

# ABSA GROUP LIMITED

## Shareholder report

For the year ended 31 December 2007

Absa Group Limited shareholder report 2007



Member of the  **BARCLAYS** Group



## Who we are and what we do

### Who we are

Absa Group Limited (Absa or the Group), listed on the JSE Limited, is one of South Africa's largest financial services groups. Absa is a subsidiary of Barclays Bank PLC, a major global financial services provider.

### What we do

#### PRODUCT SCOPE

Absa offers the complete range of banking, bancassurance and wealth management products and services.

#### MARKET SCOPE<sup>1</sup>

Absa provides its products and services to nine million customers in the personal, commercial and corporate market segments.

#### CHANNEL SCOPE<sup>1</sup>

Absa has an extensive distribution reach, including 892 points of presence, 7 693 automated teller machines (ATMs), 9,6 million debit cards, 1,8 million credit card accounts and links to 797 245 internet, 653 253 telephone and 409 129 cellphone banking customers.

#### GEOGRAPHICAL SCOPE

Products and services are primarily offered to the South African market. In addition, the Group has equity holdings in banks in Mozambique, Angola and Tanzania.

<sup>1</sup>Excludes statistics pertaining to the Group's equity holdings in African banks.

## 2007 highlights

Headline earnings  
growth of **19,6%**

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2006: 25,3%  
2005: 16,5%

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Headline earnings  
per share up by **18,6%**

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2006: 23,8%  
2005: 15,4%

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Return on average  
equity of **27,2%**

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2006: 27,4%  
2005: 25,6%

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Cost-to-income ratio  
of **51,8%**

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2006: 53,8%  
2005: 57,0%

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## Accolades in 2007

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

## Who we are and what we do

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## Salient features

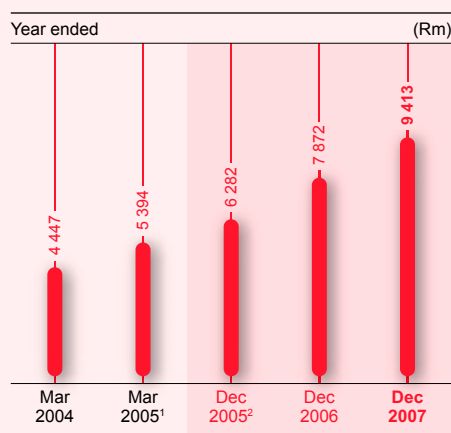
Year ended 31 December

	2007	2006 <sup>1</sup>	Change %
<b>Income statement (Rm)</b>			
Headline earnings <sup>2</sup>	9 413	7 872	19,6
Profit attributable to ordinary equity holders of the Group	9 595	8 105	18,4
<b>Balance sheet (Rm)</b>			
Total assets	640 909	495 112	29,4
Loans and advances to customers	455 958	373 825	22,0
Deposits due to customers	310 512	279 848	11,0
<b>Financial performance (%)</b>			
Return on average equity (RoE)	27,2	27,4	
Return on average assets	1,68	1,74	
<b>Operating performance (%)</b>			
Net interest margin on average assets	3,37	3,28	
Net interest margin on average interest-bearing assets	3,83	3,72	
Impairment losses on loans and advances as percentage of average loans and advances to customers	0,58	0,45	
Non-performing advances as percentage of loans and advances to customers	1,6	1,3	
Non-interest income as percentage of total operating income	47,0	50,2	
Cost-to-income ratio	51,8	53,8	
Effective tax rate, excluding indirect taxation	28,7	27,6	

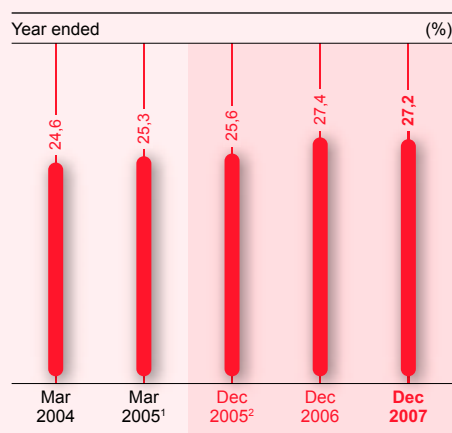
<sup>1</sup>Certain comparatives have been reclassified in terms of Annexure A.

<sup>2</sup>After allowing for **R313 million** (December 2006: R73 million) profit attributable to preference equity holders of the Group.

### HEADLINE EARNINGS



### RETURN ON AVERAGE EQUITY



<sup>1</sup>The comparatives for March 2005 have been restated for International Financial Reporting Standards (IFRS) throughout the document. Only the December 2006 comparatives have been adjusted for the restatements and reclassifications mentioned in Annexure A of the financial statements.

<sup>2</sup>Pro forma figures (twelve months).

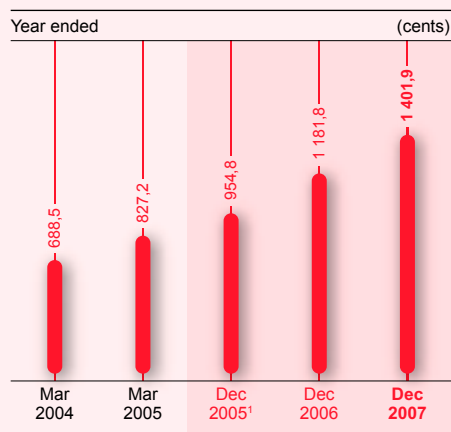
## Salient features

Year ended 31 December

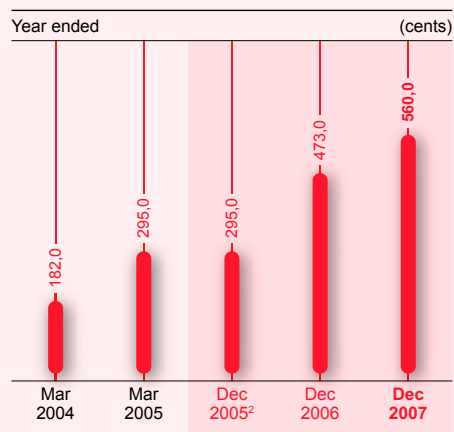
	2007	2006 <sup>1</sup>	Change %
<b>Share statistics (million)</b>			
Number of shares in issue	678,6	672,0	
Weighted average number of shares	671,5	666,1	
Weighted average diluted number of shares	716,4	703,2	
<b>Share statistics (cents)</b>			
Earnings per share	1 428,9	1 216,8	17,4
Diluted earnings per share	1 341,4	1 154,4	16,2
Headline earnings per share	1 401,9	1 181,8	18,6
Diluted headline earnings per share	1 316,1	1 121,3	17,4
Dividends per ordinary share relating to income for the year	560,0	473,0	18,4
Dividend cover (times)	2,5	2,5	
Net asset value per share	5 537	4 717	17,4
Tangible net asset value per share	5 493	4 682	17,3
<b>Capital adequacy (%)</b>			
Absa Bank	12,5	12,3	
Absa Group	13,1	13,1	

<sup>1</sup>Certain comparatives have been reclassified in terms of Annexure A.

### HEADLINE EARNINGS PER SHARE



### DIVIDENDS PER SHARE



<sup>1</sup>Pro forma figures (twelve months).

<sup>2</sup>For the nine months ended 31 December 2005.

## Our values and stakeholders

### Our values

- Value our people and treat them with fairness.
- Demonstrate integrity in all our actions.
- Strive to exceed the needs of our customers.
- Take responsibility for the quality of our work.
- Display leadership in all we do.

### Our commitment to stakeholders

#### SHAREHOLDERS

- Delivering sustainable earnings growth.

#### CUSTOMERS

- Empowering customers by enhancing access to financial services, increasing choice and fostering their financial education.

#### EMPLOYEES

- Ensuring that employees are highly capable, empowered and motivated.

#### THE COMMUNITY

- Helping to empower and uplift the communities in which Absa operates.

#### GOVERNMENTS AND REGULATORS

- Supporting government and regulatory policies in the economic and financial dimensions in proactive and positive ways.

## Our business operations

	<b>RETAIL BANKING</b>	<b>CORPORATE AND COMMERCIAL BANKING</b>	<b>INVESTMENT BANKING</b>																																													
<b>Scope</b>	Banking services to personal customers and small businesses throughout South Africa.	Banking services and solutioning to corporates and medium to large businesses.	Investment banking solutions.																																													
<b>Contribution to attributable earnings – year ended 31 December 2007<sup>1</sup></b> (Calculated after the allocation of profits/losses from the capital, funding and corporate centre.)	<p>49,1%/50,9%</p> <p>50,9%/49,1%</p> <p>● Retail banking ● Rest of Absa</p>	<p>18,6%/16,7%</p> <p>81,4%/83,3%</p> <p>● Corporate and commercial banking ● Rest of Absa</p>	<p>16,8%/13,4%</p> <p>83,2%/86,6%</p> <p>● Investment banking ● Rest of Absa</p>																																													
<b>Financial performance – year ended 31 December</b>	<table border="1"> <thead> <tr> <th></th> <th>2007</th> <th>2006</th> </tr> </thead> <tbody> <tr> <td>Attributable earnings (Rm)</td> <td>5 071</td> <td>4 222</td> </tr> <tr> <td>RoE (%)</td> <td>26,8</td> <td>29,1</td> </tr> <tr> <td>Impairment ratio (%)</td> <td>0,74</td> <td>0,49</td> </tr> <tr> <td>Cost-to-income ratio (%)</td> <td>54,5</td> <td>57,8</td> </tr> </tbody> </table>		2007	2006	Attributable earnings (Rm)	5 071	4 222	RoE (%)	26,8	29,1	Impairment ratio (%)	0,74	0,49	Cost-to-income ratio (%)	54,5	57,8	<table border="1"> <thead> <tr> <th></th> <th>2007</th> <th>2006</th> </tr> </thead> <tbody> <tr> <td>Attributable earnings (Rm)</td> <td>1 922</td> <td>1 384</td> </tr> <tr> <td>RoE (%)</td> <td>30,0</td> <td>27,4</td> </tr> <tr> <td>Impairment ratio (%)</td> <td>0,23</td> <td>0,67</td> </tr> <tr> <td>Cost-to-income ratio (%)</td> <td>52,7</td> <td>55,0</td> </tr> </tbody> </table>		2007	2006	Attributable earnings (Rm)	1 922	1 384	RoE (%)	30,0	27,4	Impairment ratio (%)	0,23	0,67	Cost-to-income ratio (%)	52,7	55,0	<table border="1"> <thead> <tr> <th></th> <th>2007</th> <th>2006</th> </tr> </thead> <tbody> <tr> <td>Attributable earnings (Rm)</td> <td>1 733</td> <td>1 115</td> </tr> <tr> <td>RoE (%)</td> <td>34,6</td> <td>27,1</td> </tr> <tr> <td>Impairment ratio (%)</td> <td>0,00</td> <td>0,00</td> </tr> <tr> <td>Cost-to-income ratio (%)</td> <td>34,6</td> <td>37,5</td> </tr> </tbody> </table>		2007	2006	Attributable earnings (Rm)	1 733	1 115	RoE (%)	34,6	27,1	Impairment ratio (%)	0,00	0,00	Cost-to-income ratio (%)	34,6	37,5
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<b>Business units</b>	Absa Private Bank Absa Islamic Banking Retail Bank Absa Card Absa Home Loans <sup>4</sup> Absa Vehicle and Asset Finance AllPay Consolidated Investment Holdings (Proprietary) Limited	Absa Corporate and Business Bank (ACBB) <sup>2</sup> Absa Development Company Holdings (Proprietary) Limited	Absa Capital <sup>3</sup>																																													

<sup>1</sup>Figures for the year ended 31 December 2006 are indicated after the 2007 figures.

<sup>2</sup>References to ACBB elsewhere in this report include Absa Development Company Holdings (Proprietary) Limited.

<sup>3</sup>Absa Capital is used interchangeably for investment banking.

<sup>4</sup>Includes Repossessed Properties.

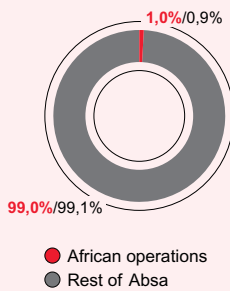
<sup>5</sup>Absa Bank London excludes portions allocated to ACBB, Absa Capital and the Group's African operations.



# ABSA AT A GLANCE

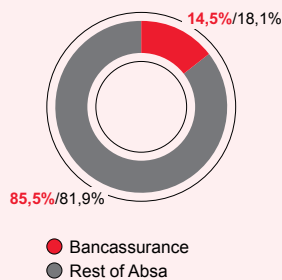
## AFRICAN OPERATIONS

Retail and commercial banking and financial products and services in a number of African countries.



## BANCASSURANCE

The provision of insurance, investment and fiduciary services to all market segments in South Africa.



## OTHER GROUP ACTIVITIES

The Group's corporate, capital and funding centre, property interests, shared services, specialist functions and strategic investments.

	2007	2006		2007	2006		2007	2006
	103	77		1 502	1 500		(736)	(193)
	20,1	17,1		37,8	38,9		n/a	n/a
	1,47	2,56		n/a	n/a		n/a	n/a
	60,7	64,7		35,9	32,0		n/a	n/a

Barclays Bank Mozambique S.A. (formerly Banco Austral, Sarl) (80%)  
National Bank of Commerce Limited (NBC) (Tanzania) (55%)  
Banco Comercial Angolano (50%)

### 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 Portfolio Managers (Proprietary) Limited  
Absa Investment Management Services (Proprietary) Limited  
Absa Asset Management (Proprietary) Limited

### Fiduciary

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

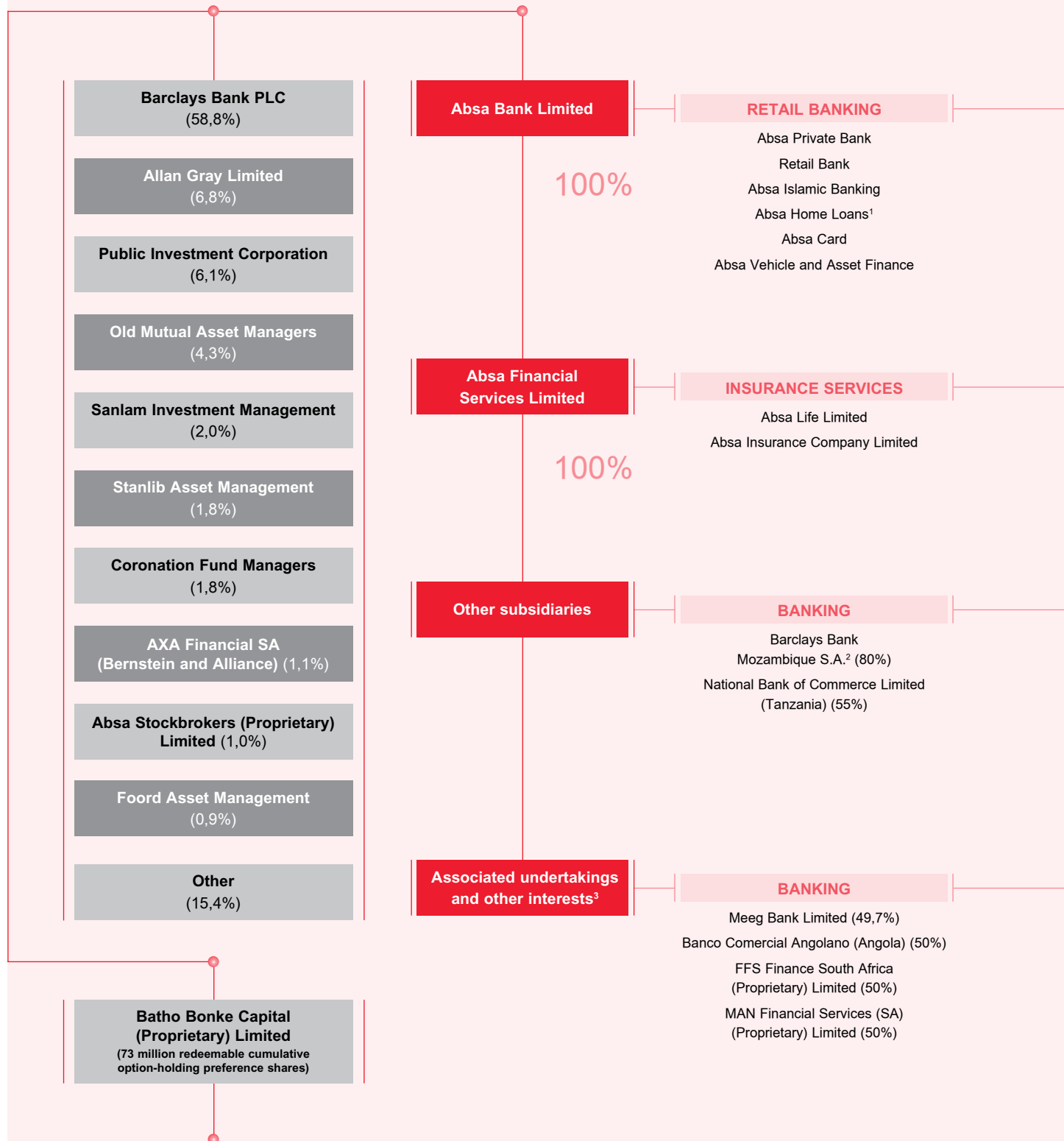
### Other

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

Absa Bank London<sup>5</sup>  
Shared services  
Specialist functions  
Corporate centre  
Capital and funding centre  
Strategic investments

## Our structure

### Absa Group Limited



<sup>1</sup>Includes Repossessed Properties.

<sup>2</sup>Banco Austral, Sarl (Mozambique) changed its name to Barclays Bank Mozambique S.A. during the year.

<sup>3</sup>Commercial property associated undertakings and joint venture companies are not disclosed. Refer to note 13 of Absa Group Limited and its subsidiaries' financial statements for further information.

# ABSA AT A GLANCE

## COMMERCIAL AND CORPORATE BANKING

Absa Corporate and Business Bank  
(ACBB)

## INVESTMENT BANKING

Absa Capital

## FIDUCIARY SERVICES

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

## INVESTMENT SERVICES

Absa Investment Management  
Services (Proprietary) Limited  
Absa Fund Managers Limited  
Absa Mortgage Fund Managers  
(Proprietary) Limited

## OTHER

Absa Brokers  
(Proprietary) Limited

## FINANCIAL SERVICES

Absa Stockbrokers (Proprietary) Limited  
Absa Portfolio Managers  
(Proprietary) Limited  
Absa Asset Management  
(Proprietary) Limited  
Absa Manx Holdings Limited  
• Absa Syndicate Investments  
Holdings Limited  
• Absa Manx Insurance  
Company Limited

## OTHER

Absa Development Company  
Holdings (Proprietary) Limited  
AllPay Consolidated Investment  
Holdings (Proprietary) Limited  
Absa Trading and Investment  
Solutions Holdings Limited

## OTHER

Virgin Money South Africa  
(Proprietary) Limited (50%)  
Property24 (Proprietary) Limited (50%)  
Sanlam Home Loans  
(Proprietary) Limited (50%)  
Maravedi Group  
(Proprietary) Limited (45%)

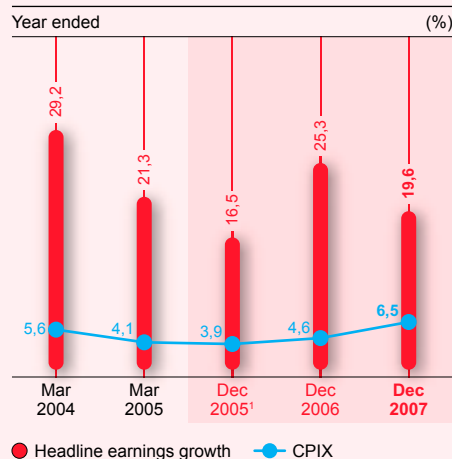
## How we performed in 2007

### 2007 financial objectives

Achieve real headline earnings growth of 10%, on average, over time.

For 2007, the Group increased headline earnings by 19,6% to R9 413 million compared with 2006. This growth outperformed the Group's objective.

#### GROWTH IN HEADLINE EARNINGS

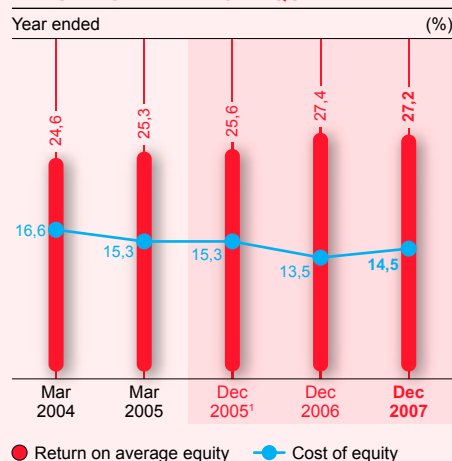


<sup>1</sup>Pro forma figures (twelve months).

