" programme.
- Service skills being positioned as a priority in recruitment and training.
- The introduction and entrenchment of "treating customers fairly" in all business practices.

- A new measurement strategy was implemented to ensure that the Group is in a position to measure service experiences effectively and highlight specific service focuses for all business units. The new measure also introduced the Net Promoter scores that are indicative of customer loyalty. The Net Promoter score is considered a world best practice in this regard.
- The launch of the "Tell someone that cares - me" campaign, inviting customers to speak to Absa and at the same time encourage employees to take ownership of customer complaints.
- The second phase of "Amaze our customers" was launched during 2007, aimed at creating opportunities to amaze customers by making uncomplicated, seemingly insignificant changes that lead to stunning results over time. It's the simple philosophy of: "the small things are the big things".

FUTURE FOCUS

2008 will see a drive towards a customer-centric culture in Absa Group by providing leading-edge knowledge (insights) and intelligence on customer experience in the Absa market, hence enabling excellent customer service and recovery.

Employee loyalty will automatically result in customer loyalty.

Objectives for 2008 are as follows:

- Designing and implementing a Group-wide customer experience management architecture and policy framework.
- Developing and embedding a good customer service personal aptitude into selected roles that often interact with customers, to ensure that properly-suited employees are recruited.
- Entrenching customer-centric behavioral attributes in Absa employees (especially those at touch points) through training programmes.
- Developing and running the "Leaders in action" programme aimed at senior leadership, to ensure that they stay close to the customer experiences delivered by all employees interacting with customers.
- The Group Customer Experience "centre of excellence" will be deployed to tackle priority areas in the Group to affect improvement of service to customers.
- A drive to institute a customer centricity framework will help to focus the Group on the needs of the customer and will support "Treating the customer fairly" initiatives.
- Launch of a Group-wide enquiries and request e-system, which will further improve continuity, turnaround time and overall customer satisfaction.
- The "Amaze our customers" philosophy will deepen in 2008 with the launch of two innovative pilots: In-flight banking, in partnership with 1time airlines, and the audio-brochure concept, which targets both the visually impaired and audiophiles. In addition, further efforts will be made to entrench a caring and considerate customer relationship approach.

Group Strategy and Planning

Group Strategy and Planning focuses on strategically positioning Absa as a market leader by optimising the Group's portfolio of businesses. Absa's strategic intent aims to maximise value for all stakeholder groups. This is achieved through world-class strategic planning and management processes, financial services industry expertise and cross industry experience.

The role of Group Strategy and Planning involves the following:

- Shaping the strategic direction of the Absa Group and ensuring alignment between Group and cluster strategies.
- Driving consistency and alignment in strategic direction throughout the Group through common and interactive strategic planning processes.
- Ensuring that the strategy of the Group is appropriately defined to allow effective communication thereof.
- Measuring the delivery gap between strategic objectives and stakeholder needs and expectations.
- Establishing an "enterprise architecture" capability to ensure optimal business and supporting designs.
- Formulating points of view to support strategic processes and developing thought leadership.
- Monitoring the execution of strategies and reporting the status to the Group Chief Executive.

ABSA'S STRATEGIC PLANNING AND MANAGEMENT PROCESSES

Absa's strategic planning and management processes foster innovation and drive consistency in strategic thinking, direction and execution. The strategic planning and management processes are facilitated by Group Strategy and Planning at regular intervals and cascade the Group's strategic direction into the fibre of the organisation, while incorporating business unit-specific knowledge and experience.

The strategic planning processes are designed to add additional rigour to shaping strategic direction, decision making and business cases development and involve:

- Investigating strategic opportunities.
- Prioritising and evaluating project investments against business drivers.
- Evaluating the deployment of business designs or architectures against the Group's strategic direction.
- Translating Group-wide strategy into practical implementation plans.

The strategic management processes are designed to enhance the effectiveness of the Group's strategic risk management and include:

- Running periodic top-down forecasting processes to further control and enhance current budgeting processes.
- Evaluating the strength of the non-financial components of the business in executing the strategic objectives by understanding stakeholder needs. This involves facilitating the link between employee engagement and customer service to enhance strategy formulation relating to leadership, people management and customer service processes.

THE YEAR UNDER REVIEW

During 2007, Group Strategy and Planning accomplished and executed the following:

- Designed and implemented the strategic initiative and decision-making processes. These strategic planning processes were successfully used to investigate and prioritise strategic decisions relating to the African business agenda, unsecured credit business opportunities and green fields opportunities.
- Established a Group enterprise architecture capability.
- Analysed the Group's project portfolio investments in order to evaluate the alignment with the Group's strategic direction.
- Established an independent top-down forecasting process.
- Provided thought leadership through research focusing on determining the impacts of the inflation shock, oil price, AsgiSA, China and Africa on Absa.
- Started the Group strategy review process with the board and Group Exco.

FUTURE FOCUS

The outlook for the next five years includes the following:

- Implementing a set of strategic themes focusing on a sustainable competitive advantage.
- Translating the strategic objectives for all employees and business through a simpler strategic framework which drives alignment across the Group and results in aligned and consistent execution.
- Embedding the deep-dive bottom-up fact-based strategic planning and analysis processes within the Group.
- Evolving and embedding the Group's enterprise architecture capability to support investment decisions relating to deploying business designs.
- Monitoring the Group's ability to deliver against strategic objectives by implementing an evaluation process which takes the interdependencies between organisational culture, customer satisfaction and the Absa brand experience into account.
- Embedding the Group's portfolio alignment capability to ensure that project investments are directly aligned with the Group's strategic direction.
- Establishing a strategic research capability that is closely aligned with other Group specialist functions and business unit strategists.
- Finalising the Group's strategic direction for 2012, with a focus on embedding market leadership in retail, driving leadership in investment, corporate and business banking, growing customer value, business diversification, and people and operational excellence.