Maintain a return on average equity (RoE) of at least 5% above the cost of equity.

For 2007, the Group achieved an RoE of 27,2%. This is a 7,7% outperformance of the Group's objective.

#### RETURN ON AVERAGE EQUITY

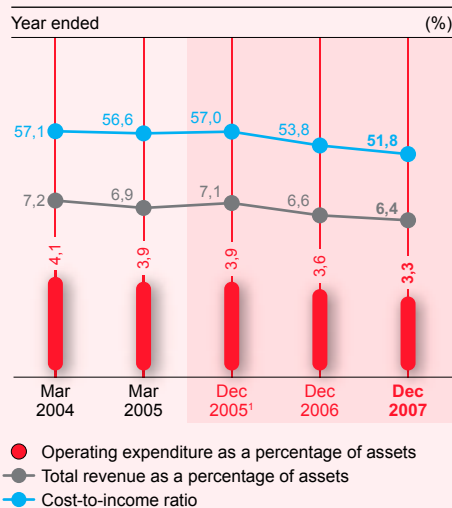


<sup>1</sup>Pro forma figures (twelve months).

To achieve a cost-to-income ratio of around 50% over the next three years.

Revenue growth of 19,1% exceeded cost growth and drove down the cost-to-income ratio from the 53,8% recorded for 2006 to 51,8% for 2007.

#### COST-TO-INCOME RATIO



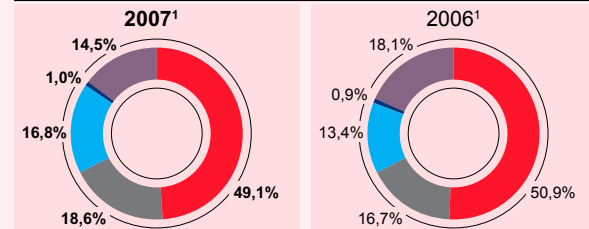
<sup>1</sup>Pro forma figures (twelve months).

## 2007 strategic objectives

### Reduce the cyclical nature of earnings.

Over the past year, Absa made further progress in growing its non-retail contribution to 35,4% of earnings in 2007, compared with the 30,1% achieved in 2006. This was possible because of strong growth from Absa Capital and Absa Corporate and Business Bank (ACBB).

### BUSINESS UNIT PERFORMANCE



● Retail banking ● Absa Corporate and Business Bank (ACBB)  
● Absa Capital ● African operations ● Bancassurance

<sup>1</sup>Calculated after the allocation of profits/losses from the capital, funding and corporate centre.

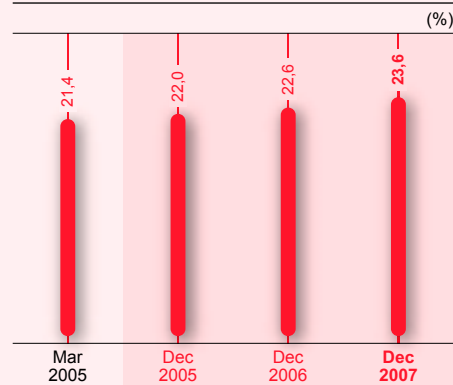
### Enhancing Absa's market position.

During 2007, the Group increased its points of presence from 759 at 31 December 2006 to 892 at 31 December 2007. The Group's automated teller machine (ATM) network was also expanded significantly. The 640 ATMs installed grew the Group's footprint to 7 693.

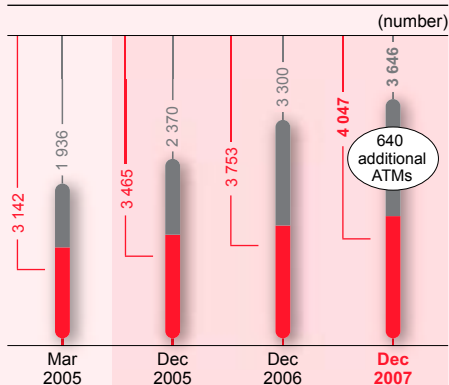
Absa's share of the deposit market was enhanced during the year under review, and the Group increased its market share from 22,6% in December 2006 to 23,6% in December 2007. This can largely be attributed to the effective selling of innovative products.

Currently, 12,1% of the Group's retail advances are unsecured. Absa has improved its presence in this market, primarily by establishing a dedicated business unit focusing on micro-lending and increasing its emphasis on enhancing the credit card value proposition.

### MARKET SHARE – TOTAL DEPOSITS<sup>1</sup>



### ATMS<sup>2</sup>

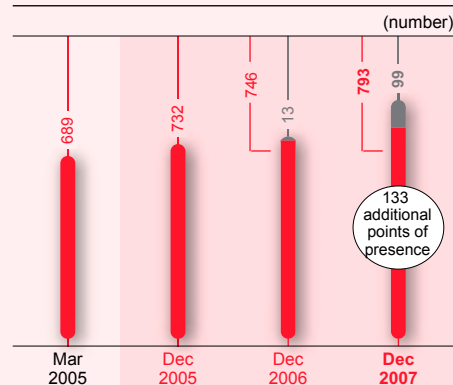


● Absa standard ATMs ● Non-standard ATMs

<sup>1</sup>Source: D1900s.

<sup>2</sup>South African operations.

### POINTS OF PRESENCE<sup>2</sup>



● Traditional points of presence  
● Alternative points of presence

## How we performed in 2007

### 2007 strategic objectives

#### Attracting and retaining the best people.

Absa remains aggressive in attracting and retaining the best people in the market. A number of initiatives have been implemented in this regard, ranging from establishing the Absa Academy to running a global exchange programme between Barclays and Absa.

#### ACCOLADES

- Second best large company to work for in the Deloitte Best Company to Work For 2007 survey.
- Second place in the Corporate Research Foundation Best Employers 2007 survey.

#### Embracing transformation.

Transformation is seen as a business imperative and core focus area in the Group. During 2007, a large amount of emphasis was placed on meeting and exceeding stakeholder expectations relating to the Financial Sector Charter (FSC).

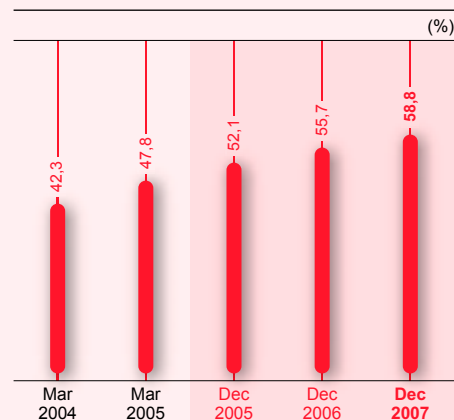
The Group achieved an "A" rating in terms of the FSC scorecard in 2006. Indications are that Absa will achieve an "A" rating again in 2007, based on the Group's unaudited 2007 scorecard.

The Group has continued to focus relentlessly on diversity and, as a result, the percentage of black employees increased from 55,7% at 31 December 2006 to 58,8% at 31 December 2007.

#### BLACK ECONOMIC EMPOWERMENT (BEE) SCORING

	2007 (Unaudited)	2006
FSC	92,5	86,2
BEE Codes of Good Practice	63,4/Level 5	n/a

#### EMPLOYMENT EQUITY RATIO

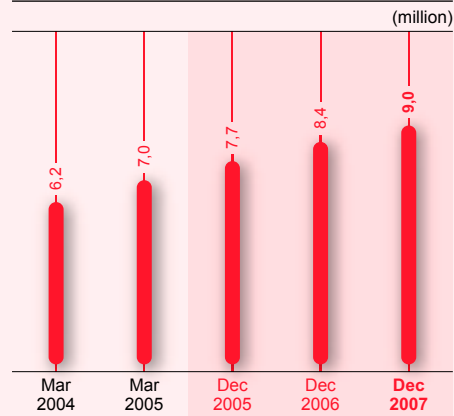


## 2007 strategic objectives

### Becoming the number one choice for customers.

Enhancing the customer experience remains a key focus for the Group. The Group's objectives in this regard are to be a customer-focused financial services group, deliver superior service and competitive products and enhance customer retention and attraction through differentiated service delivery.

#### CUSTOMER BASE<sup>1</sup>

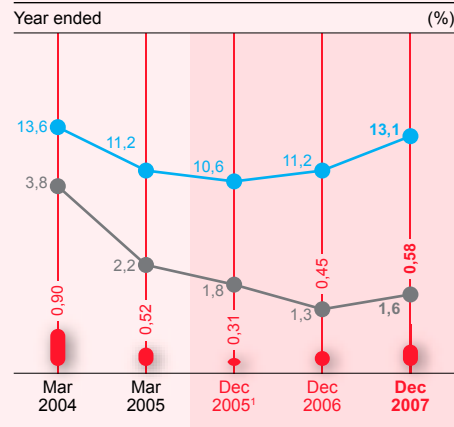


<sup>1</sup>South African operations.

### Enhanced compliance and control.

The Group has implemented initiatives during the year to ensure compliance with the necessary laws and regulations. A key focus during the year was to manage credit risk optimally in the Group to ensure the correct balance between risk and reward.

#### IMPAIRMENT LOSSES



- Impairment ratio
- Non-performing loans and advances ratio
- Average prime rate

<sup>1</sup>Pro forma figures (twelve months).

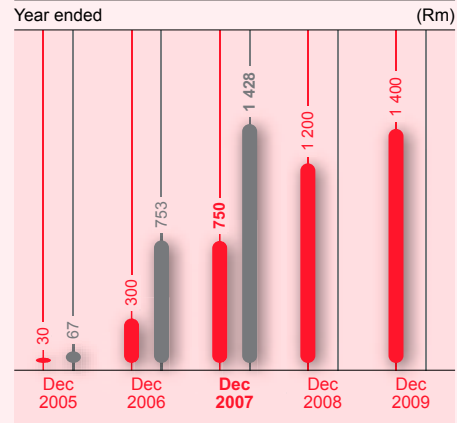
## How we performed in 2007

### 2007 strategic objectives

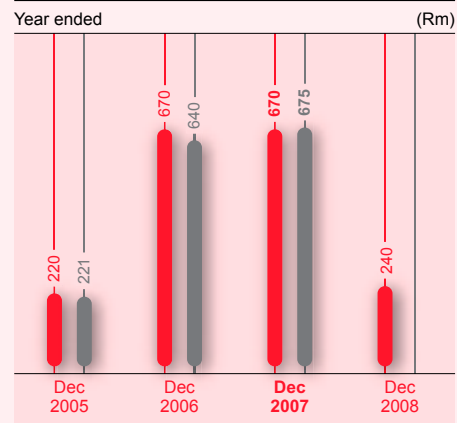
#### Achieving the targets set by the Absa-Barclays integration programme.

The objective of this programme was to improve profit before tax by R1,4 billion by implementing best practices applied by Barclays. The Group achieved this target by year-end, 18 months ahead of plan. Actual sustainable synergies as at 31 December 2007 were R1 428 million.

#### SYNERGIES



#### IMPLEMENTATION COSTS



- Communicated targets
- Actual synergies/implementation costs



## 2007 strategic objectives

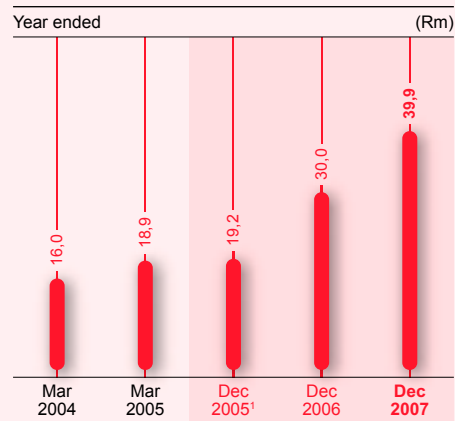
### Positioning Absa as a caring company.

Absa's community investment is largely undertaken by the Absa Foundation, which receives 0,5% of after-tax operating profit. In addition to this, a number of the Group's business units provide support for various community-related initiatives.

#### ACCOLADES

- Most caring financial services institution and second most caring company in South Africa, according to the Corporate and Market Research, Corporate Care Check.
- The company that most strongly involves its employees in community volunteerism and best financial sector corporate grantmaker in South Africa, according to Trialogue.
- The second best corporate grantmaker in South Africa over a period of eight years, according to Trialogue.

#### ABSA FOUNDATION SPEND



<sup>1</sup>Nine-month figure.

## Our trading environment

### Economic environment

Despite mounting global uncertainties, the South African economy remained resilient in 2007, bolstered by strong commodity prices and favourable foreign financing. Economic growth reached 5% for the fourth consecutive year, underpinning solid growth in the financial services industry.

#### CREDIT GROWTH

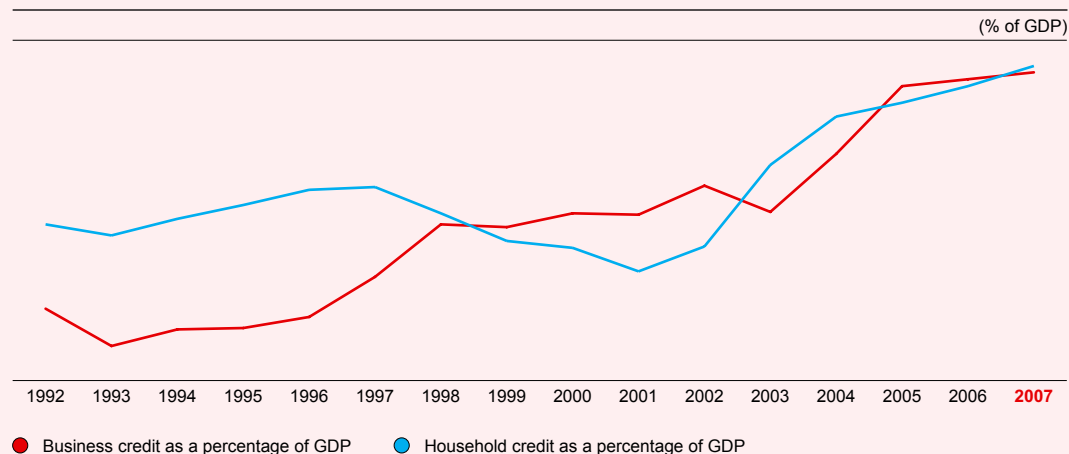
Year-end values: Percentage change y/y	2007		2006	
	Banking industry	Absa	Banking industry	Absa
Instalment finance	12,9	12,2	15,8	19,8
Mortgage advances	25,3	22,9 <sup>1</sup>	30,4	30,4 <sup>1</sup>
Credit card debtors	25,5	23,0	40,8	61,1
Overdrafts and other loans	23,7	25,5	27,2	12,7
<b>Growth in gross advances</b>	<b>22,7</b>	<b>21,9</b>	23,7	24,5

<sup>1</sup>Includes commercial property finance.

When compared with the past three years, there have been important structural shifts in the nature of growth during 2007, with consumption expenditure growth moderating and renewed investment expenditure emerging to boost GDP growth. Absa was well positioned to leverage off this shift, as is evidenced by the strong earnings growth posted in both commercial and investment banking.

Inflation has proven a greater challenge, with CPIX rising above the 6% upper target of the South African Reserve Bank (SARB) in April and ending the year at 8,6%. This prompted a further 200 basis points in interest rate increases during the year, pushing the prime rate to 14,5% by the end of 2007. A consequent rise in consumer debt servicing costs has witnessed a moderation in consumer credit extension and a sharp decline in retail sales growth, particularly during the second half of 2007, as credit conditions for some households tightened further with the introduction of the National Credit Act (NCA).

#### HOUSEHOLD AND BUSINESS CREDIT



Source: SARB

## Regulatory environment

The increasingly stringent regulatory environment impacting the financial services sector constantly challenges banks to comply with regulatory requirements. Furthermore, the Absa Group has to comply with not only the South African regulatory framework, but also with that governing the Barclays Group.

The NCA, which had a major impact on compliance management in the Group, was implemented in 2007. In addition to this, emphasis was placed on continued alignment of policies with certain Barclays policies. These policies not only incorporate international best practice, but also ensure that the Absa Group complies with the international regulatory requirements governing the Barclays Group. Various anti-money-laundering-and-terrorist-financing initiatives took place to ensure compliance with international regulatory requirements.

## Prospects

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

However, record high commodity prices, particularly in precious metals, will help to offset some of the impact of the electricity supply problems felt in these sectors. More generally, buoyant public and private investment spending looks likely to continue in 2008, not only helping to improve South Africa's long-term growth potential but also mitigating downside risks to economic growth in the near term and supporting corporate and commercial lending and investment banking activities.

### KEY INDICATORS

Averages		2004	2005	2006	2007	Forecast 2008
GDP growth (y/y)	(%)	4,8	5,1	5,0	<b>5,1</b>	3,4
\$/R exchange rate		6,45	6,36	6,76	<b>7,03</b>	7,88
CPIX inflation rate	(%)	4,3	3,9	4,6	<b>6,5</b>	9,0
Prime rate	(%)	11,3	10,6	11,2	<b>13,1</b>	14,5
Household debt to disposable income	(%)	56,6	63,4	71,1	<b>76,5</b>	83,0

## Our trading environment

### Key market opportunities and risks

#### KEY MARKET OPPORTUNITIES

- Shift from consumption-led growth to investment-led growth.
- Leveraging the potential of the unsecured lending market.
- Increased public and private investment spending.
- Leveraging off the potential of sub-Saharan Africa.

#### KEY MARKET RISKS

- Domestic economic growth to moderate.
- The ongoing power crisis and its impact on the market.
- Skills shortage.
- Affordability being impacted by increased household indebtedness and the increased cost of credit, increasing impairment levels.
- Upward inflationary pressures.
- Increasing competition in the market.
- Increased consumerism and increased pressure on bank charges.

### Our strategy

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 cyclical 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.

## Our strategy

### 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 paid 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.

# COMMENTARY

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## Chairperson's statement



### Dear Shareholder

It gives me great pleasure to report to shareholders for the first time and to highlight the progress that your Group has made during 2007.

#### FINANCIAL OVERVIEW

Headline earnings increased by 19,6% to R9 413 million (2006: R7 872 million), with solid contributions from all of the Group's major business units, and particularly from commercial and investment banking. The combined earnings contribution from these two business units increased from 30,1% in 2006 to 35,4% in 2007.

The Group's retail banking operations continued to perform well, mainly driven by strong growth in advances and deposits as well as transaction volumes. This was partly due to a further increase in the Group's South African customer base, which grew by 7,1% to nine million customers. The bancassurance operations maintained earnings at the same level as the previous year, mainly as a result of reduced growth in equity markets causing lower investment earnings.

The integration activities relating to the acquisition of a controlling stake in Absa by Barclays have progressed well. Absa achieved a R1 428 million sustainable improvement in profit before tax in 2007, as a result of the achievement of synergies attained through the application of Barclays best practices, where appropriate, in the Absa Group. The original objective of R1,4 billion has therefore been achieved 18 months ahead of plan. The key initiatives in this regard have been embedded in the business and will continue to drive growth.

Your board has declared a final dividend to shareholders of 320 cents per share, bringing the total dividend for the year to 560 cents per share, an increase of 18,4% from 2006.

In light of the Group's good performance, it is disappointing that our share price declined by 11,3% over the year. This downward pressure has, to a large degree, been a function of global sentiment towards banks and investor concerns relating to Absa's considerable presence in the local retail market at a time when the South African consumer is under pressure.

Despite this, the Group's share price and total shareholders' return, when viewed over a three- or five-year period, reflects positive growth. The compounded annual growth in the share price was 13,5% over a three-year period and 28,6% over the past five years. Total shareholders' return was 17,4% over three years and 32,0% over five years. In addition, the Group's return on average equity has remained stable over the medium term, with the Group recording a return in the upper twenties over the past three years (2007: 27,2%; 2006: 27,4% and 2005: 25,6%), which is ahead of the cost of capital.

# Chairperson's statement

## REGULATORY CHANGES

Compliance and regulatory changes continued in 2007. On 1 June 2007, the NCA came into effect. The required changes to systems, processes, procedures and staff training were all concluded successfully, and Absa is fully NCA compliant. Absa is governed not only by the South African regulatory framework, but also by that applicable to Barclays. All the obligatory controls to ensure compliance with national and international regulatory requirements are in place.

The Competition Commission completed its investigation into certain aspects of competition in retail banking and the National Payment System in South Africa during November 2007. The commission obtained input and information from the banks through formal submissions, public hearings and working groups, and is expected to publish its final report during the early part of 2008.

## INTERNATIONAL ECONOMIC LANDSCAPE

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

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

Uncertainty prevails with regard to global economic and financial forecasts. There is a real risk that the situation could deteriorate further, with indications that the global credit crisis could spread beyond the financial sector.

Experience suggests that downturns driven by falling asset prices and credit problems tend to be identified relatively slowly and tend to be protracted in nature.

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

## SOUTH AFRICAN ECONOMIC LANDSCAPE

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

Looking ahead, the overall impact on economic growth of this slowing of consumption from the demand side, and from the supply-side difficulties arising from the recent deterioration in reliable energy provision, remains difficult to quantify. However, it seems likely that economic growth this year will fall some way short of the 5% figures enjoyed for the past four years. The drivers of domestic economic expansion will continue their shift towards investment-led growth, which, in turn, will support corporate and commercial lending activity. This is exemplified by the prioritisation of the 2008/9 national budget on infrastructure and the resilience of the South African economy.

Inflationary pressures are, however, expected to persist into 2008, given sustained high oil and food prices. Recent rand weakness, if sustained, will also place considerable further upward pressure on prices, adding a further burden to the consumer while at the same time generating upside risk to interest rates. The higher inflation and interest rate scenario is likely to result in more moderate advances growth and a higher impairment ratio.

### **ABSA GOING FORWARD**

I am confident that Absa's strategies will ensure that the Group is well positioned to manage the changing environment and enhance its competitiveness, thereby creating wealth for all stakeholders. Diversification of the business is a key element of the Group's strategy. The goal is to reduce the cyclicity and volatility of the Group's earnings, with the aim of enhancing predictability.

Further to the Group's business diversification strategy, Absa will focus on improving the customer experience as well as efficiency and productivity levels to enhance its competitive positioning in the market.

With regard to expansion into other parts of the African continent, there has been limited progress on the Group's plan to acquire the sub-Saharan banking operations of Barclays. This is primarily due to the impact on the cost of acquisition caused by the rapid growth in profits of these businesses in 2006 and 2007.

The Absa board, mindful of its responsibility to act in the best interests of all its shareholders, has concluded that the likely acquisition cost of these businesses today would preclude the generation of acceptable returns.

Recognising that the African continent offers exciting prospects, Absa will continue to pursue opportunities beyond South Africa's borders where we are confident of acceptable returns.

Steve Booyen, in his Group Chief Executive's review, covers the Group's strategies in detail.

It is a prerequisite for the implementation of effective and innovative strategies that courageous thought leadership as well as key, critical skills should be effective at all levels and areas of the business. I envisage Absa becoming a centre of excellence through innovation, initiative and relevance to our young democracy, delivering value to all our stakeholders. This will assist our understanding of our operations, our customers and our working environment. Absa's employees are encouraged to display leadership in all their actions and to find ways to improve their own and the business's performance and efficiency. Attention has been paid to providing employees with opportunities to increase their leadership skills and knowledge through initiatives such as a global exchange programme between Barclays and Absa, dedicated leadership programmes, specific business school programmes and the establishment of the Absa and Retail Frontline academies.

### **CORPORATE CITIZENSHIP**

Absa takes its role as a leading and concerned corporate citizen seriously and is firmly committed to advancing the principles and practice of sustainable development. Central to this is the support provided to the communities in which Absa operates. An investment of R60,9 million was made in this regard in 2007, primarily through the Absa Foundation. Absa has been recognised for its commitment to sustainability through its inclusion in the JSE Limited's Socially Responsible Investment Index since the index's inception in 2004.

### **DIRECTORATE**

The Absa Group board of directors has seen a number of changes during the period under review. These relate to the retirement and resignation of certain members, changes to the Barclays management team responsible for its investment in Absa, and the pursuit of the board's transformation objectives.

## Chairperson's statement

My sincere gratitude goes to Danie Cronjé, who retired as Chairperson of the board on 30 June 2007. His tenure included a period of four years as Group Chief Executive, and 10 years as Chairperson. Danie was a key architect in the formation of the Group during the early nineties and was pivotal to its success. His legacy has provided a sound foundation on which to base the Group's future growth.

In addition, I would like to extend my appreciation and thanks to Paul Kruger and Attie du Plessis for the valuable contributions they made over the years. They stepped down as independent non-executive directors after a long and distinguished association with the Group.

Roger Jenkins and Robert Le Blanc succeeded Naguib Kheraj and David Roberts as Barclays representatives on the board. Dominic Bruynseels resigned during the year, having held his board position since the acquisition by Barclays of a majority stake in the Group in July 2005.

After serving for seven years as a non-executive director, Tokyo Sexwale resigned from the board in January 2008. His expertise and contributions will be sorely missed.

Peter Swartz, an independent non-executive director, also resigned from the board, in March 2008, due to health reasons. Peter served on the board since 1994. I wish him a full and speedy recovery.

Lourens Jonker and Nthobi Angel will be retiring from the Absa Group board on 22 April 2008, at the conclusion of the annual general meeting. I would like to thank them for sharing their considerable expertise with the board.

Trevor Munday, Johan Willemsse, and Shauket Fakie were all appointed as independent non-executive directors during the period under review. Eduardo Mondlane, Jr. was appointed as a non-executive director, and Absa's Chief Operating Officer, Peter Mageza, was also appointed to the board. They bring a wealth of experience and a wide range of skills that will significantly enhance the efficiency and effectiveness of the board.

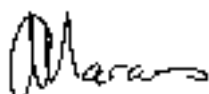
### ANNUAL GENERAL MEETING

The Group's annual general meeting will be held on 22 April 2008. I would like to invite you to participate in this meeting, as it provides an opportunity to discuss the items included in the notice of meeting and to pose questions to the board of directors and senior members of management.

We have revised our approach regarding the provision of annual reports to shareholders. An English version of the annual report will now be provided to all shareholders. An Afrikaans summarised report, containing all the salient information pertaining to the Group, will also be available.

### IN CONCLUSION

I look forward to being part of Absa's ongoing success, confident that we will continue creating value for all Absa's stakeholders. I know I can rely on the full support of my fellow directors, Steve Booyesen and his leadership team and each Absa employee, who will continue to give their best in 2008.



**Gill Marcus**

*Chairperson*

20 March 2008

## Group Chief Executive's review



### Introduction

Absa has succeeded in maintaining its earnings momentum of recent years. The Group's results were achieved through further diversification of earnings in favour of commercial and investment banking, improvements in operational efficiency, and continued growth arising from its market position in retail banking. The Group was able to deliver solid earnings growth, despite an increasingly challenging economic environment.

#### **DIVERSIFYING EARNINGS**

Absa has been viewed primarily as a retail bank with a relatively high exposure to the consumer cycle. However, our ability to compete and grow in a diverse range of businesses has allowed the Group to add significant value to all its stakeholders.

It is pleasing to note that, over the past year, we made significant progress in growing the non-retail earnings contribution of the business. In 2007, 35,4% of earnings were derived from non-retail sources, compared with 30,1% in 2006. This is the result of strong growth from Absa Capital and Absa Corporate and Business Bank (ACBB), which increased their attributable earnings by 55,4% and 38,9% respectively.

#### **DRIVING EFFICIENCIES**

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

#### **ENHANCING OUR MARKET POSITION IN RETAIL BANKING**

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

The Group increased its South African points of presence (including branches, loan centres, remote sales points, kiosks, prefabricated outlets and mobile outlets) from 759 at 31 December 2006 to 892<sup>1</sup> at 31 December 2007. The Group's South African automated teller machine (ATM) network was also expanded significantly. The 640 ATMs installed increased the Group's footprint to 7 693, further entrenching our leadership in this area.

<sup>1</sup>Includes six business centres and 14 business satellites.

## Group Chief Executive's review

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

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

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

### FOCUSING ON THE BASICS

To further improve our competitiveness, we continued to focus on the cornerstones of our business.

#### Attracting and retaining the best people

Creating a dynamic and successful business requires a strong leadership and skills base. That is why we remain aggressive in attracting and retaining the best people in the market. We have instituted a number of initiatives to further develop our people, ranging from establishing the Absa Academy to running a global exchange programme between Barclays and Absa.

#### Embracing transformation

We have continued to focus relentlessly on diversity. As a result, the percentage of black employees increased from 55,7% at 31 December 2006 to 58,8% at 31 December 2007. Our aim is to attain true transformation that goes beyond diversity of race, gender and culture, but includes all Absa's people becoming united in living the values of the Group.

During 2007, significant progress was made towards achieving the targets set in the Financial Sector Charter (FSC).

Absa received an "A" rating from the Financial Sector Charter Council in 2006 for its achievement of these targets. A review of Absa's position relative to the FSC targets for 2007 was undertaken by external auditors and early indications are that Absa should retain its strong rating.

As I indicated in my reviews in preceding years, we do not merely strive to comply with the FSC and related empowerment legislation. We are instead tackling the transformation challenges head-on and will continue to introduce programmes and put mechanisms in place to accelerate BEE because we believe that this is both a moral and a business imperative.

#### Becoming the number one choice for customers

The key differentiator between financial services organisations remains the delivery of quality service to customers and, as such, we have placed a major emphasis on customer excellence. At the end of December 2007, we had nine million South African customers, representing a 7,1% growth in our customer base year-on-year.

Given that many of our customers have little experience in dealing with banks, consumer education remains a key focus area. Strong emphasis is placed on educating consumers in matters such as financial decision-making and long-term financial freedom.

### Enhanced compliance and control

Although the extent of modern-day compliance regimes places costly demands on resources, Absa recognises the value of such requirements to the entire financial environment. We therefore seek to ensure that such requirements are embedded in our way of doing business. The key regulatory challenge for the year was the NCA. Initiatives ensuring compliance to the Act have been successfully implemented in the business.

The Competition Commission enquiry, which was conducted during 2007, was opportune because the industry increasingly had to deal with issues such as multilateral and bilateral negotiations on interchange, sorting at source and comparative advertising. Without a forum such as this enquiry at which to air these contentious issues, many of them were not being dealt with speedily enough.

The Group successfully implemented the Basel II Capital Accord on 1 January 2008. Preparation for this event required substantial time and effort from management and the board. The South African Reserve Bank (SARB) played a major role in the success of this project and the South African banking system as a whole has taken a giant step forward in managing risk and determining appropriate capital levels.

The South African consumer has come under increased pressure due to the spate of interest rate increases over the past two years. To ensure that we maintain our high levels of credit quality, we focused on improving management information to help business units manage risk. Substantial investments in technology, as well as increasing the staff and skills of our collections function, are supporting the drive to protect the Group's high standards of risk mitigation.

### Absa-Barclays integration programme

Nearly three years have passed since the Absa-Barclays transaction was completed. The objective of the integration programme was to improve profit before tax by R1,4 billion. I am pleased to report that this target was achieved by year-end, 18 months ahead of schedule.

Actual sustainable synergies at 31 December 2007 were R1 428 million, comprising R698 million of revenue-generated synergies and R730 million in cost savings. The benefits were achieved in the following areas:

- Customer value interventions in the retail operations, which included improved cross-selling of new products.
- The creation of a competitive investment bank.
- Best-practice sourcing, which includes leveraging off Barclays global supplier contracts.
- The implementation of a new customer-centric operating model in ACBB that has improved the quality and speed of credit decisions and has enabled relationship managers to improve the profitability of customers by focusing on the provision of more appropriate solutions.

### Corporate citizenship and stakeholder value creation

**Responsible corporate citizenship underlies all our actions. The Group is intent on being a caring organisation and by doing business in such a way that all our stakeholders benefit from our actions.**

Our corporate social investment programme continued to focus on health (with a particular emphasis on HIV/Aids), education (giving attention to skills development in mathematics and science, as well as early childhood development), and entrepreneurship (with the aim of creating sustainable employment).

We have also been actively involved in initiatives aimed at easing the country's housing backlog. This included the formation of a successful housing development and home ownership partnership with the government, which has committed to building 100 000 additional homes by 2010.

## Group Chief Executive's review

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

We are proud of the accolades we received in 2007 relating to stakeholder value creation. Absa was once again voted South Africa's top banking brand and we were declared the second best large company to work for in Deloitte's Best Company to Work For survey. Absa was also rated the most caring financial services institution by Corporate and Market Research, Corporate Care Check, the company that most strongly involves its employees in community volunteerism and the best financial sector corporate grantmaker in South Africa by Trialogue.

### LOOKING AHEAD

Economic growth is expected to come under increasing pressure as uncertainties continue to impact on financial markets and the banking environment in 2008. I am confident that our long-term strategies will enable us to deliver attractive returns to all our stakeholders. Our strategies are designed to increase earnings diversification, entrench market leadership, enhance our competitiveness, continuously improve operational excellence and to proactively manage risk across the organisation.

To increase non-retail earnings, Absa is focusing on building and expanding its investment banking activities. Our aim is to establish Absa Capital as a top-two investment bank in South Africa by 2010. Diversified earnings streams will also be derived by streamlining and expanding ACBB, by improving the non-interest revenue-to-assets yield and reducing the dependence on lower-yielding vanilla banking activities and products. We plan to grow the contribution of non-retail earnings to total earnings from their current levels of 35,4% to 40,0% by December 2009.

We also aim to grow unsecured lending earnings by expanding our credit offering to include more customers in the lower living standards measure (LSM) levels through the provision of credit cards and micro-loans and, in doing so, entering market segments where Absa currently has little or no presence. However, given the current market conditions, we will grow selectively within this market.

To grow non-bank earnings, a strong emphasis is being placed on improving the insurance product penetration rate into retail products such as mortgages, vehicle finance and credit cards. The emphasis on selling insurance products to mass market customers is also being increased.

Apart from this, growing assets under management will continue to receive attention. Emphasis will be placed on strengthening our capabilities and expanding our wealth and asset management offerings to complement the existing transactional banking and vanilla product offerings to deliver a compelling proposition to South Africa's fast growing high net-worth and ultra high net-worth individual market.

**In delivering market leadership and enhancing our competitiveness, we will endeavour to protect and further entrench our leadership position in the South African retail banking market. This will be achieved by retaining longer-dated anchor products, enhancing our service levels and instituting mechanisms to heighten customer loyalty.**

We will also continue to invest in our distribution footprint to make Absa even more accessible and convenient, continue upgrading the skills and capabilities of our people and become increasingly competitive in our value propositions.

Effective use of resources to ensure sustainable future growth will remain a priority. In a drive to enhance efficiency and productivity, we have adopted the Lean approach, which ensures that employee knowledge at all levels is



leveraged to achieve process improvements that eliminate wastage and enhance customer service. We intend to achieve a cost-to-income ratio of 49,5% by 2009.

Collections and risk management will remain a key focus area. 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 achieve the correct balance between risk and reward. Ensuring compliance to regulations will also continue to be an area of focus in the year ahead.

In order to maximise shareholder value, focus will continue to be placed on optimising the level and mix of the Group's capital resources. Attention will also be placed on liquidity management with the aim of reducing the Group's short-term funding reliance and diversifying our funding base.

Owing to the increased rate of change in the financial services industry and the economy, we will be closely monitoring global and domestic macro-economic trends to help us to identify opportunities and threats that could impact the Group. As part of this initiative, we are evaluating the Group's current enterprise architecture to ensure that it is robust enough to support our future growth aspirations.

**In a challenging economic environment it is critical that the basics are executed impeccably and that opportunities are identified and leveraged timeously. The strategic financial objective of the Group remains the delivery of 10% real attributable earnings, on average, over a period.**

#### **APPRECIATION**

On behalf of the Group Executive Committee, I extend my sincere gratitude to the Absa Group board for the guidance and insights its members have provided. I thank Danie Cronjé for the unequalled contribution he has made during his tenure with the Group, and in particular as Chairperson of the board. I also extend a warm welcome to Gill Marcus, our new Chairperson.

I would like to acknowledge the significant contributions of Robert East and Dominic Bruynseels, who were both members of the Group Executive Committee from the date that Barclays acquired a controlling stake in the Group, until August 2007. I thank them for their dedication in positioning Absa for continued success.

I would like to thank my Absa colleagues for their efforts in not only achieving solid financial results for shareholders, but also in creating value for the Group's other stakeholders. I would also like to extend my thanks to all our nine million customers for their valued support throughout the year.



**Steve Booyesen**

*Group Chief Executive*

20 March 2008

# Financial analysis

## Introduction

The Group increased headline earnings by 19,6% to R9 413 million, compared with headline earnings of R7 872 million for the year ended 31 December 2006.

The key features of the Group's performance for 2007 include:

- advances growth of 22,0%;
- top-line income growth of 19,1%;
- an increase in the proportion of earnings from commercial and investment banking;
- improved operational efficiency; and
- an increase in retail credit impairment charges.

### KEY HIGHLIGHTS OF THE GROUP'S PERFORMANCE

- **19,6%** growth in headline earnings to R9 413 million.
- **18,6%** increase in headline earnings per share to 1 401,9 cents per share.
- **27,2%** return on shareholders' equity.
- **560** cents dividend per share declared.

### GROUP PERFORMANCE

#### Headline earnings

**Objective:** The Group aims to achieve real headline earnings growth of 10%, on average, over time.

**Performance:** The Group increased headline earnings by 19,6%, compared with 2006 to R9 413 million. All banking business segments delivered a strong performance. Retail banking grew attributable earnings by 20,1% and Absa Corporate and Business Bank (ACBB) and Absa Capital reflected growth of 38,9% and 55,4% respectively.

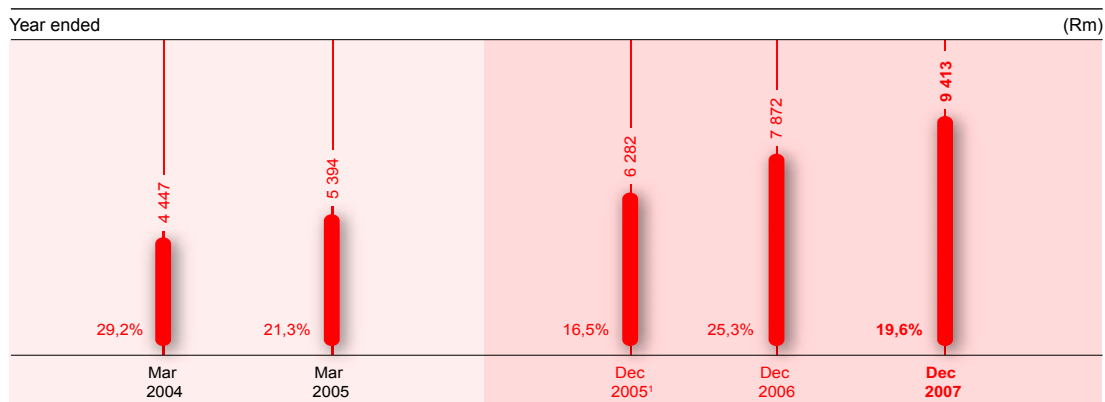
ACBB and Absa Capital increased their earnings contribution from 30,1% to 35,4%, in line with the Group's focus on improved diversification of its income streams.

These performances were underpinned by solid advances growth and transaction volumes. The Group tightened its credit criteria at the expense of market share to protect the quality of its book. This helped the Group to keep the credit impairment charge at acceptable levels.

Absa Capital's growth was underpinned by excellent performances in Primary Markets, Secondary Markets and Equity Investments and Investor Services.

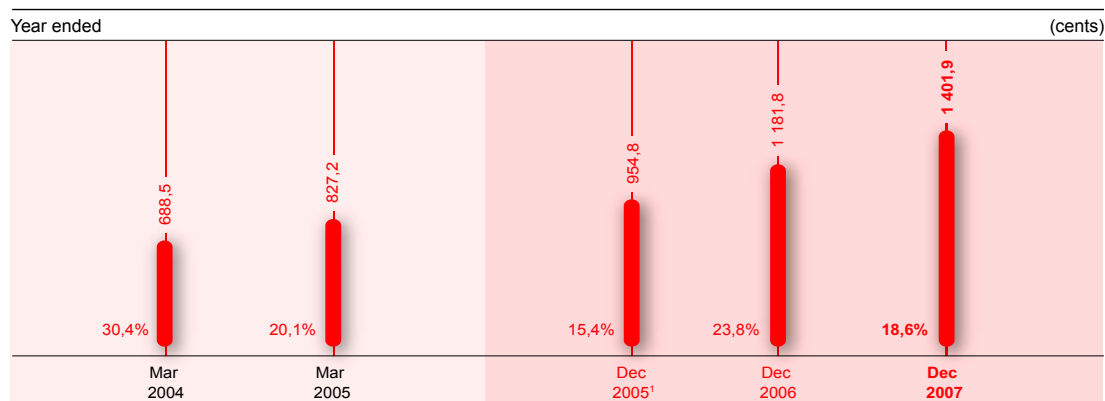
Absa's bancassurance operations posted attributable earnings of R1 502 million for 2007. The flat attributable earnings growth resulted mainly from the buoyant equity market performance achieved in 2006, which was not repeated in 2007. At an operating level, bancassurance produced growth of 9,0%, mainly attributable to continued new business growth and significant growth in assets under management.