Group Change and Support Services

Group Change and Support Services (GCSS) comprises Group Change (GC), Group Information Services (GIS), Data Governance Organisation (DGO) and Group Service Management and Support (GSMS). GCSS enables Absa to respond rapidly to changing business demands through enhanced, integrated change management, project delivery capability, management information, data analytics and knowledge management services.

THE YEAR UNDER REVIEW

GCSS completed the implementation of the change governance structures through a Group project in 2007. This manifested in the establishment of sector and Group Change committees to approve change initiatives.

GCSS delivered a number of successful execution initiatives in 2007. The new regulatory requirements (NRR) office, run from Group Change, implemented a series of Group-wide regulatory initiatives, including the National Credit Act (NCA), the customer acceptance programme (CASA), the FICA and FAIS initiatives and the sanctions programme.

The Lean programme was set up and is implemented through a series of projects to optimise processes enterprise-wide. This is the first step towards process optimisation and consistent process governance in Absa. A data governance organisation (DGO) was implemented, which rested in the setting up of structures and governance for managing data in the Group.

The logical access management (LAM) and segregation of duties (SoD) programme was initiated to manage physical and logical access control for targeted systems in the Group. The business continuity management (BCM) programme, was set up to manage the risk of failure in systems, people or infrastructure.

A new leadership team was put in place within GIS, introducing new ways of working, defining a new operating model for improving information management in Absa.

Demand for analytics and management information services grew by a staggering 96%, while still maintaining the required service quality measures. The enterprise data warehouse (EDW) has access to almost 30 terabyte of disk storage and 63% more files were sourced.

The DGO is a newly-established specialist unit that partners with business units to ensure that Absa's information assets are managed from information architecture, data quality, information security, data privacy and information risk perspectives.

The DGO ensures compliance to good governance principles from information risk and architecture perspectives by setting policies, assisting business units to implement the required policies, measuring compliance to implemented policies and providing assurance in this regard to the newly-established Data Governance Council. The DGO was inaugurated on 1 January 2008.

GCSS also implemented an effective risk and compliance framework with continuous alignment with international (Barclays) requirements in terms of operational risk management, business continuity, regulatory compliance and information security.

GSMS provides policy and procedure support to the wider Group with help desk call volumes averaging more than 20 000 calls per month.

FUTURE FOCUS

GCSS will continue to focus on Group-wide change initiatives in 2008, with a strong emphasis on compliance, cost containment and revenue. The logical access element of the LAM and SoD programme will be implemented by September 2008 and will then focus on the integration of physical access controls.

The sanctions programme will be implemented across all business areas by Q4 2008. There will be a continued focus on process improvements, automation and process governance and change governance will be supported by the implementation of a portfolio management tool aligned to Absa Group IT. The learning strategy to be implemented Group-wide will be piloted in the Retail Bank and then applied further in the Absa Group.

The future focus will be on delivery and execution, specifically improved speed, cost and quality. Improved controls will be incorporated into the EDW. Enhancing the Group's excellence in maintaining and protecting Absa's information assets will be achieved by the DGO through establishing a quality information governance framework, partnering with all business units in the Group and further leveraging off existing best practice models.

Elements within risk and compliance framework will continue to receive high focus on the GCSS strategic agenda.

The policy procedure standard and guidelines (PPSG) project is a key initiative in GSMS and will ensure an enterprise-wide "one point of truth" for all policies and procedures which support corporate governance and Sarbanes-Oxley (SOX) compliance.

Group Information Technology

Absa's Chief Information Officer (CIO) manages the Group's information technology (IT) and enables business growth and change through its project and service delivery capability.

THE YEAR UNDER REVIEW

Absa Group IT met its objectives of ensuring efficient and resilient service delivery, supporting business growth, providing a technology foundation for the future, effectively engaging with business and industry, and maintaining a high-performing workforce through sustained high levels of operational stability, successful implementation of business and IT initiatives, competency development in key technologies, and proactive relationship management.

In response to increased demand for change, 265 major projects were implemented in controlled software releases, inter alia, electronic funds transfer (EFT) rewrite, Absa Home Loans business process management, Absa Internet Access portal revamp, SMS batch upload, Virgin Money credit card payment profile, National Credit Act (NCA), Customer Acceptance Screening Application (CASA), leasing and asset management SAP module for Absa Vehicle and Asset Finance (AVAF), phase one of the branch delivery platform and the Mercury programme management system.

Graduate and entry-level programmes were implemented to grow internal competencies and capacity and a contract with Larsen & Tubro of India has been signed to provide augmentation of essential skills. The new IT service supply and demand model has been implemented and the relevant business and IT governance forums established to manage strategic positioning of IT.

In order to provide efficient and resilient IT services to the Group, commitment from Telkom has been obtained to implement plans for superior service and a remediation plan with GijimaAST has been achieved.

Infrastructure upgrades for mainframe, storage, retail banking transaction processing and mid-range environments were achieved. Design of the wide area network (WAN) repositioning has been completed and the proof of concept will take place during 2008. The designs for server virtualisation, resulting in improved infrastructure utilisation, have been approved.

A strategy for imaging archival/retrieval and content management has been formulated. The enterprise legacy application renewal (ELAR) initiative is in progress.

The cost savings target for the productivity and efficiency programme (PEP) was achieved. Increased growth in transaction volumes were successfully managed and 51 continuous days without Severity 1 incidents were achieved.

Challenges included fluctuating exchanges rates and increased pressures to reduce IT costs, lack of available IT-related skills in specific areas in the South African market and the broader environmental infrastructure, in particular the national power supply and telecoms.

Several individuals and teams from Absa Group IT received significant technology achievement recognition (STAR) awards during 2007. The STAR awards were launched by Barclays Group CIO International in recognition of the top performers from across all global locations.

FUTURE FOCUS

Group IT's strategic intent is to be the information technology provider of choice for Absa and a viable option for other parts of the Barclays Group, through strong business alignment and an efficient project and service delivery capability.

Absa Group IT will focus on delivering an efficient and resilient IT service, improving its project delivery capability, building a workforce with world-class expertise, upgrading the technology infrastructure in Africa while exercising strict budgetary control. Challenges for 2008 remain similar to 2007, with the addition of extracting value from existing and future alliance partners in an unfavourable economic environment.

Group Human Resources

The purpose of **Group Human Resources (HR)** is to make it easy for the business to deliver its strategies and to protect and enhance Absa's brand by:

- protecting the Group's reputation by proactively and rigorously managing all compliance-related HR issues;
- delivering world-class HR operations, thereby ensuring that core HR processes always work efficiently and effectively; and
- helping the business to deliver its goals by recruiting and developing the best people, driving performance, developing smart and agile compensation approaches, and building a culture that focuses on providing outstanding customer service and protects the values of the Group.

THE YEAR UNDER REVIEW

Absa believes that the key to its success lies in highly capable, empowered and motivated employees, who, as stakeholders of the Group, assist in shaping its future in a sustainable way.

Absa continues to strive to create a high-performance culture that values diversity and enables each individual to reach his or her full potential. Leadership is seen as key to creating a corporate culture that ensures organisational success.

Absa aligned with the Barclays processes and methodologies during 2006. Key processes, especially performance management and development, were further entrenched and embedded during 2007, as evidenced by the strong improvement in the employee opinion survey (EOS) result for this category.

The capability of human resource practitioners, who directly support the business, has been enhanced by capacity-building initiatives in HR through the HR capability development events, as well as master classes in key HR processes.

Some highlights include:

- Implementation of the Group's higher-performing organisation programme. This programme will assist the Group in achieving its strategic aspirations
- The enterprise-wide leadership framework, which develops sustainable leadership practices and is an enabler of the higher-performing organisation agenda. This programme was designed and launched in 2007 and is planned to roll out to all business units and all levels of management during 2008/9.
- Very satisfactory results for the 2007 EOS, with a 98% response rate (vs. 84% in 2006).
- Greater emphasis on attracting and acquiring the best available talent in the South African market.
- The adoption of a new approach to performance measurement.
- Operating and executing against stringent controls, leading to increased customer confidence.

- Participating in and ending amongst the top performers for both the CRF "Best Employers" and Deloitte "Best Company to Work For" competitions.

FUTURE FOCUS

Going forward, attention will be given to talent management, performance development, learning and development, transformation, reward and benefit, leadership and enhanced employee relations and wellbeing.

Group Sourcing

Group Sourcing aims to enhance the value proposition of Absa's business units by harnessing and leveraging the external supply environment in the most economical, effective and efficient manner, through cost reduction or revenue generation from working with Absa's supply base.

THE YEAR UNDER REVIEW

2007 was a highly successful year for Group Sourcing, with all cost benefits targets significantly exceeded.

Black economic empowerment (BEE) remained a key focus area, and in 2007, the FSC's targets were significantly exceeded. Internal processes are still being continually reviewed to ensure that Absa's objective of improving participation by small and medium enterprise (SME) suppliers in Absa's supply chain is efficient and the engagement cycle times are improved.

Absa has leveraged off the inherent skills base in Barclays and benefited from global sourcing opportunities where appropriate. Alignment of the Absa sourcing strategy with the Barclays global sourcing strategy and methodology was a key focus area during 2007, with an emphasis on identifying synergies in the supplier base and knowledge sharing among sourcing professionals from Barclays and Absa.

Key relationships with suppliers are managed consistently and standardised payment terms and contracts are being implemented.

FUTURE FOCUS

Going forward, emphasis will be placed on imbedding sourcing as an activity integral to Absa's performance, improving Group-wide compliance to sourcing transactions and strategy, supporting the SAP SRM system among users, and improving compliance to sourcing deals and policies.

Absa has become the first major South African enterprise to issue a supply chain corporate responsibility initiative, and will now proactively work with the supply base to improve the corporate and social responsibility agenda.

Group Operations

Group Operations is a customer operations service provider in Absa. The business unit is moving from a regional operations model toward a customer-centric and end-to-end value chain model that have specific functional capability focuses, with process centricity driven by automation at its core.

As part of its transformation journey, an investment strategy is mainly executed with a line of sight on operational risk, capacity, sustainability and cost/income.

Group Operations consists of five major capability areas, namely cash and record management, payments, operations lending products, operations trading products and client care. These capabilities are responsible for the deployment and delivery of business unit needs. Group Operations also manages processes through alliances, industry cheque processing through integrated process solutions (IPS). It also manages cash centres in part, through SBV Services (Proprietary) Limited (SBV). IPS and SBV are co-owned by Absa and managed by Group Operations through operational interfaces and board representation.