## HEADLINE EARNINGS



<sup>1</sup>Pro forma figures (twelve months).

## HEADLINE EARNINGS PER SHARE



<sup>1</sup>Pro forma figures (twelve months).

### Diluted headline earnings per share

Fully-diluted headline earnings per share grew by 17.4% to 1 316,1 cents per share. The dilution in headline earnings per share flows from the option rights to obtain shares that have been issued to Batho Bonke Capital (Proprietary) Limited (Absa's BEE partner) and the Group's share incentive schemes.

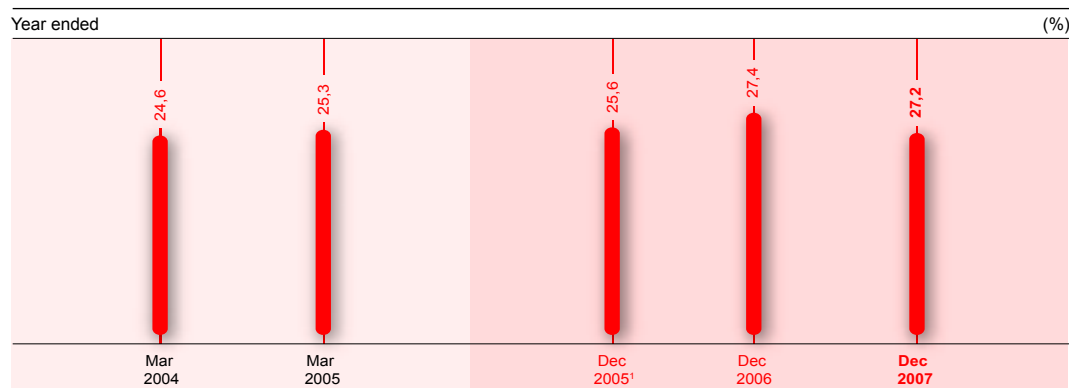
### Return on average equity (RoE)

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

**Performance:** The Group achieved an RoE of 27.2% for the year under review. This pleasing result has enabled a sustained outperformance of the Group's RoE objective. The Group's cost of equity for 2007 was 14.5%.

# Financial analysis

## RETURN ON AVERAGE EQUITY



<sup>1</sup>Pro forma figures (twelve months).

## RoE decomposition<sup>1,2</sup>

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

	Note	2007 %		2006 %
Net interest/interest-bearing assets		<b>multiply</b> <b>3,83</b>	multiply	3,72
Interest-bearing assets/total assets		<b>equals</b> <b>0,88</b>	equals	0,88
Net interest yield	1	<b>plus</b> <b>3,37</b>	plus	3,28
Non-interest yield	2	<b>equals</b> <b>2,98</b>	equals	3,32
Gross yield		<b>less</b> <b>6,35</b>	equals	6,60
Impairment losses	3	<b>equals</b> <b>0,43</b>	less	0,35
Risk-adjusted yield		<b>less</b> <b>5,92</b>	equals	6,25
Operating expenditure	4	<b>less</b> <b>3,30</b>	less	3,56
Taxation expense		<b>plus</b> <b>0,85</b>	less	0,89
Share of retained earnings of associated undertakings and joint ventures		<b>plus</b> <b>0,02</b>	plus	0,03
Minority interest		<b>less</b> <b>0,08</b>	less	0,04
Headline earnings adjustments		<b>less</b> <b>0,03</b>	less	0,05
<b>Return on average assets (RoA)</b>	5	<b>equals</b> <b>1,68</b>	equals	1,74
Gearing (average assets/average equity)	6	<b>multiply</b> <b>16,19</b>	multiply	15,76
<b>Return on average equity (RoE)</b>		<b>equals</b> <b>27,2</b>	equals	27,4

<sup>1</sup>Calculated as a percentage of average total assets.

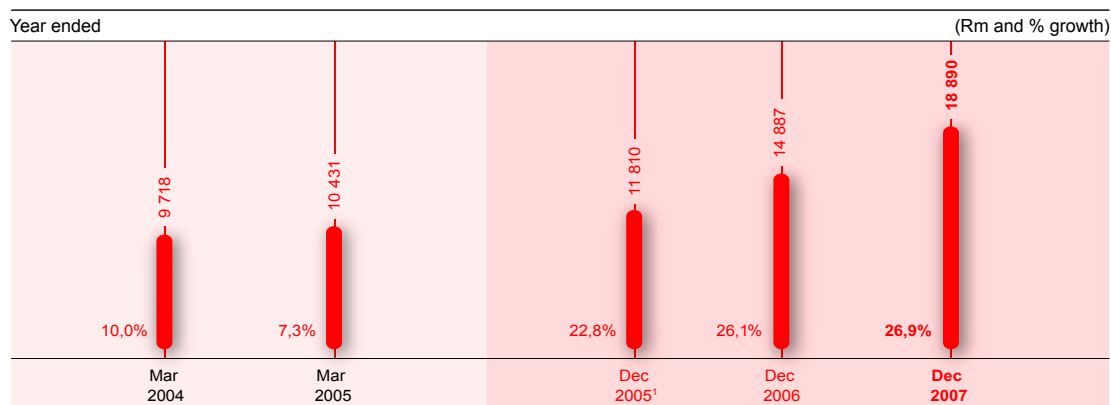
<sup>2</sup>Year ended 31 December.

## Note 1 – Net interest yield

### Net interest income

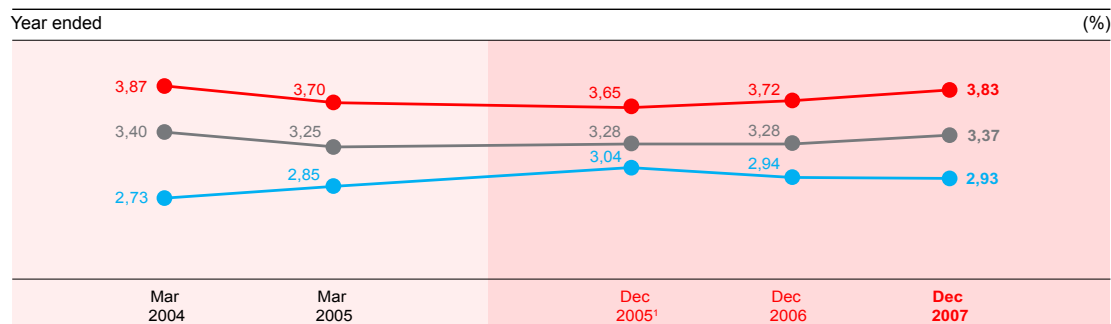
**Performance:** Net interest income increased by 26,9% owing to improved margins and growth in major advances products. The improvement in the net interest margin stems largely from the higher interest rate environment and greater net flows in capital and rate-insensitive retail deposits. Funding costs increased, reflecting higher wholesale funding levels and the reluctance of depositors to lengthen the tenure of their deposits in a rising interest rate environment.

### NET INTEREST INCOME



<sup>1</sup>Pro forma figures (twelve months) and growth calculated on December 2004 figures (pro forma twelve months).

### NET INTEREST MARGIN



- Net interest margin – daily average total assets
- Net interest margin – average interest-bearing assets
- Net interest margin – after impairment losses on loans and advances

<sup>1</sup>Pro forma figures (twelve months).

# Financial analysis

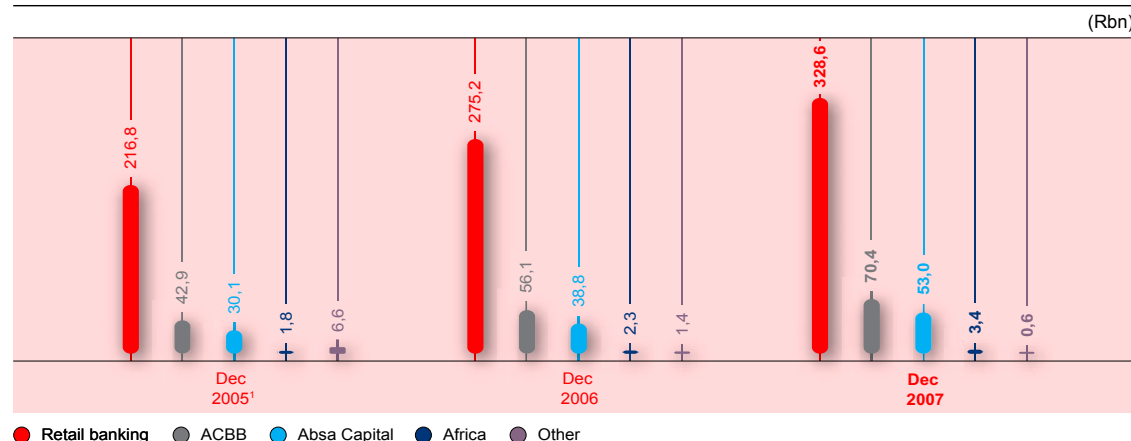
## Loans and advances to customers

**Performance:** Net loans and advances to customers increased by 22,0% to R456,0 billion, compared with R373,8 billion as at 31 December 2006. However, advances growth has started to show signs of a slowdown, owing to the impact of higher interest rates and rising oil and food prices on consumer spending.

The growth in retail advances continues to be driven by increased household credit extension. Mortgage advances grew by 21,9% and credit cards by 23,0%. Sound advances growth continued to be experienced in the affluent and high net worth market, with Absa Private Bank increasing its advances base by 17,0%. The lower growth of 12,2% experienced in the instalment finance book was attributed to slower growth in new motor vehicle sales and continued price pressure in the used vehicle market.

Both the large and medium business segments in ACBB saw strong advances growth. The property market remained a solid contributor to the 25,3% total advances growth in ACBB, with commercial property finance advances reflecting growth of 31,9%.

## NET LOANS AND ADVANCES TO CUSTOMERS



<sup>1</sup>The comparatives for December 2005 have been reclassified for Abacas and equity and shareholder loans.

## GROWTH IN GROSS LOANS AND ADVANCES TO CUSTOMERS

Year ended 31 December 2007

	2007 Rbn	Y/Y change %	Market share %	Advances mix %
• Mortgages and CPF <sup>1</sup>	264,7	22,9	31,1	57,3
• Credit cards	13,8	23,0	25,1	3,0
• Instalment finance	63,9	12,2	23,1	13,8
• Overdraft and other loans	119,2	25,5	20,1	25,9
<b>Gross advances</b>	<b>461,6</b>	<b>21,9</b>	<b>25,9</b>	<b>100,0</b>

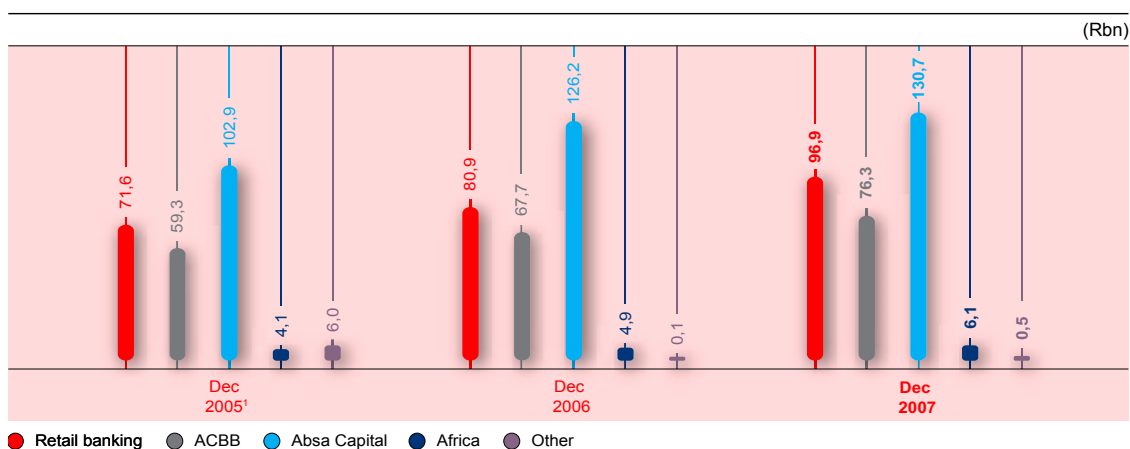
<sup>1</sup>Commercial property finance.

## Deposits due to customers

**Performance:** The Group's deposit base was bolstered by strong growth of 19,9% in the retail banking segment. Savings accounts continued to be a major drawcard for new customers. The introduction of a new savings product to compete with money market unit trusts also proved popular with customers. ACBB grew its deposit book by 12,7% with the Group's strong position in public sector business aiding efforts to diversify ACBB's deposit base.

Wholesale deposits have shown year-on-year growth of 3,5%, with the Group focusing on debt securities with a longer tenure to lengthen its funding maturity profile. This represents an improvement on 2006 growth, but is lower than advances growth, which means that the Group remains more reliant on wholesale funding than in the past.

## DEPOSITS DUE TO CUSTOMERS



<sup>1</sup>The comparatives for December 2005 have been reclassified for debt securities in issue.

## FUNDING OF BALANCE SHEET GROWTH

Year ended 31 December

	2007 Rbn	2006 Rbn	Change %	2007 mix %	2006 mix %
• Retail banking	96,9	80,9	↑ 19,9	15,1	16,3
– Low margin	34,5	21,8	↑ 58,3	5,4	4,4
– High margin	62,4	59,1	↑ 5,6	9,7	11,9
• Commercial	76,3	67,7	↑ 12,7	11,9	13,7
• Institutional	335,1	246,4	↑ 36,0	52,3	49,8
• Securitisation	10,0	3,5	↑ >100,0	1,6	0,7
• Capital	52,5	43,3	↑ 21,2	8,2	8,7
• Working capital	70,1	53,3	↑ 31,5	10,9	10,8
<b>Funds employed</b>	<b>640,9</b>	<b>495,1</b>	<b>↑ 29,4</b>	<b>100,0</b>	<b>100,0</b>

# Financial analysis

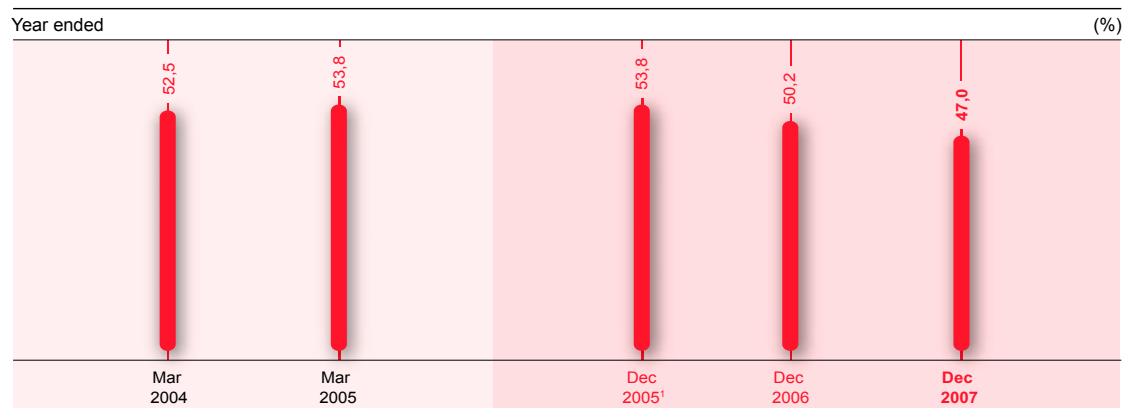
## Note 2 – Non-interest yield

### Non-interest income

**Performance:** Growth in non-interest income was achieved on the back of increased transaction volumes in retail banking and ACBB, as well as strong growth in Absa Capital. The increase in transaction volumes was supported by a growth of 7,1% in the South African customer base to nine million and the deployment of additional delivery channels. An additional 133 points of presence, 640 ATMs, 155 self-service kiosks and 148 internet kiosks were installed in South Africa during 2007. As a result, net fee and commission income, regarded as annuity income and constituting more than two thirds of non-interest income, increased by 14,3% to R11 600 million (2006: R10 153 million).

Short-term insurance premiums grew by 21,2% and related claims increased by 23,7%. Long-term insurance premiums decreased by 9,7%, mainly as a result of the impact of the NCA, in terms of which single premiums were changed to recurring premiums. Absa Capital made a good contribution to the growth in non-interest income because of the strong growth in fee income in Primary Markets, trading and private equity gains.

### NON-INTEREST INCOME AS A PERCENTAGE OF OPERATING INCOME (excluding impairment losses on loans and advances)



<sup>1</sup>Pro forma figures (twelve months).

### FEE AND COMMISSION INCOME

Year ended 31 December 2007

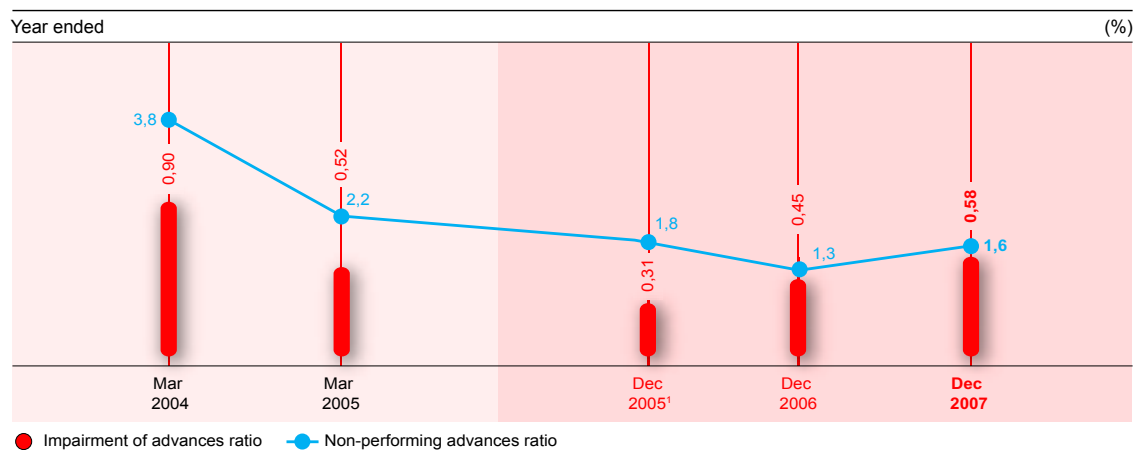
	2007 Rbn	Change %	Mix %
• Cheque accounts	2 575	↑ 7,1	20,0
• Credit cards	1 551	↑ 11,6	12,1
• Electronic banking	2 657	↑ 18,2	20,6
• Savings accounts	1 801	↑ 19,1	14,0
• Forex and other credit-related fees	1 624	↑ 8,3	12,6
• Insurance commission received	877	↑ 13,7	6,8
• Asset management and fiduciary	1 010	↑ 21,1	7,9
• Pension fund payments and other	778	↑ 32,3	6,0
<b>Fee and commission income</b>	<b>12 873</b>	<b>↑ 14,5</b>	<b>100,0</b>



### Note 3 – Impairment losses

**Performance:** The impairment charge to the income statement increased by 54,7% to R2 433 million. Although the impairments of the retail operations increased sharply, the impairment loss ratio is well within the long-term industry average. Although consumers are under increasing pressure, impairment charges have been somewhat curtailed by an increased focus on the collection process and the timely revision of credit criteria. Impairments in the commercial sector have remained low, as the impact of higher interest rates has a tendency to lag for a longer period for these customers.

### IMPAIRMENT LOSSES



<sup>1</sup>Pro forma figures (twelve months).

### CREDIT IMPAIRMENTS

Year ended 31 December

	2007		2006	
	NPL <sup>1</sup> %	Charge <sup>2</sup> %	NPL <sup>1</sup> %	Charge <sup>2</sup> %
• Retail banking	2,0	0,74	1,6	0,49
– Home loans	2,0	0,26	1,4	0,13
– Credit cards	8,4	3,50	5,0	2,08
– Asset finance	1,4	1,02	0,9	0,80
• ACBB	0,6	0,23	0,8	0,67
• Absa Capital	0,0	0,00	0,0	0,00
• African operations	3,4	1,47	5,6	2,56
<b>Absa Group</b>	<b>1,6</b>	<b>0,58</b>	<b>1,3</b>	<b>0,45</b>

<sup>1</sup>As a percentage of total advances.