THE YEAR UNDER REVIEW

Successes for 2007 include:

- Implemented a defined strategy roadmap, end-to-end value chain and capability model and reconstituted processes into activity chassis.
- Identified and re-engineered core processes.
- Operating products (Absa Home Loans, Absa Vehicle and Asset Finance, operating trading product, generic banking products), cash, record management and payments.
- Virtualised processes.
- Moved 76% of transactional flows to workflow queues and attached images and reference data for processing.
- Physical consolidation of processing activities from nine to two processing hubs.
- Embedded a customer-centric and end-to-end value chain model with identified functional capability focuses and value chain governance and management. All payment systems and payment operations accountabilities transferred to Group Operations.

FUTURE FOCUS

Group Operations' focus going forward is as follows:

- Lean process automation - STP (straight through processing).
- Customer centricity through process centricity: The focus is on reducing turnaround times, reducing re-work, optimising the cost/volume relationship, increasing revenue, minimising paper use, reducing operational risk and increasing sustainability.

Group Finance

Group Finance provides statutory, regulatory and management reporting, compliance and control, transactional processing, business performance management, and decision support services to the Group.

THE YEAR UNDER REVIEW

During 2007, the key focus for Group Finance was on the enhancement of both internal and external reporting, further aligning Absa's financial reporting with that of Barclays and the creation of an accelerated learning centre which is focused on enhancing talent in Group Finance.

2007 also witnessed the decentralisation of Absa's finance function, whereby the cluster financial teams were integrated into the respective clusters, therefore enabling business unit management to take full responsibility of their finance areas. The core central finance functions remained in Group Finance. A number of governance forums were created to ensure the alignment between the central finance area and the cluster finance units.

FUTURE FOCUS

Group Finance aims to be recognised for ensuring highly effective and efficient control and reporting and to be valued as a business partner in driving performance. In order to achieve this, focus will be put on:

- ensuring that the reputation of the Group is never compromised with external stakeholders, by providing accurate and relevant information and compliance with regulatory requirements;
- driving the planning and reporting framework to ensure proper governance and performance measurement;
- providing accurate and relevant information and analytics to Group stakeholders;
- partnering the business in analytical and decision support activities;
- playing a leading role in influencing current and future profitability;
- determining financial goals in pursuit of the Group's vision; and
- maintaining a sound control environment, with a specific focus on SOX.

Group Treasury

Group Treasury consists of Capital Management, Balance Sheet Optimisation, Interest Rate and Liquidity Risk Management, Exchange Control, Group Regulatory Reporting, as well as Basel II Development and Implementation from a regulatory reporting and disclosure perspective. This unit ensures that capital management, funding and Basel II embeddedness receive the required attention.

THE YEAR UNDER REVIEW

During 2007, the key focus areas of Group Treasury were the establishment of industry-leading liquidity, capital management and interest rate risk practices, together with product innovation and strong stakeholder relationships. The major achievements of the function were as follows:

- The liquidity profile was substantially improved and liquidity management was re-engineered. This is evident from the almost R18 billion of long term funding raised in the domestic and international markets.
- In terms of the BESA Spire awards, Absa was voted as second South African issuer of the year by fund and asset managers, based on the monthly senior bond programme (National Treasury 1st, Absa 2nd and Eskom 3rd).
- Innovation: Absa was the first bank to launch monthly senior bond and preference share auction programmes addressing the Group's needs together with that of the Group's investors.
- The Capital Management function was complimented by the SARB, with improved capital adequacy ratios above Absa Group board targets.

- Interest Rate Risk Management launched an equity hedge programme over 26 months, with overall risk reduced and hedges executed within targets.
- A strong relationship with SARB was maintained.

The significant achievements in the various functional areas are detailed below:

Interest Rate Risk Management

- Introduction of an equity hedge programme (endowment risk) over 26 months - where the open position was substantially decreased.
- Reduction of risk in structural products portfolio and management of all positions within approved targets and limits.
- Basel II development was finalised, based on a work-around system - stress testing and behavioural assumptions were implemented.
- The liquid asset portfolio was managed within prudential and internal limits.

Liquidity Risk Management

- The liquidity profile substantially improved:
  - The short-term funding ratio reduced from 69% to 58% (peers at 66%). The Group has a target of 55% in this regard.
  - The contractual mismatch was reduced from 48% to 34% (peers increasing from 26% to 30%). The Group has a target of 33% in this regard.
  - A behavioural contractual mismatch was introduced. The Group achieved an actual at 2,9% versus a target of 3,5%.
- Aligned Absa in terms of Basel II and international best practice and re-engineered the end-to-end liquidity management process, which includes:
  - liquidity stress-testing capabilities;
  - a contingency funding and liquidity plan;
  - development of a Basel II proprietary system;
  - design and implementation of cash outflow limits;
  - development of a daily liquidity dashboard;
  - Abacas: implementation of cash flow limits; and
  - implementation of monthly liquidity return for the Group's African subsidiaries.
- Successful diversification of funding sources:
  - Successfully placed Absa's first international placement when EUR600 million was raised in the inaugural euro medium-term note.
  - Successfully issued R5,3 billion notes under the CARS securitisation program and R3,3 billion notes under the HOMES programme, amid challenging market conditions.
  - Emphasis was placed on new debt instruments in the money market, which resulted in an additional R30 billion.

Capital Management and internal capital adequacy assessment process (ICAAP)

- Capital adequacy ratios for Absa Group and Absa Bank improved and were managed above the board target levels.
- R1,7 billion in preference shares were issued at between 72,3% and 75,0% of the prime lending rate, amid extreme uncertain market conditions following dividend tax changes and negative investor sentiment.
- Subordinated debt, qualifying as Tier II capital, amounting to R1,7 billion was raised.
- Effective hedges were put in place to hedge share price risk on the Group's share options scheme.

FUTURE FOCUS

The year ahead will be challenging, given the current market environment that is characterised by widening spreads, lack of demand for bank paper and high interest rates. Group Treasury will focus on product innovation, geographical diversification and internal capital generation to provide for the capital and funding requirements of the Group.

The following will be some of the division's key focus areas:

- Internal capital generation, where business units will have to generate sufficient profits to provide for dividends as well as the capital requirements of balance sheet growth.
- Maintaining adequate capital position amid challenging market environment, by implementing sound governance such as the application by business units for capital utilisation above budget levels.
- The placement of capital by developing innovative capital instruments.
- Maintaining a strong international "A" credit rating.
- Optimising interest rate risk management hedging programme and exploiting market opportunities within approved limits.
- Diversifying the funding base to continue with higher degree of involvement with the retail and wholesale clusters.
- Engaging with the industry to discuss structural misalignment between the SARB's objective of lengthening the liquidity profile of banks, versus the Financial Services Board's objective of short investment profiles for fund and asset managers.
- Embedding the ICAAP principles in business units.

Portfolio Optimisation and Analytics

Portfolio Optimisation and Analytics was set up in 2007, with the primary responsibility of implementing Basel II.

The team consists of employees with a range of skills, including:

- mathematicians and statisticians, who develop models;
- business and data analysts, who support the team through the sourcing of required data; and
- IT support staff and SAS developers, who support the environment necessary to generate the required model outputs.

FUTURE FOCUS

During 2008, the reporting line was changed from Group Credit to the Group Financial Director. The team is currently involved with the implementation of Basel II models, refinement of the economic capital frameworks and the implementation of stress testing processes within the organisation.

Absa Legal

Absa Legal is responsible for the proactive identification and management of legal risks and opportunities on behalf of the Group and provides comprehensive legal support to all members of the Group through dedicated legal teams.

THE YEAR UNDER REVIEW

During 2007, Absa Legal substantially increased its capability and capacity through the aggressive recruitment of talented people, in line with the Group's strategy to have a legal function that can provide comprehensive legal support to the Group. The legal risk management policies and processes were also enhanced and further embedded across the Group.

FUTURE FOCUS

In 2008, Absa Legal will focus on maintaining and enhancing its capability and capacity to provide comprehensive legal support to the Group, by developing and retaining its legal counsel in a very competitive environment. Special emphasis will be placed on the transformation of the legal function in line with the Group's transformation agenda.

In addition, the legal risk management processes will be further refined and specific focus will be placed on proactively influencing the regulatory landscape within which the Group conducts its business.

Corporate Development

Corporate Development is a niche team responsible for ensuring that the investment processes in pursuit of Absa's inorganic growth strategies (via mergers, acquisitions, joint ventures, strategic alliances, restructurings, disposals and the like) are optimised. The business unit supports Group executives by contributing to, assisting in, and ensuring that all inorganic growth strategies are executed in alignment with the overall strategies of the Group. The responsibilities of Corporate Development include originating and promoting value enhancing transactions (proposed by internal and external sources), negotiating transaction terms and providing start-to-finish transaction management and execution.

THE YEAR UNDER REVIEW

During 2007, the team focused on implementing world-class best practices, which have now been embedded in Absa's investment policies, procedures and templates needed to ensure the consistent evaluation and response to investment opportunities in the market. The team size has been further augmented by qualified professionals and the department is now fully functional with the required core skills base needed to support the Group.

The team was involved in the evaluation and execution of multi-billion rand investments and projects for the Group during 2007.

FUTURE FOCUS

During 2008, the focus will be on the strategic alignment of the team with the principle strategic imperatives of the Group from an inorganic perspective and thereby also looking to identify and execute value-enhancing opportunities in support of Group strategies.

As an ongoing imperative, the required investment protocols and processes will enjoy a continued improvement in line with world-class best practice.

Group Investor Relations

Group Investor Relations facilitates a proactive process whereby information is continuously and broadly disseminated to the financial community and investing public, thereby ensuring that the Group is accurately valued in the market.

THE YEAR UNDER REVIEW

The provision of timely, transparent and relevant information to the market remained a priority in 2007. This was achieved by hosting briefing sessions with executive management, facilitating day-to-day investor contacts, provision of the Group's shareholder and stakeholder reports, roadshows, conferences, presentations to the investor community and hosting information on the internet.

The market, through the Investment Analyst Society of Southern Africa, adjudged Absa as the best communicator in the banking sector.

FUTURE FOCUS

Investor relations will continue to ensure that it provides timely and consistent disclosure in terms of communication to the market.

Productivity and Efficiency Programme

The objective of the **Productivity and Efficiency Programme (PEP)** is to assist and guide the Group to achieve a sustainable, competitive average cost-to-income ratio (CIR) across all entities and clusters by the end of 2009, through a constant focus on customer service with the set objective of enhancing revenue and reducing the cost base. This is governed by the PEP Steering Committee that meets on a monthly basis.

THE YEAR UNDER REVIEW

PEP tracked and challenged business units to improve performance versus targets, mainly in the Group support areas during 2007, which assisted the Group in achieving a cost-to-income ratio of 51,8%.

This was achieved through a combination of challenging the operating models, actively tracking initiative benefits and challenging budgeted expenses to identify areas of improvement:

- Overhead value analysis increased business control over cost base and employees.
- Project tracking and monitoring ensured that all committed benefits were reflected in medium-term plans.
- Regular monitoring of progress of initiatives increased, with benefits tracking becoming entrenched across the Group.
- Control growth in employee numbers, process automation and simplification.
- Challenging the way Absa does business, affecting structural changes which ensures sustainability,

FUTURE FOCUS

Apart from the above, PEP will continue to focus on financial tracking against pre-determined targets and tracking of non-financial cost drivers.