<sup>2</sup>As a percentage of average advances.

# Financial analysis

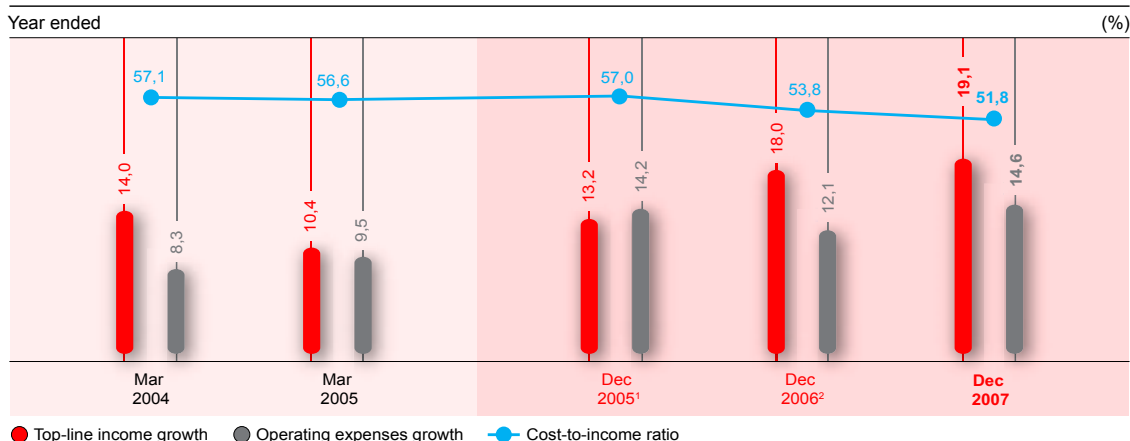
## Note 4 – Operating expenditure

**Objective:** For 2007, the Group's objective was to drive down the cost-to-income ratio towards 50%. This objective has been revised and the Group is aiming to drive efficiencies to achieve a cost-to-income ratio of 49,5% by 2009.

**Performance:** Revenue growth of 19,1% exceeded cost growth and drove down the cost-to-income ratio from the 53,8% recorded for 2006 to 51,8% for 2007.

The past year has seen a strong focus on efficiency improvement initiatives and the Group has embraced the Lean approach, which ensures that the knowledge at all levels of employees is used to make process improvements in a drive to improve customer service and reduce unnecessary procedures. During the year under review, the Group increased its employee complement by 1 739 to cater for increased business growth and to staff new distribution outlets. Employee salary increases were higher than inflation and incentive awards were lifted by 20,9% on the back of the good financial performance. Marketing spend (including synergies) to support the Group's growing business increased by 24,8% and cash transportation costs increased by 16,4%.

## COST-TO-INCOME RATIO



<sup>1</sup>Pro forma figures (twelve months).

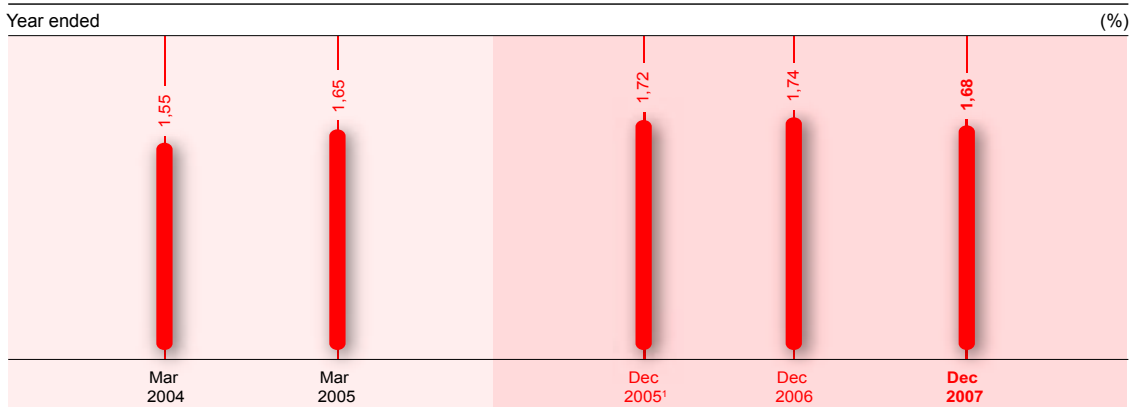
<sup>2</sup>Growth calculated on December 2005 figures (reclassified for IFRS 7).

## Note 5 – Return on average assets (RoA)

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

**Performance:** The Group recorded a return on average assets of 1,68% for the year (2006: 1,74%).

## RETURN ON AVERAGE ASSETS

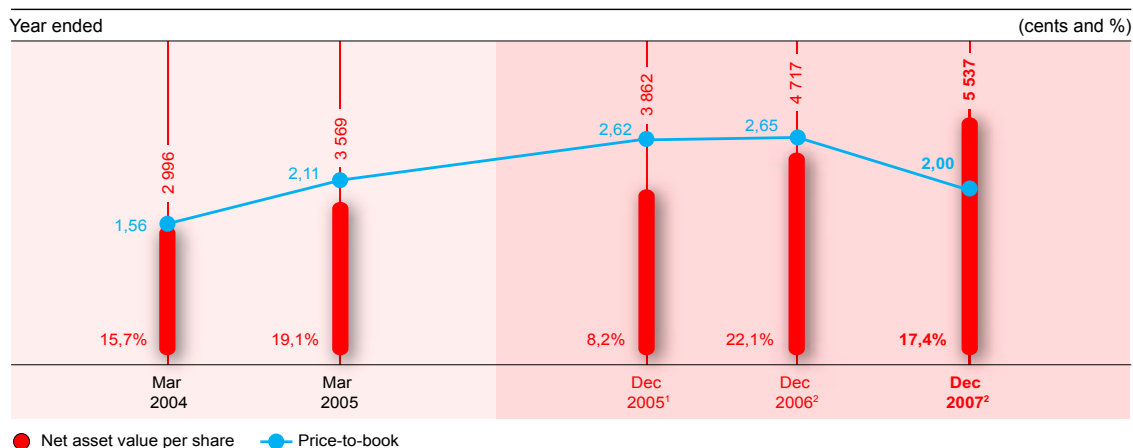


<sup>1</sup>Pro forma figures (twelve months).

## Note 6 – Gearing

**Performance:** Improved profitability for the year enabled the Group's net asset value per share (excluding the Absa Bank non-cumulative, non-redeemable preference shares) to grow by 17,4%.

### NET ASSET VALUE PER SHARE



<sup>1</sup>Pro forma figures (twelve months).

<sup>2</sup>The net asset value per share excludes the non-cumulative, non-redeemable preference shares issued.

On the basis of the prescribed consolidated regulatory capital requirements, the Group's capital stood at 13,1% of risk-weighted assets at 31 December 2007 (2006: 13,1%). The Group's primary capital ratio was 10,1% (2006: 10,2%) and its secondary capital ratio was 3,0% as at 31 December 2007 (2006: 2,9%).

# Financial analysis

## Seven-year summary

Year ended 31 December/March

### SELECTED RATIOS

	Dec 2007 <sup>1</sup> US\$m	5-Year CAGR <sup>5</sup> %	Dec 2007
<b>Income statement (Rm)</b>			
Headline earnings	1 381	22,3	9 413
Headline earnings <sup>2</sup>	1 381	22,3	9 413
Attributable income	1 408	23,1	9 595
<b>Balance sheet (Rm)</b>			
Total assets	94 109	19,0	640 909
Loans and advances to customers and banks	74 884	20,7	509 983
Deposits due to customers and banks	54 116	10,7	368 545
<b>Financial performance (%)</b>			
Return on average equity <sup>3</sup>			27,2
Return on average assets <sup>3</sup>			1,68
<b>Operating performance (%)</b>			
Net interest margin on average assets			3,37
Net interest margin on average interest-bearing assets			3,83
Impairment losses on loans and advances as a percentage of average loans and advances to customers			0,58
Non-performing advances as a percentage of loans and advances to customers			1,6
Non-interest income as a percentage of total operating income			47,0
Cost-to-income ratio			51,8
<b>Capital adequacy (%)</b>			
Absa Bank			12,5
Absa Group			13,1
<b>SHARE STATISTICS</b>			
Number of ordinary shares in issue (thousands):			
• Weighted average			671 478
• End of the year			678 573
Dividend cover (times) <sup>4</sup>			2,5
Dividend yield (%)			5,0
Earnings yield (%)			12,6
Price-earnings ratio (times)			7,9
Share price (cents per share):			
• High			14 830
• Low			10 832
• Closing		30,4	11 100
Closing price/net asset value per share			2,00
Volume of shares traded (million)			343,7
Value of shares traded (R million)			45 370,6
Turnover in shares traded (%)			51,2
Market capitalisation (R million)		31,5	75 321,6
<b>Share statistics per ordinary share (cents)</b>			
Earnings		22,4	1 428,9
Headline earnings		21,6	1 401,9
Headline earnings <sup>1</sup>		21,6	1 401,9
Dividends per share relating to income for the year		31,0	560,0
Net asset value per share		16,4	5 537

#### Notes

<sup>1</sup>A rand/US dollar exchange rate at 31 December 2007 of R6,81 was used.

<sup>2</sup>The 2002 figures exclude the impact of UniFer.

<sup>3</sup>Ratios calculated using headline earnings.

<sup>4</sup>Dividend cover is calculated using headline earnings per share and dividends per share.

<sup>5</sup>Compounded annual growth rate with 2003 as base.

<sup>6</sup>Not reclassified for International Financial Reporting Standards (IFRS).

	Dec 2006	Dec 2005 Pro forma	Mar 2005	Mar 2004 <sup>6</sup>	Mar 2003 <sup>6</sup>	Mar 2002 <sup>6</sup>
	7 872	6 282	5 394	4 447	3 441	1 888
	7 872	6 282	5 394	4 447	3 441	2 872
	8 105	6 252	5 419	4 505	3 391	1 686
	495 112	404 561	347 161	306 848	269 064	247 300
	395 625	327 661	271 768	222 395	199 297	183 860
	304 665	329 690	276 354	234 380	222 056	213 766
	27,4	25,6	25,3	24,6	21,4	12,9
	1,74	1,72	1,65	1,55	1,35	0,86
	3,28	3,28	3,25	3,40	3,45	3,82
	3,72	3,65	3,70	3,87	3,80	4,11
	0,45	0,31	0,52	0,90	1,02	2,38
	1,3	1,8	2,2	3,8	5,1	5,2
	50,2	53,8	53,8	52,5	50,8	47,9
	53,8	57,0	56,6	57,1	60,0	60,3
	12,3	10,7	11,4	12,3	11,5	10,2
	13,1	11,3	12,0	13,0	12,5	11,2
	666 097	657 955	652 088	645 890	651 547	648 580
	671 955	666 855	655 055	651 055	651 547	651 547
	2,5	n/a	2,8	3,8	3,6	2,5
	3,8	n/a	3,9	3,9	4,9	4,6
	9,4	9,5	11,0	14,8	17,7	10,3
	10,6	10,6	9,1	6,8	5,6	8,7
	12 615	10 320	8 150	4 700	3 651	4 155
	9 650	7 125	4 320	3 000	2 500	2 410
	12 510	10 100	7 540	4 664	2 940	2 530
	2,65	2,62	2,11	1,56	1,14	1,10
	332,3	391,6	455,5	459,9	439,9	365,9
	35 925,7	33 492,4	27 892,2	17 491,1	13 894,4	12 081,1
	49,9	59,5	69,9	71,2	67,5	56,4
	84 061,6	67 352,4	49 391,2	30 365,2	19 155,5	16 484,1
	1 216,8	950,3	831,0	697,5	520,5	260,0
	1 181,8	954,8	827,2	688,5	528,1	291,1
	1 181,8	954,8	827,2	688,5	528,1	442,8
	473,0	n/a	295,0	182,0	145,0	116,0
	4 717	3 862	3 569	2 996	2 589	2 354

# Financial analysis

## Seven-year summary

Year ended 31 December/March

### CONSOLIDATED INCOME STATEMENT

	Dec 2007 <sup>1</sup> US\$m	5-Year CAGR <sup>2</sup> %	Dec 2007 Rm
Interest and similar income	8 094	12,7	55 123
Interest expense and similar charges	(5 320)	11,0	(36 233)
<b>Net interest income</b>	<b>2 774</b>	<b>16,4</b>	<b>18 890</b>
Impairment losses on loans and advances	(357)	4,4	(2 433)
<b>Net interest income after impairment losses on loans and advances</b>	<b>2 417</b>	<b>19,1</b>	<b>16 457</b>
Non-interest income	2 456	12,9	16 728
<b>Operating income before operating expenses</b>	<b>4 873</b>	<b>15,7</b>	<b>33 185</b>
Operating expenses	(2 708)	11,4	(18 442)
Non-credit related impairments	(9)	(10,9)	(58)
Indirect taxation	(104)	0,4	(709)
Share of retained earnings of associated undertakings and joint ventures	13	(0,3)	91
<b>Operating profit before income tax</b>	<b>2 065</b>	<b>25,2</b>	<b>14 067</b>
Taxation expense	(594)	29,6	(4 042)
<b>Profit for the year</b>	<b>1 471</b>	<b>23,7</b>	<b>10 025</b>
Minority interest – ordinary shares	(17)	10,8	(117)
Minority interest – preference shares	(46)	n/a	(313)
<b>Profit attributable to ordinary equity holders of the Group</b>	<b>1 408</b>	<b>23,1</b>	<b>9 595</b>
Headline earnings adjustments	(27)	n/a	(182)
<b>Headline earnings</b>	<b>1 381</b>	<b>22,3</b>	<b>9 413</b>
<b>CONSOLIDATED BALANCE SHEET</b>			
<b>Assets</b>			
Loans and advances to customers and banks	74 884	20,7	509 983
<b>Total assets</b>	<b>94 109</b>	<b>19,0</b>	<b>640 909</b>
<b>Equity and liabilities</b>			
Capital and reserves attributable to ordinary equity holders of the Group	5 517	17,4	37 575
Minority interest – ordinary shares	50	n/a	341
Minority interest – preference shares	682	n/a	4 644
<b>Total equity</b>	<b>6 249</b>	<b>20,0</b>	<b>42 560</b>
<b>Liabilities</b>			
Deposits due to customers and banks	54 116	10,7	368 545
<b>Total liabilities</b>	<b>87 859</b>	<b>18,9</b>	<b>598 349</b>
<b>Total equity and liabilities</b>	<b>94 109</b>	<b>19,0</b>	<b>640 909</b>
<b>Contingent liabilities – banking related</b>	<b>7 811</b>	<b>30,1</b>	<b>53 197</b>

#### Notes

<sup>1</sup>A rand/US dollar exchange rate at 31 December 2007 of R6,81 was used.

<sup>2</sup>Compounded annual growth rate with 2003 as base.

<sup>3</sup>The 2002 figures include the impact of UniFer.

<sup>4</sup>Not reclassified for IFRS.

Dec 2006 Rm	Dec 2005 Pro forma Rm	Mar 2005 Rm	Mar 2004 <sup>4</sup> Rm	Mar 2003 <sup>4</sup> Rm	Mar 2002 <sup>3,4</sup> Rm
37 569 (22 682)	29 377 (17 567)	26 937 (16 506)	28 901 (19 183)	30 299 (21 467)	24 517 (16 133)
14 887 (1 573)	11 810 (875)	10 431 (1 284)	9 718 (1 900)	8 832 (1 957)	8 384 (4 042)
13 314 15 019	10 935 13 780	9 147 12 168	7 818 10 753	6 875 9 127	4 342 7 694
28 333 (16 089) (75) (865)	24 715 (14 598) (68) (949)	21 315 (12 785) (118) (805)	18 571 (11 679) (116) (672)	16 002 (10 731) (103) (695)	12 036 (9 700) (144) (649)
113	112	59	119	92	100
11 417 (3 151)	9 212 (2 875)	7 666 (2 172)	6 223 (1 627)	4 565 (1 104)	1 643 (337)
8 266 (88) (73)	6 337 (85) —	5 494 (75) —	4 596 (91) —	3 461 (70) —	1 306 380 —
8 105 (233)	6 252 30	5 419 (25)	4 505 (58)	3 391 50	1 686 202
7 872	6 282	5 394	4 447	3 441	1 888
395 625	327 661	271 768	222 395	199 297	183 860
495 112	404 561	347 161	306 848	269 064	247 300
31 693 236 2 992	25 755 246 —	23 273 232 —	19 350 171 —	16 866 241 —	15 335 151 —
34 921	26 001	23 505	19 521	17 107	15 486
304 665	329 690	276 354	234 380	222 056	213 766
460 191	378 560	323 656	287 327	251 957	231 814
495 112	404 561	347 161	306 848	269 064	247 300
49 036	16 331	16 630	16 637	14 275	16 579

# Operational highlights

## Introduction

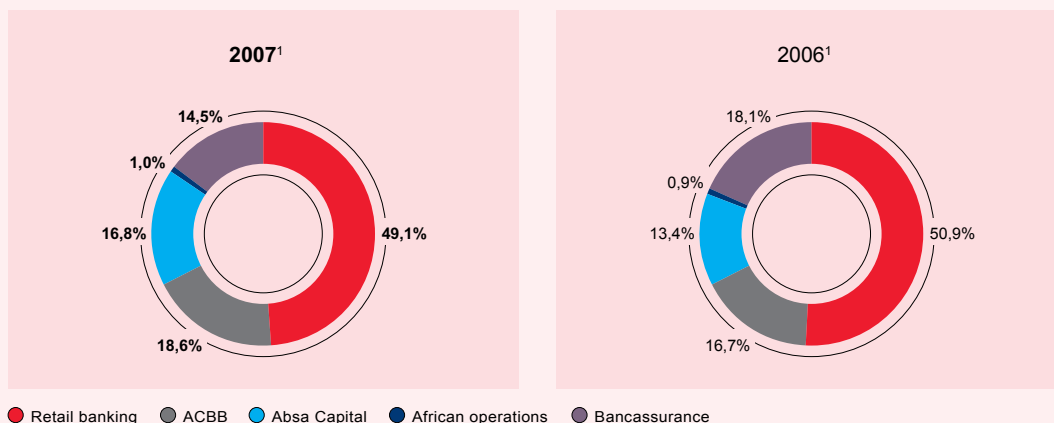
Absa, through its divisions, offers the complete range of retail, commercial, corporate and investment banking, bancassurance and wealth management products and services.

### SEGMENTAL PERFORMANCE

All of the Group's banking businesses delivered strong growth in attributable earnings. The Group's commercial, corporate and investment banking operations performed exceptionally well. Absa Capital and Absa Corporate and Business Bank (ACBB) increased attributable earnings by 55,4% and 38,9% respectively from 2006. The Group's retail banking operations continued to perform well, growing attributable earnings by 20,1% from 2006. The Group's bancassurance operations could only sustain their earnings at the same level as the previous year, mainly because declining equity markets caused lower investment earnings.

### PROFIT CONTRIBUTION BY BUSINESS AREA

Year ended 31 December



<sup>1</sup>Calculated after the allocation of profits/losses from the capital, funding and corporate centre.



	2007 Rm	2006 <sup>1</sup> Rm	Change %
<b>Banking operations</b>			
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 <sup>2</sup>	1 922	1 384	38,9
Absa Capital <sup>3</sup>	1 733	1 115	55,4
African operations <sup>4</sup>	103	77	33,8
Corporate centre <sup>5</sup>	(3)	203	>(100,0)
Capital and funding centre	59	131	(55,0)
<b>Total banking</b>	<b>8 885</b>	<b>7 132</b>	<b>24,6</b>
Bancassurance	1 502	1 500	0,1
<b>Total earnings from business areas</b>	<b>10 387</b>	<b>8 632</b>	<b>20,3</b>
Synergy costs (after tax) <sup>6</sup>	(479)	(454)	(5,5)
Minority interest – preference shares	(313)	(73)	>(100,0)
<b>Profit attributable to ordinary equity holders</b>	<b>9 595</b>	<b>8 105</b>	<b>18,4</b>
Headline earnings adjustments	(182)	(233)	21,9
<b>Total headline earnings</b>	<b>9 413</b>	<b>7 872</b>	<b>19,6</b>

<sup>1</sup>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.

<sup>2</sup>Absa's corporate and commercial banking operations.

<sup>3</sup>Absa's investment banking operations.

<sup>4</sup>To provide comparability, the equity-accounted earnings of Capricorn Investment Holdings Limited, which was sold in 2006, has been moved to the corporate centre.

<sup>5</sup>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.

<sup>6</sup>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.

# Operational highlights

## Retail banking

### SCOPE

Provides banking services to personal customers and small businesses throughout South Africa.

### FINANCIAL PERFORMANCE

Year ended 31 December

	2007	2006
Total assets (Rm)	433 783	350 876
Total advances (Rm)	328 603	275 190
Total deposits (Rm)	96 952	80 855
Attributable earnings (Rm)	5 071	4 222
Earnings contribution <sup>1</sup> (%)	49,1	50,9
Return on average equity (RoE) (%)	26,8	29,1
Impairment ratio (%)	0,74	0,49
Cost-to-income ratio (%)	54,5	57,8

### SALIENT FEATURES

As at 31 December

	2007	2006
Number of customers (million)	8,9	8,3
Number of points of presence	892	759
Number of ATMs	7 693	7 053
Number of internet banking customers	797 245	696 831
Number of telephone banking customers	653 253	633 933
Number of cellphone banking customers	409 129	252 373

### BUSINESS UNITS

- Absa Private Bank
- Absa Islamic Banking
- Retail Bank
- Absa Card
- Absa Home Loans<sup>2</sup>
- Absa Vehicle and Asset Finance
- AllPay Consolidated Investment Holdings (Proprietary) Limited

<sup>1</sup>Calculated after the allocation of profits/losses from the capital, funding and corporate centre.

<sup>2</sup>Includes Repossessed Properties.

## THE YEAR UNDER REVIEW

Attributable earnings of R5 071 million were achieved as a result of volume growth in advances, deposits and transactions, whereas impairments were contained to below the market average. Mortgage and credit card advances increased particularly strongly, by 21,9% and 23,0% respectively. Instalment finance advances grew by 12,2% over the year, despite the decline in the demand for new motor vehicles and the declining values of used motor vehicles. The overall composition of advances remained unchanged, with secured lending comprising 87,9% of the total advances book.

Transaction volumes increased by 8,2%. This growth emanated from an increase in the customer base, improved product use and improved accessibility. The retail customer base increased by 7,2% to 8,9 million as at 31 December 2007, compared with 8,3 million as at 31 December 2006. There was good growth in internet (20,0%) and cellphone banking transactions (26,0%) and moderate growth in automated teller machine (ATM) transactions (8,2%).

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

The retail impairment ratio for 2007 was 0,74%, compared with 0,49% for 2006. Consumers are under pressure from higher interest rates and increased indebtedness. Credit criteria were strengthened early in 2007 in anticipation of the tougher environment. This has led to a marginal reduction in market share in some retail products. In addition, the capacity and technology of the Collections department have been upgraded to deal with the increased number of customers needing help to manage their debt.

Operating expenses increased by 13,2%, mainly as a result of the continued expansion of the delivery footprint and higher business volumes. Initiatives were implemented to enhance efficiency, especially relating to process streamlining.

## FUTURE FOCUS

To further improve the Group's position in the retail market, the following will receive attention:

- A strong focus on customer excellence, with a specific focus on further increasing 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 Group's collections capability.

# Operational highlights

## Corporate and commercial banking

### SCOPE

Provides banking services and solutioning to corporates and medium and large businesses.

### FINANCIAL PERFORMANCE

Year ended 31 December

	2007	2006
Total assets (Rm)	90 885	81 418
Total advances (Rm)	70 370	56 140
• Corporate (Rm)	9 325	8 926
• Large Business (Rm)	39 502	29 416
• Medium Business (Rm)	21 543	17 798
Total deposits (Rm)	76 301	67 691
• Corporate (Rm)	9 237	7 412
• Large Business (Rm)	44 794	41 731
• Medium Business (Rm)	22 270	18 548
Attributable earnings (Rm)	1 922	1 384
Earnings contribution <sup>1</sup> (%)	18,6	16,7
Return on average equity (RoE) (%)	30,0	27,4
Impairment ratio (%)	0,23	0,67
Cost-to-income ratio (%)	52,7	55,0

<sup>1</sup>Calculated after the allocation of profits/losses from the capital, funding and corporate centre.

### BUSINESS UNITS

- Absa Corporate and Business Bank (ACBB)
- Absa Development Company Holdings (Proprietary) Limited

### THE YEAR UNDER REVIEW

ACBB managed to build a strong platform for future competitiveness by implementing value-aligned performance measurement (VAPM), new sales operating models and re-engineering the end-to-end credit processes. As a result, 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 customers. 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 of ACBB.

The Large Business segment increased profits by 41,8%. The two main leading profit drivers – the number of customers 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 ACBB's top-line income.

The Medium Business segment increased profits by 30,0%. Solid growth was recorded in customer growth 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 also contributed 42,8% to ACBB's top-line income.

The Corporate segment businesses sustained their growth and contributed 13,0% to ACBB's top-line income in 2007. Significant effort was placed on designing 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.

## **FUTURE FOCUS**

Focus is being placed on a number of tiers of strategy 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.

# Operational highlights

## Investment banking

### SCOPE

Absa offers investment banking services through Absa Capital.

### FINANCIAL PERFORMANCE

Year ended 31 December

	2007	2006
Attributable earnings (Rm)	1 733	1 115
Earnings contribution <sup>1</sup> (%)	16,8	13,4
Return on average equity (RoE) (%)	34,6	27,1
Impairment ratio (%)	0,00	0,00
Cost-to-income ratio (%)	34,6	37,5

<sup>1</sup>Calculated after the allocation of profits/losses from the capital, funding and corporate centre.

### BUSINESS UNITS

- Absa Capital

### THE YEAR UNDER REVIEW

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.

### FUTURE FOCUS

Absa 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

### SCOPE

Provision of retail and commercial banking and financial services in a number of African countries.

### FINANCIAL PERFORMANCE

Year ended 31 December

	2007	2006
Attributable earnings (Rm)	103	77
Earnings contribution <sup>1</sup> (%)	1,0	0,9
Return on average equity (RoE) (%)	20,1	17,1
Impairment ratio (%)	1,47	2,56
Cost-to-income ratio (%)	60,7	64,7

<sup>1</sup>Calculated after the allocation of profits/losses from the capital, funding and corporate centre.

### SALIENT FEATURES

As at 31 December

	2007	2006
Number of outlets	119	89
Number of ATMs	200	151
Number of customer accounts	724 525	562 863

### BUSINESS UNITS

- Barclays Bank Mozambique S.A. (80%)
- National Bank of Commerce Limited (NBC) (Tanzania) (55%)
- Banco Comercial Angolano (Angola) (50%)

### THE YEAR UNDER REVIEW

Total revenue for the Group's African portfolio increased by 33,3% compared with 2006. This increase was driven by strong performances from the National Bank of Commerce (NBC) in Tanzania and Barclays Bank Mozambique S.A., previously known as Banco Austral, Sarl. Advances and deposits grew by 45,8% and 23,0% respectively.

The Group's African operations increased their presence in their respective markets by expanding their retail networks. Thirty branches were opened and 49 ATMs were installed during the year.

### FUTURE FOCUS

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.

The Group 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.

# Operational highlights

## Bancassurance

### SCOPE

Provision of insurance, investment and fiduciary services to all market segments in South Africa.

### FINANCIAL PERFORMANCE

Year ended 31 December

	2007	2006
Attributable earnings (Rm)	1 502	1 500
Earnings contribution <sup>1</sup> (%)	14,5	18,1
Return on average equity (RoE) (%)	37,8	38,9
Cost-to-income ratio (%)	35,9	32,0

<sup>1</sup>Calculated after the allocation of profits/losses for the capital, funding and corporate centre.

### SALIENT FEATURES

Year ended 31 December

	2007	2006
<b>Life assurance</b>		
Gross premium income (Rm)	1 202	1 331
Embedded value (Rm)	2 091	2 486
Embedded value of new business (Rm)	213	263
Embedded value earnings (Rm)	543	762
Return on embedded value (%)	21,8	37,2
Profit attributed to equity holders of the Group <sup>1</sup> (Rm)	524	591
<b>Short-term insurance</b>		
Gross premium income (Rm)	2 305	1 910
Loss ratio (%)	62,5	61,7
Underwriting margin (%)	10,3	12,1
Solvency margin (%)	83,9	105,7
Profit attributed to equity holders of the Group <sup>1</sup> (Rm)	537	477
<b>Investments</b>		
Assets under management (Rbn)	118	97
Net flows (excluding money market) (Rm)	7 989	7 477
Money market net flows (Rm)	8 057	8 971
Profit attributed to equity holders of the Group <sup>1</sup> (Rm)	227	200
<b>Fiduciary</b>		
Assets under management – Trust (Rm)	5 719	4 980
Assets under management – Estates (Rm)	2 850	2 249
Profit attributed to equity holders of the Group <sup>1</sup> (Rm)	98	77

<sup>1</sup>Certain "other" operations are not included in the table above. Therefore, the profit attributed to equity holders of the Group does not equal the total bancassurance contribution.

### BUSINESS UNITS

## 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 Portfolio Managers (Proprietary) Limited
- Absa Investment Management Services (Proprietary) Limited
- Absa Asset Management (Proprietary) Limited

## Fiduciary

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

## Other

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

### THE YEAR UNDER REVIEW

The Group's bancassurance operations posted attributable earnings of R1 502 million for 2007 and achieved a return on equity of 37,8%. New business volume growth underpinned a strong operational performance. However, investment income for the benefit of shareholders declined by 22,5% because the equity market was less buoyant in 2007 than in 2006.

The Group's short-term insurance operations increased earnings by 12,6% and contributed 35,8% (2006: 31,8%) to the Group's bancassurance earnings. Gross premium income increased by 20,5%. This growth was primarily driven by strong growth in personal, agricultural and commercial business. However, a high claims experience in the motor and personal lines business and losses on crop insurance tempered growth.

Absa Life contributed 34,9% (2006: 39,4%) to earnings but experienced an 11,3% decrease in earnings compared with 2006, primarily owing to the lower equity market performance. Embedded value earnings of R543 million for 2007 represented a return on embedded value of 21,8% (2006: 37,2%).

The Investment Management business unit grew earnings by 13,5% to contribute 15,1% (2006: 13,5%) to the earnings of the bancassurance segment. Assets under management and administration as at 31 December 2007 grew by R21,6 billion (22,4%) to R118,3 billion as a result of improved inflows from retail and institutional investors.

Fiduciary Services increased its earnings by 27,5% from 2006 owing to increased business volumes in pension fund administration and growth in assets under administration.

### FUTURE FOCUS

The 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.

# High-level sustainability review

## Introduction

The goal of sustainable development, according to the Global Reporting Initiative, is to meet the needs of the present without compromising the ability of future generations to meet their own needs. Absa, as a leading South African organisation, has an important role to play in achieving this goal. Absa is firmly committed to advancing the principles and practice of sustainable development, therefore it takes its role as a leading and concerned corporate citizen seriously and invests significantly, both directly and indirectly, in the communities and environments in which it operates.

Absa endeavours to create value for all its stakeholders. A number of core themes help the Group to achieve this:

- Delivering sustainable earnings growth.
- Empowering customers by enhancing access to financial services, increasing choice and fostering their financial education.
- Ensuring that employees are highly capable, empowered and motivated.
- Helping to empower and uplift the communities in which Absa operates.
- Developing and sustaining fair, equitable and sustainable business relationships with suppliers.
- Supporting government and regulatory policies in the economic and financial dimensions in proactive and positive ways.
- Contributing meaningfully to the transformation in South African society through the BEE process.
- Helping to conserve the environment to ensure a better life for future generations.

## VALUE-CREATION FOR ALL STAKEHOLDERS

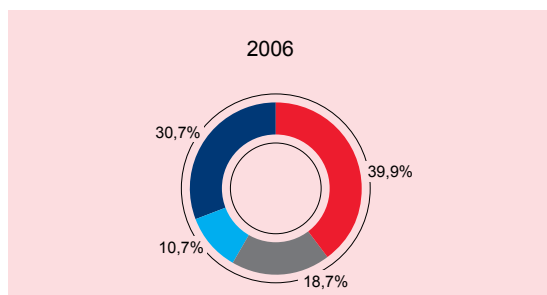
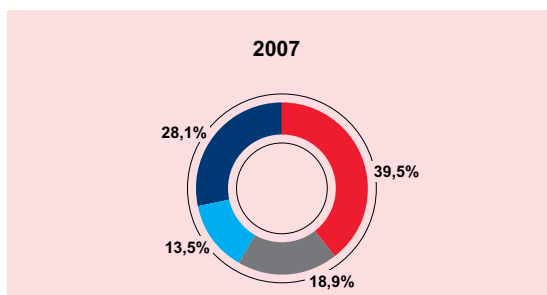
Absa strives to create sustainable value for all its stakeholders, as is evidenced in the Group's value added statement.

### GROUP VALUE ADDED STATEMENT

Year ended 31 December

	2007 Rm	2006 Rm
<b>Value added</b>		
Net interest income	18 890	14 887
Other income	16 728	15 019
Other operating expenditure	(10 463)	(8 432)
	<b>25 155</b>	<b>21 474</b>
<b>Value allocated</b>		
<i>To employees</i>		
Staff costs	9 944	8 577
<i>To government</i>	4 751	4 016
Direct taxation	4 042	3 151
Indirect taxation	709	865
<i>To shareholders</i>	3 401	2 294
Cash dividends		
<i>To retention for expansion and growth</i>	7 059	6 587
Depreciation and amortisation	865	776
Retained income for year	6 194	5 811
	<b>25 155</b>	<b>21 474</b>

	2007 %	2006 %
<b>Value added</b>		
Net interest income	75,1	69,3
Other income	66,5	69,9
Other operating expenditure	(41,6)	(39,2)
	<b>100,0</b>	<b>100,0</b>
<b>Value allocated</b>		
<i>To employees</i>		
Staff costs	39,5	39,9
<i>To government</i>	18,9	18,7
Direct taxation	16,1	14,7
Indirect taxation	2,8	4,0
<i>To shareholders</i>	13,5	10,7
Cash dividends		
<i>To retention for expansion and growth</i>	28,1	30,7
Depreciation and amortisation	3,4	3,6
Retained income for year	24,7	27,1
	<b>100,0</b>	<b>100,0</b>



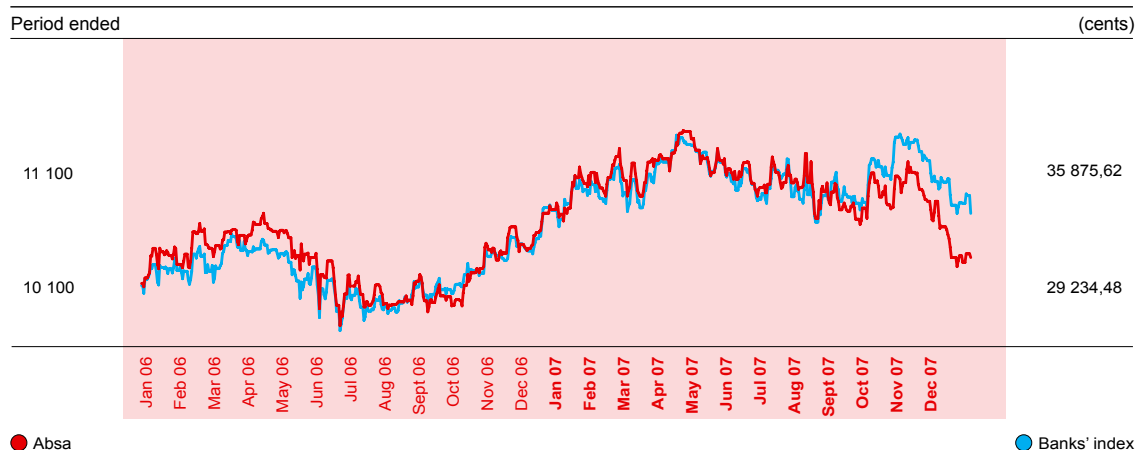
● Employees ● Government ● Shareholders ● Retention for expansion and growth

# High-level sustainability review

## DELIVERING SUSTAINABLE EARNINGS GROWTH

The Group aims to create sustainable value by delivering real headline earnings growth of 10%, on average, over time. This objective has been exceeded for the past five years, with the Group achieving a compounded annual headline earnings growth rate of 22,3%.

## SHARE PERFORMANCE



## SHARE PERFORMANCE ON THE JSE LIMITED

As at 31 December

	2007	2006
Number of shares in issue <sup>1</sup>	678 573 074	671 955 074
Market prices (cents per share):		
• closing	11 100	12 510
• high	14 830	12 615
• low	10 832	9 650
• average	13 207	10 944
Closing price/net asset value per share (excluding preference shares)	2,00	2,65
Closing price/headline earnings per share	7,9	10,6
Volume of shares traded (millions)	343,7	332,3
Value of shares traded (R millions)	45 370,6	35 925,7
Market capitalisation (R millions)	75 321,6	84 061,6

<sup>1</sup>Includes 2 678 159 shares held by the Absa Group Limited Share Incentive Trust (December 2006: 2 654 828), 718 202 shares held by Absa Life Limited and Absa Fund Managers Limited (December 2006: 178 370) and 68 800 shares held by the Absa Group Limited Employee Share Ownership Administration Trust (December 2006: 0).

## ORDINARY SHAREHOLDERS

As at 31 December

	2007		2006	
	Number of shares held	%	Number of shares held	%
<b>Major ordinary shareholders</b>				
Barclays Bank PLC	398 774 945	58,77	379 304 853	56,45
Allan Gray Limited	46 402 078	6,84	44 758 793	6,66
Public Investment Corporation	41 579 911	6,13	32 453 568	4,83
Old Mutual Asset Managers	29 105 038	4,29	22 080 295	3,29
Sanlam Investment Management	13 774 011	2,01	15 307 070	2,28
Coronation Fund Managers	12 045 089	1,78	18 387 486	2,74
Stanlib Asset Management	12 035 179	1,77	13 737 060	2,04
AXA Financial SA (Alliance and Bernstein)	7 457 681	1,10	11 829 983	1,76
Absa Stockbrokers (Proprietary) Limited	6 638 438	0,98	6 088 821	0,90
Foord Asset Management	5 741 000	0,85	315 000	0,05
Other	105 019 704	15,48	127 692 145	19,00
<b>Shareholder type</b>				
Principal shareholder (Barclays Bank PLC)	398 774 945	58,77	379 304 853	56,45
Private investors	28 468 889	4,20	27 598 546	4,11
Other	251 329 240	37,03	265 051 675	39,44
<b>Total</b>	<b>678 573 074</b>	<b>100,00</b>	<b>671 955 074</b>	<b>100,00</b>

## PUBLIC AND NON-PUBLIC SHAREHOLDERS

As at 31 December

	2007			2006		
	Number of shareholders	Number of shares held	%	Number of shareholders	Number of shares held	%
<b>Public shareholders</b>	<b>40 781</b>	<b>275 059 554</b>	<b>40,54</b>	39 996	288 943 363	43,00
<b>Non-public shareholders</b>						
• Barclays Bank PLC	1	398 774 945	58,77	1	379 304 853	56,45
• Trustees of the Absa Share Incentive Trust	1	2 677 326	0,39	1	2 447 187	0,36
• Related holdings	16	1 494 455	0,22	13	843 473	0,13
• Directors' and associates' direct holdings	24	566 794	0,08	22	416 198	0,06
<b>Total</b>	<b>40 823</b>	<b>678 573 074</b>	<b>100,00</b>	40 033	671 955 074	100,00

## PREFERENCE SHAREHOLDERS

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

	Shares held – 31 December	
	2007	2006
Batho Bonke Capital (Proprietary) Limited	73 152 300	73 152 300
Employee Share Ownership Administrative Trust	2 467 200	6 085 200
<b>Total</b>	<b>75 619 500</b>	79 237 500

## TOTAL NUMBER OF ABSA GROUP SHARES

	Ordinary shares	Preference shares	Total shares
<b>Shares in issue at 31 December 2007</b>	<b>678 573 074</b>	<b>75 619 500</b>	<b>754 192 574</b>
Shares in issue at 31 December 2006	671 955 074	79 237 500	751 192 574

## SHAREHOLDERS' DIARY

Financial year-end  
Announcement of results for the year ended 31 December 2007  
Annual general meeting  
Announcement of interim results<sup>1</sup>

**31 December 2007**  
**19 February 2008**  
**22 April 2008**  
**7 August 2008**

<sup>1</sup>Date subject to change.