Group Secretariat

Group Secretariat provides a company secretarial service in the areas of meeting administration, statutory administration, corporate governance, advisory services, shareholder administration and share scheme administration. The department provides advice to directors and executive managers on their responsibilities in terms of various laws.

THE YEAR UNDER REVIEW

In addition to matters reported in the corporate governance statement in the 2007 shareholder report, during the year under review the department focused, amongst others, on the following areas:

- Administration of various share schemes, ESOP implementation and the development of a combined/single-view share portfolio.
- The timeous lodging of all statutory filings as required by the Companies Act.
- The embedding of the Blueprint statutory administration system.
- The deregistration of various dormant companies.
- The induction of new directors and ongoing training and development initiatives for directors.
- The alignment of policies and corporate governance standards with those applied by Barclays, as well as other international best practices where deemed appropriate by the board of directors.
- The implementation of electronic voting at the annual general meeting.
- The ongoing support to the Absa Group and subsidiary boards of directors.

FUTURE FOCUS

For the year ahead, the division will continue to provide a value-added, efficient service to the various boards of directors in the Group, the individual directors and executive management and Absa Group as a whole. In addition, there will be a focus on enhancing the overall human resources skills in Group Secretariat and a commitment to the transformation objectives of the Absa Group.

Real Estate Asset Management

Real Estate Asset Management (REAM) is an integrated real estate asset management business unit established to be the custodian of the Group's real estate assets. It comprises Property Solutions Management, Repossessed Assets (reported under retail banking), and Asset Management. Subsequent to year end, the Group's real estate offering was revisited and repositioned as Corporate Real Estate Services (CRES).

Property Solutions Management

Property Solutions Management (PSM) is responsible for co-ordinating and implementing the Group's accommodation requirements in both owned and leased properties. It also manages and co-ordinates all related administration with regard to leases, accommodation costs, building-related services and major capital projects related to the Group's accommodation needs.

THE YEAR UNDER REVIEW

During the year under review, PSM let 27 000m2 of redundant space, which was above expectations. PSM also assisted in the revamping and opening of new outlets coupled with the placement of new ATMs.

Many projects received attention during the year, namely the complete refurbishment of the existing Absa House building in Cape Town, which accommodates the Absa Home Loans division and Absa Private Bank located on the ground floor. During the year under review, PSM assisted in the revamping and opening of new outlets.

In addition to this, work commenced on two new cash depots, one being in Vanderbijlpark and the other in Cape Town, which was completed successfully.

As a result of the national power supply problems experienced, Absa decided to embark on a national roll-out of emergency diesel generators to 200 key sites. The high-risk areas were Western and Southern Cape, which were completed in August 2006, with the remaining sites having been finalised in February 2007.

A further 148 sites were identified nationally in April 2008 to improve the coverage to 33% for retail trading outlets in terms of standby generation. The work is currently in progress, with a target completion set for end of the end of 2008.

As part of the Eskom demand-side initiative supported by the Banking Association of SA and the national electricity response team (NERT), retrofitting all existing light fittings by an ESCO-approved contractor forms part of the lighting efficiency programme, which is currently being carried out nationally on owned and head-leased buildings.

In addition to this, attention is given to the entrenchment of a three-year strategic accommodation plan, including a detailed strategic plan per major metropolitan area. The office accommodation policy was revised to bring about a more efficient use of office space by migrating more people to open-plan cluster layouts rather than individual offices. A number of areas were altered during 2007, including the Absa Home Loans and Absa Card head offices.

The very active and buoyant property and building industry presented its own set of challenges, with escalating building costs and rentals presenting unique challenges in trying to contain the Group's accommodation costs.

In its drive to reduce accommodation costs, PSM implemented eight initiatives to achieve ongoing annual savings:

- The workspace optimisation programme, which targets the Group's high-density buildings and focuses on the restacking and reconfiguration of office space and implementing dynamic working and desk sharing.
- A lease renegotiation initiative, which seeks to lengthen lease terms for strategic premises with a view to negotiate better, reduced rates and using the Group's national power to negotiate centrally with national landlords.
- Customised prototype specifics for differentiated branches, an initiative which seeks to reduce the level of specification for the branches in line with the Group's differentiated clientele.
- The turn-key project management model, a strategy which aims to reduce the number of suppliers PSM deals with, in favour of national and regional turn-key contactors so as to reduce the administrative burden and applicable project resources.
- The consolidation of switchboards, which seeks to move away from a switchboard for every building, with a view to consolidate infrastructure and resources centrally - either regionally or provincially.

FUTURE FOCUS

In 2008, the focus will be on the development of the Absa Towers West building, targeted for completion in 2010. It comprises an energy centre development for independently-generated power supply to the head office campus area buildings by means of Egoli Gas and diesel-powered technology.

Included in this leading-edge technology is a resilience allowance to ensure business continuity and operational risk serving critical sites within the campus area.

Asset Management

Asset Management ensures that the Group's owned property portfolio is managed as a stand-alone asset and seeks to extract the maximum value from that asset, while providing the accommodation facilities for the Group. This is achieved by:

- creating and implementing the broad-based strategy for the property portfolio owned by the Group;
- growing the portfolio through negotiated sales and purchases of properties as required; and
- ensuring that the portfolio performs in line with pre-determined benchmarks.

THE YEAR UNDER REVIEW

Asset Management subscribes to the Investment Property Databank Limited (IPD) portfolio analysis services and is benchmarked against the IPD South African All-Fund Universe. The benchmarked assets on the Absa portfolio recorded a total return of 38,0% in the year to December 2007. The portfolio outperformed the 28,1% return achieved by its benchmark by 9,9%.

The return for the year comprised capital growth of 22,0% (compared with 18,3% in the benchmark) and income return of 13,4%, which is 4,6% above the average.

The Group's portfolio ranked 5th out of a total of 21 funds.

FUTURE FOCUS

Asset Management aims to maintain the overall performance of the Group's commercial property portfolio to at least the median of the IPD benchmark.

The consolidation of Absa Real Estate and Asset Management into a new structure, closely aligned to that of Barclays Corporate Real Estate, will ensure an approach where the highest possible returns will be balanced against meeting the Group's operational accommodation requirements.

Group Risk

Risk management is fundamental to Absa'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 Absa's core capabilities. It is integral to the evaluation of strategic alternatives and the setting of objectives, all within a risk management framework that ensures alignment with the Group's risk appetite and overall strategy.

RISK MANAGEMENT AT ABSA

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

Oversight of risk management is the responsibility of two board committees: the Group Audit and Compliance Committee (GACC) and the Group Risk 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.

Generally speaking, the approach followed by Absa in managing risk is to ensure that all significant risks are identified and managed. The board-approved principal risk policy defines the major risks that Absa is exposed to by setting a clear scope around these risks, and setting out high-level policy and accountabilities as to how these should be managed. A total of 18 principal risks are identified as relevant to Absa's business, and forms the cornerstone for the internal control environment. They are grouped in the following list according to the main risk types which are in line with the Basel II Capital Accord (Basel II) classifications:

Capital risk

- The risk that Absa's total capital base is not properly managed in a prudent manner.

Credit risk

- Wholesale credit risk - Failure by corporate borrowers or counterparties to perform their payment, guarantee and/or other obligations.
- Retail credit risk - Failure by retail borrowers or counterparties to perform their payment, guarantee and/or other obligations.

Market risk

- Business objectives are adversely affected by changes in the level of volatility of market rates or prices.

Liquidity risk

- Failure to meet payment obligations when they fall due and to replace funds when they are withdrawn.

Operational risk

- Financial crime risk - Failure to monitor, report and act on financial crime and money laundering exposing Absa to losses, penalties and reputation damage.
- Financial reporting risk - Failure to monitor and report on statutory financial requirements in line with Group requirements, leading to penalties.
- Tax risk - Failure to comply with tax laws and practice (or provide accordingly, where appropriate) leading to a financial loss and/or separately a damage to reputation.
- Legal risk - Exposure of Absa to legal risk arising from business not conducted in accordance with the applicable laws.
- Operations risk - Failure to deliver the intended outcome, including business continuity, data management, process management, premises risk, sourcing, supplier and service management.
- People risk - Failure to achieve Absa's business objectives owing to problems that may arise because of people issues.
- Regulatory risk - Failure to comply with applicable financial services regulatory rules and regulations exposing Absa to penalties and reputation damage.
- Technology risk - The risk of catastrophic failure of technology to deliver secure IT services that provide critical business services.
- Brand risk - Failure to understand, identify or subsequently manage developments that could negatively impact the Absa or Barclays brands.
- Major change programme risk - Failure to control requirements relating to strategic and significant change.
- Corporate responsibility risk - Failure to consider corporate and social responsibility (CSR) issues that could result in the Group suffering reputation damage, financial penalties and loss of credibility in the eyes of stakeholders.

Strategic risk

- The risk that the achievement of Absa's business objectives will be adversely affected by defective strategic planning.

Insurance underwriting and investment risk

- The risk associated with the short-term underwriting of fixed and/or moveable assets, accidents, guarantees and liabilities; insuring the life and/or health of an individual or groups of individuals, or the risk that the earnings of the insurance operations are adversely impacted by changes in the value of the insurance investment assets.

Each of these principal risks is assigned to an executive, known as the principal risk owner (PRO), who has the responsibility to implement the principal risk policy (PRP) in business. This is done in conjunction with business units according to the delineated responsibilities specified in the PRP, via a comprehensive set of risk management control frameworks that is maintained and mandated through the entrenched Absa risk governance structures. Integrated, structured risk assessments take place across all risk types and businesses in accordance with the established risk management framework.

The risks are managed using the five-step process of:

- Direct
- Assess
- Control
- Report
- Manage/challenge

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

Risk appetite is the level of risk that Absa is willing to accept in fulfilling business objectives. To determine this acceptable level of risk, potential earnings volatility is first considered against financial objectives. As part of the planning process, management estimates the potential earnings volatility from different businesses under various scenarios. Absa 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 rebalance the business mix to reduce risk exposure on a diversified basis.

Absa remains committed to the objective of increasing shareholder value by developing and growing business that is consistent with the chosen risk appetite, and by building more effective risk management capabilities.

THE YEAR UNDER REVIEW

Basel II

- Absa has been granted approval for the use of the internal ratings-based (IRB) approach in respect of credit risk and the advanced measurement approach (AMA) for operational risk commencing January 2008.
- The Basel II programme has successfully implemented a compliant Basel II capital measurement and reporting system.
- Completion of comprehensive training at senior management level, thereby enhancing Group-wide Basel II competence.

Capital management

- Absa Bank successfully placed preference shares of R1,7 billion at yields between 72,25% and 75,00% of prime and was the first bank in South Africa to introduce a monthly preference share auction programme.
- Absa Bank raised subordinated debt qualifying as Tier II capital of R1,7 billion.