## DIVIDENDS

	Declaration date	Last day to trade	Ex dividend date	Record date	Payment date
<b>Final – December 2007</b>	<b>19 February 2008</b>	<b>7 March 2008</b>	<b>10 March 2008</b>	<b>14 March 2008</b>	<b>17 March 2008</b>
Interim – June 2008 <sup>1</sup>	7 August 2008	22 August 2008	25 August 2008	29 August 2008	1 September 2008

<sup>1</sup>Dates subject to change.

# High-level sustainability review

## CREDIT RATINGS

	Moody's November 2007	CA Ratings December 2006	Fitch Ratings November 2007	
	Absa Bank	Absa Group	Absa Bank	Absa Group
<b>National</b>				
Short-term	Prime-1.za	za A1+	F1+ (zaf)	F1+ (zaf)
Long-term	Aaa.za	Za AAA	AAA (zaf)	AAA (zaf)
Outlook	Stable	Stable	Stable	Stable
<b>Local currency</b>				
Short-term	Prime-1	—	—	—
Long-term	Aa2	—	A+	A+
Outlook	Stable	—	Negative	Negative
<b>Foreign currency</b>				
Short-term	Prime-2	—	F1	F1
Long-term	Baa1	—	A	A
Outlook	Positive	—	Stable	Stable
Bank financial strength	C	—	—	—
Outlook	Stable	—	—	—
Individual	—	—	B/C	B/C
Support	—	—	1	1

## EMPOWERING CUSTOMERS

Enhancing the customer experience remains a key focus for the Group. The Group's objectives in this regard are to:

- be a customer-focused financial services group;
- deliver superior service and competitive products; and
- enhance customer retention and attraction through differentiated service delivery.

For the year under review, the key focus has been the expansion of the Group's delivery reach, enhancing service levels and initiatives aimed at consumer education.

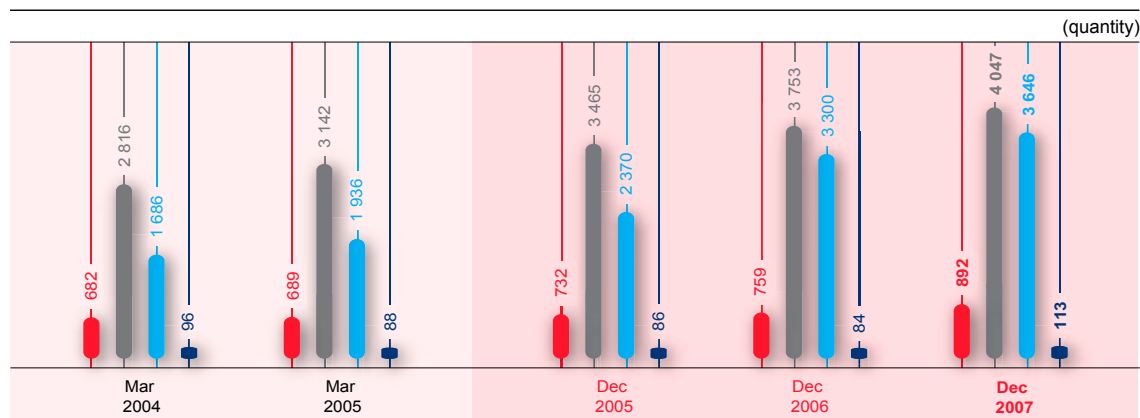
### Expansion of the Group's delivery reach

For 2007, a key focus has been to improve and increase the Group's points of presence. The Group increased its points of presence in South Africa from 759 as at 31 December 2006 to 892 as at 31 December 2007. Absa's points of presence include branches, loan centres, remote sales points, kiosks, prefabricated outlets and mobile outlets.

During 2007, 139 points of presence were opened and six outlets were closed in South Africa. Of the 139 points of presence opened, 19 were branches, 26 were loan centres, three were Absa Private Bank suites, five were small business advisory centres and 86 were alternative forms of delivery.

The Group's South African automated teller machine (ATM) network was also expanded significantly during the review period, with 640 ATMs being installed. This has resulted in the Group having a South African ATM footprint of 7 693.

## DELIVERY FOOTPRINT



● Points of presence<sup>1</sup> ● Absa standard ATMs<sup>1,2</sup> ● Non-standard ATMs<sup>1,2</sup> ● African subsidiary outlets

<sup>1</sup>South Africa.

<sup>2</sup>Excludes self service kiosks.

During 2007, more than 60% of all ATM installations and point-of-presence openings were placed in non-traditional or previously disadvantaged areas. The aim of this placement strategy is to enhance access to financial services for previously unbanked or underbanked individuals by taking banking to the people, while still maintaining Absa's strong position in the more traditional markets. The design and implementation of various alternative solutions has enabled Absa to deliver more points of representation at a lower cost, while still ensuring that customer service and the customer experience, as well as profitability, is not negatively affected.

Absa has introduced four alternative solutions, namely:

- The Absa demountable – this is a full service branch constructed with demountable panels.
- The Absa kiosk – this is a sales and service kiosk (no cash) which is placed in retail stores. It also can be used for workplace banking and shopping centres.
- The Absa mobile bank – this is a full service mobile vehicle equipped with an ATM. This vehicle is used in the remote areas of the country where more traditional solutions are not viable, and in townships in support of the current Absa representation.
- The remote sales point – this is a sales point manned by Absa personnel situated in townships.

The Group's future delivery strategy is to continue expanding Absa's reach, thereby not only contributing towards the growth in Absa's customer base, but also enhancing the Group's ability to serve new and existing customers.

### Enhancing customer service levels

Absa placed a large emphasis on improving customer service levels in 2007 by introducing a number of service innovations to "amaze our customers". Some of these initiatives included magnifying glasses for the visually impaired, Absa-branded wheelchairs, queue assistance, friendly signage, boards displaying the various languages accommodated in a particular branch, "conversational" name badges for staff and providing bottled water (Absa Aqua).

In addition to this, two programmes were implemented aimed at entrenching a service culture. The first one, known as "winning the hearts and minds of our people", was aimed at leadership, with the objective of equipping leaders with the required leadership behaviour to ensure excellent performance.

This was followed by the "what have you done today?" initiative, focusing on creating a unified customer service vision. The initiative was aimed at all Absa employees. The highlight of the programme was a street concert to celebrate Absa's commitment to customers.

2007 also saw the introduction of a new customer satisfaction measurement that provides business with key drivers to improve service, and a means for local and international benchmarking. For the year under review, Absa's service levels remained relatively stable. Further improvements to service levels are required to ensure that the Group delivers a world-class service.

## High-level sustainability review

A specific focus was placed on reducing the average number of days to resolve complaints and the percentage of complaints resolved at the “first point of contact”. The “first point of contact” resolution increased from 8% in January 2007 to 17% in December 2007, and the average days taken to resolve a complaint improved from six days in January 2007 to four days in December 2007. These actions led to the resolution of more than 40 000 complaints through the automated complaints logging system.

### Consumer education

Consumer education is a key focus area for the Group. Emphasis is placed on educating consumers in finance-related matters such as sound financial decision-making and long-term financial freedom.

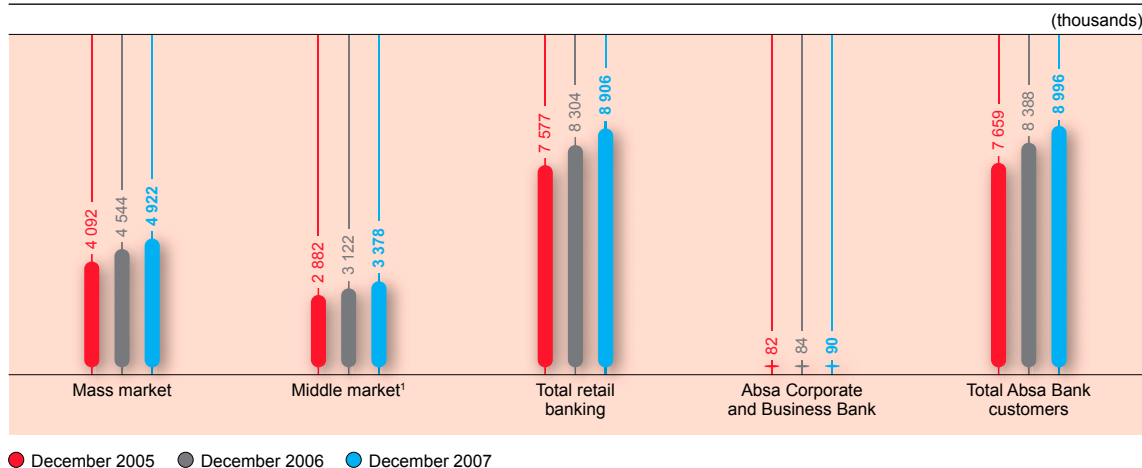
During the year, a number of consumer and customer education initiatives were undertaken:

- **Bubomi, Inzila and Africa Vukani financial literacy programmes** – The programmes focused on providing financial literacy to individuals in the LSM 1 – 5 bands. The programmes were developed in all official languages and reached approximately 35 500 consumers across the country.
- The monthly consumer fair newsletters published by the Consumer Council of South Africa, and distributed through the Absa branches, reached over 80 000 consumers and customers.
- Absa sponsored the National Consumer Forum conference on Human Rights Day where issues around pressing consumer matters, shared experiences, and future joint strategies to empower consumers were discussed and presented.
- **Educational print and radio campaign** – A host of stories relating to financial literacy, the NCA and financial planning were broadcast on radio and placed in certain newspapers.
- **Mzansi cardholders** – The Group partnered with Visa to provide industrial theatre to Mzansi cardholders, covering themes such as budgeting, debit cards and card security.
- Ad hoc financial literacy programmes.

### Growth in the Group's customer base

As at 31 December 2007, Absa had nine million customers. This represents a growth of 7,1% from December 2006. The growth in the Group's South African customer base per segment is indicated in the following graph:

#### ABSA'S CUSTOMER BASE (SOUTH AFRICA)





### The Absa brand

For the past two years, the Absa brand has been acknowledged as the leading banking brand in South Africa. This acknowledgment is based on Markinor's survey of brands in South Africa, which is widely viewed as the leading indicator of brand health in South Africa. The survey measures spontaneous awareness, trust and confidence and commitment. Absa measured number one in all three categories of the survey.

Absa was also rated as the country's "coolest bank" in the Sunday Times Generation Next Survey for two years running.

### ENSURING THAT EMPLOYEES ARE HIGHLY CAPABLE, EMPOWERED AND MOTIVATED

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.

This is evidenced in Absa being rated as the second best large company to work for in the Deloitte Best Company to Work For 2007 survey. In addition to this, Absa achieved second place in the Corporate Research Foundation Best Employers 2007 survey, which measures Absa's people policy and practice against global best practice.

### Key initiatives undertaken during the year

A number of initiatives were undertaken during the year. These include:

- **Employee training** – Projects have been put in place focusing on enhancing employee performance and maximising the return on investment for the business. In addition to this, Bankseta reaccredited Absa as a learning service provider, which means that in-house learning programmes are compliant with existing skills development legislation. It also gives Absa the opportunity to claim levy rebates for reinvestment into learning and development. To drive training in future, the Group has established the Absa Academy.

### NUMBER OF EMPLOYEES WHO ATTENDED TRAINING AND RECEIVED BURSARIES FOR 2007

	African	Coloured	Indian	White	Total
Male	8 420	5 237	3 894	15 240	32 791
Female	14 945	12 384	5 268	27 166	59 763
Disabled	300	23	72	263	658
<b>Total</b>	<b>23 665</b>	<b>17 644</b>	<b>9 234</b>	<b>42 669</b>	<b>93 212</b>

**Note**

*This table reflects learning interventions and not the number of Absa employees involved. It also reflects areas where employees underwent more than one intervention within or across learning streams.*

## High-level sustainability review

- **Graduates and bursaries** – At a junior management level, Absa has developed a differentiated graduate programme. Absa has made offers of employment to 93 graduates to join the programme. The graduates commenced the year-long development programme in January 2008. Absa selected 83 students, from various local universities, as recipients of bursaries, with the longer-term view of developing relationships with top scholars, students and graduates.

Internally, Absa has structures and processes in place aimed at providing financial support to employees to achieve a level of education related to the present and future organisational requirement. During 2007, Absa supported 1 274 employees from 46 different business areas with the following percentage distribution:

### DISTRIBUTION OF BURSARIES FOR EMPLOYEES

Race	2007
African	31%
Coloured	16%
Indian	15%
White	38%

- **Talent management strategy** – This strategy is designed to systematically close the gap between the current human capital capabilities and the leadership talent imperatives required to respond to future business challenges facing Absa. Talent management is focused on attracting, sourcing and managing, developing and retaining individuals identified as having the ambition, potential, ability and proven track record to play a senior leadership role within a given time frame and context. Development initiatives include the Chairperson's scholarship through various international business schools, a global exchange programme between Barclays and Absa and other executive programmes.
- **Junior management trainee programme** – This programme aims to create a pool of well-trained and experienced junior managers and professionals. The curriculum is delivered as a combination of formal skills development interventions, experiential learning through on-the-job-training, coaching and mentoring as well as academic learning.
- **Leadership development** – Absa has instituted a leadership initiative, which is known as "leadership of abundant talent". The purpose of this programme is to embed a common leadership framework, philosophy and new-world values across the entire organisation. This will ensure shared meaning and a common language between leaders at all levels. The programme commenced at a Group Executive Committee level in 2007 and is planned to cascade throughout the organisation via facilitated workshops during 2008 and the first half of 2009.

### Employment equity and diversity

Absa is committed to creating a culture of inclusion that leverages all forms of diversity. Core to this is achieving transformation, thereby enabling the Group to compete profitably in a changing market and contribute to redressing the imbalances of the past. The Group's employment equity strategy seeks to ensure equitable representation across all occupational categories and levels. The strategy addresses the needs of women and people with disabilities through policies and consultation with the relevant stakeholders in the Group.

The Group has progressed satisfactorily in achieving its employment equity goals and targets. The percentage of black employees has increased from 55,7% at 31 December 2006 to 58,8% at 31 December 2007.

## EMPLOYMENT EQUITY AND DIVERSITY STATISTICS

As at 31 December

Occupational levels		Designated						Non-designated				Total
		Male			Female			White	Foreign nationals			
		African	Coloured	Indian	African	Coloured	Indian		White	Male	Female	
Top management	2007	5	0	1	2	1	1	0	28	0	0	38
	2006	5	0	1	2	1	1	0	24	1	0	35
Senior management	2007	35	14	31	11	7	13	56	309	12	2	490
	2006	29	10	25	8	3	6	48	277	6	2	414
Professionally qualified and experienced specialists and middle management	2007	652	343	526	496	352	522	2 221	3 297	15	26	8 450
	2006	556	291	458	381	298	418	2 027	3 201	29	41	7 700
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	2007	1 321	894	417	2 501	2 001	949	4 750	1 090	5	23	13 951
	2006	1 124	786	402	1 951	1 762	886	4 912	1 128	9	61	13 021
Semi-skilled and discretionary decision-making	2007	1 658	736	212	3 839	2 217	561	2 266	360	0	18	11 867
	2006	1 581	827	224	3 407	2 356	606	2 719	416	0	22	12 158
Unskilled and defined decision-making	2007	48	11	1	127	23	2	0	0	0	0	212
	2006	57	12	1	129	28	4	0	0	0	0	231
Total – permanent employees	2007	3 719	1 998	1 188	6 976	4 601	2 048	9 293	5 084	32	69	35 008
	2006	3 352	1 926	1 111	5 878	4 448	1 921	9 706	5 046	45	126	33 559
Non-permanent employees	2007	78	32	14	189	78	15	224	156	0	0	786
	2006	182	145	76	348	325	80	524	283	0	0	1 963
<b>Total employees</b>	2007	3 797	2 030	1 202	7 165	4 679	2 063	9 517	5 240	32	69	35 794
	2006	3 534	2 071	1 187	6 226	4 773	2 001	10 230	5 329	45	126	35 522

# High-level sustainability review

## Code of ethics

The Group's code of ethics includes ethical expectations, responsibilities and guidelines for ethical conduct from all employees, representatives and agents working for or on behalf of Absa. The code aims to ensure the cultivation of a value-driven culture and environment in Absa by emphasising the embodiment of Absa values in all dealings with customers, suppliers, employees, shareholders, the community, the environment, and regulatory and government authorities. The code also covers the responsibilities of Absa and Absa employees in ensuring ethical behaviour. Specific guidelines for handling ethical dilemmas in business are provided to employees. The Group's code of ethics is currently under review.

## Employee wellness

The aim of the Absa wellness programme is to promote wellness as a personal lifestyle choice and to assist employees to achieve a balance in wellness dimensions. This is achieved through the following:

- Core health management, which includes the wellness policy and wellness centres.
- An employee assistance programme that offers highly responsive and accessible counselling and advice services.
- Physical wellness and chronic disease management (which ensures the management of diseases such as HIV/Aids), debility and disability management and ergonomics.

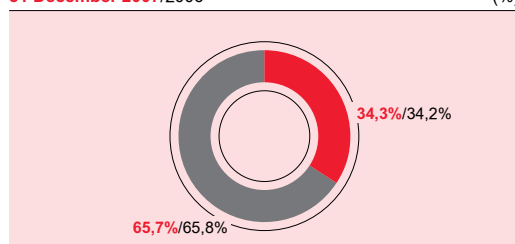
## Employee base and employment creation and turnover

As at 31 December 2007, the Group had 36 893 employees. This was 1 739 more than at 31 December 2006.

	2007	2006
Permanent employees at the beginning of the year, excluding other entities consolidated into the Group's financial statements	33 559	32 037
<b>Add</b>		
• Employees recruited during the year	6 306	5 878
<b>Less</b>		
• Resignations	3 852	3 178
• Retirements	273	305
• Misconduct/incapacity	378	348
• Retrenchments	207	44
• Outsourced	0	349
• Health-related	89	45
• Deceased	58	87
Permanent employees at the end of the year, excluding employees in other entities consolidated into the Group's financial statements	35 008	33 559
<b>Add</b>		
• Employees in entities consolidated into the Group's financial statements	1 885	1 595
Total employees	36 893	35 154
Attrition rate	13,8%	13,0%

## GENDER COMPOSITION

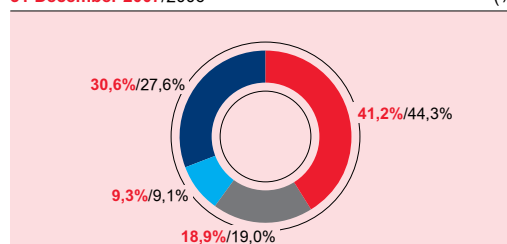
31 December 2007/2006 (%)



● Male ● Female

## RACE COMPOSITION

31 December 2007/2006 (%)



● White ● Coloured ● Asian ● Black

## HELPING TO EMPOWER AND UPLIFT THE COMMUNITIES IN WHICH ABSA OPERATES

Absa views corporate social investment (CSI) as a business imperative. Through its CSI interventions, Absa seeks to contribute meaningfully towards nation building. During the year under review, Absa's social investment programme, as implemented by the Absa Foundation, took a macro-social approach to partnerships with civil society, public benefit and not-for-profit organisations, public sector institutions and other private sector organisations.

The Group, through the Absa Foundation, spent a large portion of its investment on programmes realising the full potential of early childhood development and maths, science and technology educators and on sector innovation. The health of communities is important to Absa. That is why HIV/Aids interventions were undertaken in vulnerable communities. Various other health initiatives aimed at combating cancer and aiding persons living with disabilities also received attention. Emphasis was placed on entrepreneurship development and job creation with the deliberate aim of engaging disadvantaged and developing communities in sustainable job creation activities and promoting a culture of entrepreneurship.

In addition to the interventions undertaken by the Absa Foundation, the Group's business units provided support to the Group's CSI initiatives:

- through employee community involvement;
- by undertaking and embracing special projects such as Casual Day;
- through sport sponsorship and development;
- by supporting the visual arts;
- by preserving the Group's heritage; and
- through entrepreneurial and other community-related initiatives.