Credit risk

- Roll-out of Basel II risk-grading models across all portfolios.
- System implementation, optimisation and improvements across all business units.
- Collections projects involving operational efficiencies and automation of the collections area.
- Automation of South African Reserve Bank (SARB) reporting for Basel II.
- Wholesale operational improvements involving greater coverage of ratings/grading as well as a revised industry focused structure.
- Streamlining of credit committees, which have been supported by improved credit mandates/discretions. This has significantly improved turnaround times.

Market risk

- SARB approval for the traded market risk internal model was maintained during 2007.
- Asset and liability management systems were enhanced to meet Basel II requirements and new regulatory reporting standards in respect of interest rate risk in the banking book.

Liquidity risk

- Successful alignment of Absa's liquidity management processes with Basel II and international best practice.
- Successful diversification of the funding base by establishing the senior bond programme, the euro medium-term note programme and the home loan securitisation programme.

Operational risk

- Granting of an AMA waiver by the SARB. Exceptions include Barclays Bank Mozambique S.A. (previously known as Banco Austral, Sarl), the National Bank of Commerce Limited, Tanzania, and joint ventures and associates which will apply the standardised approach.
- Enhancement and optimisation of operational risk practices across all business units.
- Implementation of formal attestation processes with regard to Turnbull, Sarbanes-Oxley (SOX) and principal risks.

FUTURE FOCUS

Credit risk

- Optimising and enhancing credit processes, systems and data capture, as well as the roll-out of improved collection strategies.
- Application and further embedding of models and systems under Basel II.
- Enhancing of risk/reward monitoring across business units.
- Close monitoring of economic conditions and their impact on the credit portfolio and environment.

Market risk

- To strategically position and co-ordinate Group funding and liquidity management activities with the aim of:
  - growing the funding base to support asset growth and other strategic initiatives;
  - lowering the weighted average cost of funding in order to enhance competitive advantage; and
  - diversifying the funding base in order to achieve an optimal funding mix and contribute to balance sheet optimisation.

Operational risk

- Maintaining the AMA and further translating the advanced measurement approach into the advanced management approach.
- Rolling out of the AMA framework to Barclays Bank Mozambique S.A., and National Bank of Commerce Limited, Tanzania, with target date 2010.
- Further instilling a culture of zero tolerance for control breaches.
- The increased use of detailed risk and control assessments (DRACA's) by business management across Absa as a day-to-day tool to monitor operational risks and controls.

Group Credit

The granting of credit is a key source of income to Absa and one of its most significant risks. Absa dedicates considerable resources to controlling credit risk effectively and optimising losses.

ABSA'S CREDIT RISK STRUCTURE

Absa's credit risk is managed on a decentralised model, with oversight and direction given from the centre. The credit risk management teams in each business are accountable to the principal risk owners in those businesses who, in turn, report to the heads of their businesses and also to the Group Risk Director. Each business segment has an embedded credit risk management team, while the Group Credit function plays an independent oversight role in the development of policies and the implementation across the businesses. Examples include ensuring that:

- maximum exposure guidelines are in place relating to the exposures to any individual customer or counterparty;
- excessive concentration of credit risk by country is avoided; and
- policies are in place that limit lending to certain industrial sectors.

Absa Group Risk provides Group-wide direction of credit risk-taking.

The principal committees that review credit risk management, formulate overall Group credit policy and resolve all significant credit policy issues are the Credit Committee: Large Exposures and Group Risk and Capital Management Committee. The Group Audit and Compliance Committee also reviews the impairment allowance as part of financial reporting. All these committees receive regular and comprehensive reports on credit risk issues.

OBJECTIVES OF CREDIT RISK MANAGEMENT

Growth, consistent returns and capital are jeopardised if credit risk is not controlled. Absa's credit risk management framework seeks to reduce volatility in its operating performance and lower the cost of equity by managing risks both within and across businesses.

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

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

CREDIT MITIGATION STRATEGIES

Absa uses a wide variety of techniques to reduce credit risk on its lending. The most fundamental of these is an assessment of the ability of a borrower to service the proposed level of borrowing without distress. It is an Absa policy to establish that loans are within the customer's capacity to repay, rather than to rely excessively on security. As a result, depending on the customer's standing and the type of product, facilities may be unsecured.

In addition, Absa 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.

Absa actively manages its credit exposures. When weaknesses in exposures are detected - either in individual exposures or in groups of exposures - Absa takes action to mitigate the risks. Such actions may include steps to reduce the amounts outstanding (in discussion with the customers, clients or counterparties, if appropriate), using credit derivatives and, sometimes, the sale of loan assets.

Absa Internal Audit

The objective of **Absa Internal Audit (AIA)** is to provide reliable, valued and timely assurance to the Absa board and executive management regarding the effectiveness of controls mitigating current and evolving high risks and, in so doing, enhance the control culture in the Group. AIA is instrumental in providing this assurance to the Absa and Barclays boards and executives.

THE YEAR UNDER REVIEW

In the year 2007, continued emphasis was placed on integrating global audit methodologies and working practices to provide a world-class audit service to our stakeholders. In addition, AIA has delivered its audit plan in full and has embarked on a recruitment drive to complement the existing skills base.

FUTURE FOCUS

AIA will continue to fulfil its role as independent provider of assurance to the Barclays and Absa boards and executive management. Key focus areas for 2008 include the delivery of the 2008 audit plan with increased productivity and efficiency levels and the implementation of a new global auditing toolkit. In addition, training of internal audit staff in the Johannesburg and Absa African operations offices will continue, with specific focus on talent management and retention.