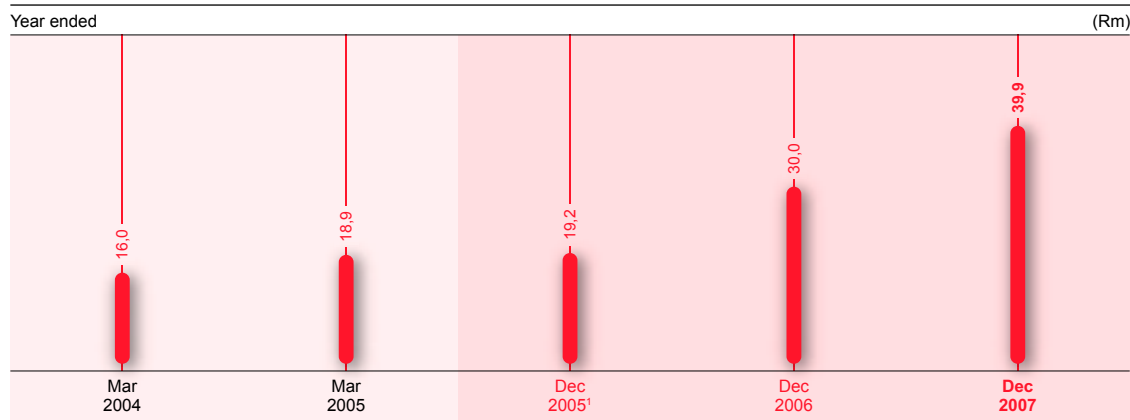
The Group received the following accolades for its commitment to sustainable CSI:

- Most caring financial services institution (Corporate and Market Research, Corporate Care Check).
- Second most caring company in South Africa (Corporate and Market Research, Corporate Care Check).
- The company that most strongly involves its employees in community volunteerism and the best financial sector corporate grantmaker in South Africa (Dialogue).
- Second best corporate grantmaker in South Africa over a period of eight years (Dialogue).

Well thought-out partnership strategies ensured that Absa's CSI programmes stretched deep into rural communities, reaching poor, underprivileged and historically disadvantaged communities and taking into account present social and economic disparities, the government's developmental priorities and the Group's focus on areas of key social and economic programmes in partnership with the non-profit sector.

An annual allocation of 0,5% of post-tax profit is made to the Absa Foundation. The allocation increased from the R30,0 million awarded in 2006 to R39,9 million for 2007.

### ABSA FOUNDATION SPEND



<sup>1</sup>Nine-month figure.

## High-level sustainability review

The following table provides further detail pertaining to Absa Foundation spend during 2007 and 2006:

Focus areas	2007	2006
	Rm	Rm
Education	14,6	14,4
• Early childhood development	6,1	4,4
• Maths, science and technology and other	8,5	10,0
Entrepreneurship	3,9	4,0
Health	10,4	6,7
Employee community involvement	3,4	0,9
Other charitable contributions	3,7	1,6
Special projects	3,9	2,4
<b>Total</b>	<b>39,9</b>	<b>30,0</b>

### DEVELOPING AND SUSTAINING FAIR, EQUITABLE AND SUSTAINABLE BUSINESS RELATIONSHIPS WITH SUPPLIERS

In 2007, Absa spent approximately R9 billion on sourcing products and services from external suppliers. This is nearly 50% of the Company's cost base. However, money is only half the story. Suppliers can pose a major risk to Absa's ability to deliver on its service promise to its customers.

Therefore, in addition to ensuring that tangible value is delivered to Absa's bottom line, the Group has also implemented a comprehensive supplier management strategy. This strategy divides suppliers into three categories: strategic, operational and commodity suppliers. These suppliers are managed according to the risk profile of the goods and/or services they supply to Absa. The framework used to manage the risk is the sourcing and supplier management handbook (SSMH). The SSMH replaces all previous supplier management policies. It is a tool that tracks and manages supplier risk from sourcing to the termination of a contract.

The Group recognises the important role suppliers play in the future sustainability of the organisation. Therefore, a supply chain corporate responsibility (SCCR) initiative was launched. This takes the existing Absa CSI programme on a new and exciting path. This initiative creates a new framework for Absa and its suppliers to work together.

All suppliers are required to complete an SCCR questionnaire. The SCCR questionnaire assesses each organisation against three criteria:

- Human rights.
- Environmental impact.
- Business integrity.

An index score is then given to each supplier to enable peer group comparisons. These index scores are used as a basis to differentiate suppliers when awarding new business.

Absa was able to significantly improve on the percentage of the Group's spend with black economic empowerment (BEE) companies throughout 2007. The FSC target for Absa is to have 50% (weighted spend) of its qualifying third-party spend going to BEE-rated suppliers by 2008. Absa has significantly exceeded that target a full year ahead of schedule, with 62% (weighted spend) of its qualifying procurement spend going to BEE companies during 2007.

#### **SUPPORTING GOVERNMENT AND REGULATORY POLICIES**

It is critical and of mutual benefit that interactions take place between business, the government, political parties, regulators and interest groups, as these entities are key role players in ensuring the future sustainability of the financial services industry.

As a socially responsible corporate citizen, Absa adheres to the laws and regulations of the countries in which it operates. Absa believes that the principle of multiparty democracy contained in the founding provisions of the South African constitution deserves support. Such support in a young South African democracy aims at promoting political participation and competition, public scrutiny of policy and law-making, as well as the exercise of executive power.

Therefore the Group has instituted a democracy support programme, whereby the Group supports a case for good governance in the broader sense and encourages a policy-making environment in which there is a healthy and robust competition of ideas. The Absa board annually approves the policy and budget for the democracy support programme. For 2007, R2,4 million was distributed to qualifying political parties. Selection and participation is guided by verified information from the Independent Electoral Commission. Absa gives donations to the national offices of political parties with three or more seats in parliament. All democracy support donations are publicly declared. Regular interactions with the leadership of political parties are maintained.

Absa is committed to the development of South Africa. This is demonstrated by the various activities in which it is involved, from social responsibility to investments in the public sector. As Absa believes that everyone has a right to share in the prosperity of South Africa, the Group has a dedicated team of public sector bankers and specialists across South Africa. Through this focus and specialisation, Absa continually contributes to the country's development by offering solutions that meet the needs of the government.

Absa's public sector offering is a banking relationship based on finding solutions that are innovative and value adding. Traditional and non-traditional products and services are included in the offering to the government. This offering is constantly tailored to the specific needs of the government, so that solutions support the government's focus on implementation.

## High-level sustainability review

Absa particularly aims at addressing the government's needs in respect of:

- working capital management;
- the funding of infrastructure development; and
- a host of ancillary services related to the critical needs of the government.

Through its offering, Absa aims to support the government's three-tier approach in achieving its goals.

- At national level, solutions are focused on the various ministries, national departments, and public entities.
- Provincially, the focus is on the specific requirements of the nine provinces.
- At local level, the solutions seek to support local government project implementation.

Apart from serving all spheres of government, Absa is committed to serving other public sector entities with dedicated offerings tailored to their specific needs.

Absa's footprint in the banking and financial services industries means Absa answers to, among others, the South African Reserve Bank and the Financial Services Board on regulatory matters. The Group endeavours to maintain a relationship of trust, transparency and honesty with all regulators and to ensure compliance throughout.

### **CONTRIBUTING MEANINGFULLY TO THE TRANSFORMATION IN SOUTH AFRICAN SOCIETY THROUGH THE BEE PROCESS**

The Financial Sector Charter (FSC) is the guiding framework for implementing transformation in the financial services industry. It was voluntarily agreed and negotiated between government and the financial services industry sector. The FSC has been in place since January 2004 with the first set of targets achievable in 2008.

Absa has embraced the FSC reporting principles by continuously improving processes and addressing challenges that may arise. With the improvement of reporting efficiencies, emphasis is being placed on entrenching a culture that will embrace transformation as an imperative throughout the organisation. This approach will have a positive influence on the newly-gazetted BEE Codes of Good Practice (CoGP) which are legally binding until the FSC is gazetted as a transformation charter.

Transformation in Absa is viewed as a business imperative; therefore, entrenching a culture that will drive sustainable initiatives is one of the organisational goals. Absa's strategy is directly linked to the ability to identify and address the requirements of the emerging market while growing stakeholder value.

The FSC provides the basis for the sector's engagement with stakeholders, including the government. To comply, businesses must achieve set targets in all perspectives of the FSC. The overall performance in terms of the scorecard is then evaluated in accordance with a scoring matrix, which indicates the FSC compliance levels of entities.

Absa's FSC performance, as at 31 December 2006 and 2007, was audited by an external auditor prior to the submission to the Financial Sector Charter Committee (FSCC). Absa scored 86,2 points and was declared an "A"-rated company in 2006. The 2007 FSC scorecard is still undergoing an audit. The Group's unaudited score is 92,5 which means that Absa will maintain its "A" rating once the scorecard is confirmed by the FSCC.



Absa is on course to meet the FSC targets for 2008. In addition to this, the Group remains focused on delivering the identified initiatives in order to meet the Codes of Good Practice BEE recognition level. Absa is currently a Level 5 contributor (unaudited) which means that Absa's suppliers can claim 80 cents in every rand spent.

### ABSA FSC/COGP PERFORMANCE

Indicator	Actual Absa FSC/CoGP points as at 31 December				Possible FSC/CoGP maximum points	
	FSC – 2005	FSC – 2006	FSC – 2007 (Unaudited)	CoGP – 2007 (Unaudited)	Possible maximum FSC points that can be earned up to 2008	Possible maximum CoGP points that can be earned up to 2012
Ownership	8,0	20,0	20,0	10,6	22	20
Management control				6,4		10
Employment equity	9,2	14,7	16,7	8,0	20	15
Skills development				3,9		15
Preferential procurement	12,0	13,2	15,0	15,0	15	20
Enterprise development				15,0		15
Socio-economic development/CSI	3,0	3,0	3,0	4,5	3	5
Consumer education	10,6	13,3	15,8	—	18	
Access to financial services				—		
Empowerment financing	19,7	22,0	22,0	—	22	—
<b>Total</b>	62,5	86,2	<b>92,5</b> <b>A-Rating</b>	<b>63,4</b> <b>Level 5</b>	100	100

During the year under review, Absa made significant strides towards achieving and exceeding the targets set in each perspective of the FSC:

- Absa has improved its employment equity ratio, with 58,8% of Absa employees being black as at 31 December 2007.
- Emphasis was placed on improving employee skills development and training. To this effect Absa achieved significant progress.
- The proportion of black suppliers in the Group's procurement value chain was enlarged and considerable progress was made in enhancing the Group's BEE products and services.
- Transformation transactions in the affordable housing, agricultural and small, micro- and medium enterprise sectors received significant attention. Affordable housing was a key focus area with Absa Development Company Holdings (Proprietary) Limited (Devco), a township development company that converts agricultural land into serviced townships, developing approximately 50% of the FSC houses supplied in the affordable housing market. Absa Devco is expecting to increase the supply of stock to 100 000 units by end 2010.
- Involvement in black franchises and tourism businesses and joint initiatives with government received attention.
- Enhancing access to finance and financial services and providing innovative product development for historically disadvantaged and marginalised communities was also emphasised.

## High-level sustainability review

### HELPING TO CONSERVE THE ENVIRONMENT TO ENSURE A BETTER LIFE FOR FUTURE GENERATIONS

To ensure a better life for future generations, it has become increasingly important for organisations to participate in conserving the environment.

As a financial institution, Absa does not directly impact the environment in the same way as some other companies. The Group indirectly impacts the environment through business relationships with customers whose operations have a direct impact on the environment. The Group directly impacts the environment through its involvement in environmental initiatives and through its use of resources such as paper.

Absa's environmental strategy has been aligned with that of Barclays. The strategy is based on the premise of ensuring a sustainable environment for the Group and its stakeholders and, in so doing, ensuring that the Group's activities do not have a detrimental effect on the environment. In addition, the Group has implemented an environmental management system, which is aligned with the Barclays system as per the ISO 14001 standard.

The Group also complies with the Equator Principles, a set of voluntary principles that guide financial institutions in socially and environmentally sensitive project finance decisions.

The Group's sourcing strategies and methodologies include environmental impact assessments to ensure that suppliers become involved with sound environmental practices.

In further limiting Absa's impact on the environment, strategies have been implemented to reduce the use of power, improve the "greening" of buildings and optimise recycling opportunities.

Absa Development Company, which is ISO 14001 certified, owns various tracts of farmland on the urban edge of metropolitan areas, which are earmarked for residential township development. In respect of each proposed development, an application supported by an environmental impact assessment is made to the relevant environmental authorities for approval before starting to instal infrastructure.

Biodiversity-rich habitats, natural heritage sites, threatened or endemic species of fauna and flora, and invasive vegetation are managed as per approved management plans.

# CORPORATE GOVERNANCE

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# Corporate governance statement

## Introduction

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

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

### THE YEAR UNDER REVIEW

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

- the appointment of G Marcus as Group Chairperson on 1 July 2007, replacing D C Cronjé, who retired from the board;
- commencement of a planned restructure of the board in accordance with the Group's transformation objectives;
- the appointment of G Marcus as the Chairperson of the Absa Foundation board of trustees on 27 July 2007, replacing D C Cronjé, who retired from the board of trustees in June 2007;
- further improvement in reporting processes to the main board, board committees and the Group Executive Committee (Group Exco);
- refinement of the programme set up in 2006 for compliance with section 404 of the Sarbanes-Oxley Act within the context of the materiality limits applicable to Barclays PLC;
- ongoing alignment of governance standards and practices with those applied by Barclays, as well as other international best practices, where deemed appropriate by the Absa board;
- the formation of an Acquisitions Committee, with a mandate from the board to consider potential investments from within the Barclays Africa stable; and
- progress with regard to meeting the requirements of the FSC and commitment to aligning the FSC with the BEE Codes of Good Practice.

### COMPLIANCE WITH KING II

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

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

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

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

# Corporate governance statement

The Group facilitates a comprehensive annual process to review compliance with the code by all relevant entities.

This includes:

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

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

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

Absa and Barclays have agreed on a governance framework for how the two entities will work together. The framework takes account of matters such as the regulatory, legislative and industry constraints applicable to Absa and Barclays respectively, and the interests of Absa's minority shareholders. It also considers the legal implications of the parent/subsidiary relationship between Barclays and Absa, taking cognisance of the fact that Barclays has made a strategic investment in Absa, the fiduciary responsibilities of the Absa and Barclays boards of directors and Absa's normal corporate governance procedures. The framework is intended to ensure that Barclays and Absa can work together to maximise value for all shareholders, while complying with all regulatory and legislative requirements. The framework is reviewed annually by the board, taking account of recommendations made by the Directors' Affairs Committee (DAC).

With regard to Absa's black economic empowerment (BEE) transaction (in terms of which approximately 10% of Absa's total issued share capital is held by Batho Bonke Capital (Proprietary) Limited), governance oversight has been provided via a special board committee, comprising independent directors: G Marcus (committee Chairperson), D C Brink, A S du Plessis (resigned 31 December 2007) and F F Seegers. The main objective of the committee was to ensure that the BEE transaction is implemented in accordance with the agreement approved by Absa shareholders in June 2004. This committee met three times during 2007 and considered a range of issues relating to the governance arrangements and ancillary matters. The committee Chairperson reported to the board following each committee meeting and minutes of the committee were provided to the board. The committee had completed its work by the end of 2007.

### BOARDS OF DIRECTORS AND BOARD COMMITTEES

#### Board composition

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

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

Details on the categorisation of the directors appear on page 116 of this report. As at 31 December 2007, there were 22 directors, of whom four were executive, seven were non-executive and 11 were considered to be independent directors.

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

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

### **Board procedures and related matters**

The board meets regularly, retains full and effective control over all the companies in the Group and monitors executive management in implementing board plans and strategies. Additional board meetings, apart from those planned, are convened as circumstances dictate. The number of meetings held during the year under review (including meetings of board-appointed committees) and the attendance of each director are set out on pages 81 to 89 of this report. Where directors are unable to attend a meeting personally, video- and teleconferencing facilities are made available to include them in the proceedings and allow them to participate in the decisions made and conclusions reached.

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

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

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

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

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

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

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

# Corporate governance statement

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

## The Absa board charter

### Purpose and objectives

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

### Key features

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



### **Board appointments and succession planning**

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

The initial term of office is three years, whereafter directors are obliged to retire but can offer themselves for re-election. A third of the directors retire by rotation annually. If eligible, their names are submitted for re-election at the annual general meeting, accompanied by appropriate biographical details set out in the report to shareholders.

Non-executive directors are required to retire at the annual general meeting following their 70<sup>th</sup> birthday.

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

The board as a whole, within its powers, selects and appoints directors, including the Group Chief Executive and executive directors, on recommendation from the Group Remuneration and Human Resource Committee (GRHRC) (in respect of executive directors) and the DAC (in respect of non-executive directors).

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

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

### **Director inductions, training and development programmes**

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

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

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

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

### **Independence**

The DAC assesses the independence of each Absa director against the criteria set out in King II. Based on this assessment, the DAC is of the view that at 31 December 2007, the following directors met these criteria: G Marcus, D C Brink, D C Arnold, B P Connellan, A S du Plessis (resigned on 31 December 2007), G Griffin, M W Hlahla, T S Munday, L N Jonker, F A Sonn and P E I Swartz. P E I Swartz subsequently resigned on 11 March 2008.

# Corporate governance statement

## Board performance assessment

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

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

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

Information on the directors' standing for re-election at the annual general meeting is contained in the explanatory notes to resolutions for the annual general meeting (refer to page 405).

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

## Board remuneration and share ownership

Details of Absa's remuneration policies and practices and the remuneration paid to Absa Group directors are set out in the Group remuneration report on pages 99 to 115. Shareholders are invited to consider and approve the proposed remuneration payable to directors at each annual general meeting.

Non-executive directors are required to hold a minimum of 1 000 Absa ordinary shares throughout their tenure. Details of the shares held by directors are set out on pages 199 to 201.

## Attendance at board meetings

### BOARD MEETING ATTENDANCE (2007)

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

Legend: \* Special meeting    ✓ Attendance    A Apologies

### Board committees

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

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

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

## Corporate governance statement

professional advice as and when deemed necessary. The office of the Group Secretary provides secretarial services for each of the committees.

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

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

Although the Absa board still retains overall responsibility for the affairs of the Group, subsidiary boards play an important role in the Group's overall governance approach. Absa directors have full access to subsidiary board documentation. These boards meet five times a year, usually prior to the Absa board meetings. The level of detail dealt with by subsidiary boards is generally greater than that dealt with by the Absa board and is specific to the relevant subsidiary. One of Absa's independent directors, G Griffin, has been appointed to the boards of the major bancassurance subsidiaries owing to his expertise in this field.

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

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

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

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

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

Meetings are held at least five times a year and are attended by the external and internal auditors, the Group Compliance Officer and, on invitation, members of executive management, including those involved in risk management, control and finance, and the Group Chairperson (who is not a member of the committee). All of the members of the committee are financially literate.

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

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

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

Specific responsibilities include:

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

The Group's policy on non-audit services, which is reviewed annually by the GACC, sets out in detail which services may or may not be provided by Absa's external auditors. The policy is largely based on the requirements of the Sarbanes-Oxley Act. Assignments for allowable services above a certain value must be preapproved by the GACC. Assignments within management's mandate must be preapproved by the Group Finance Director. All non-audit service fees are reported to the GACC quarterly.

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

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

The committee stays abreast of current and emerging trends in accounting standards and held several workshops during the period under review, specifically with regard to IFRS.

# Corporate governance statement

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

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

Legend: \* Special meeting    ✓ Attendance    A Apologies

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

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

**Composition and meeting procedures:** The GRCMC is chaired by an independent director and consists of a further five independent directors and one non-executive director nominated by the parent company. Members of executive management attend by invitation. The committee meets at least four times a year.

**Role, purpose and principal functions:** To assist the board with regard to risk management and capital management and to ensure compliance with the requirements of the Banks Act regarding risk and capital management. In accordance with a new regulatory requirement making the committee responsible for capital management, the committee's name was changed during the year.

The GRCMC's principal responsibilities are:

- to assist the board in the execution of its duties with regard to risk and capital management specified in the Banks Act, and in particular to assist the board:
  - in its evaluation of the adequacy and efficiency of the risk policies, procedures, practices and controls applied in Absa in the day-to-day management of the business;
  - in the identification of the build-up and concentration of the key risks and in developing a risk mitigation strategy to ensure that Absa manages these risks optimally;
  - in setting up an independent risk management function, to coordinate the globalised monitoring of risk management, and facilitate and promote communication regarding risk policies, procedures, practices and controls or any other related matter; and
  - in establishing a process that relates capital to the level of risk undertaken and states capital adequacy goals with respect to risk, taking account of Absa's strategic focus and business plan.
- to annually recommend Absa's risk appetite to the board for approval, and to monitor the actual risk taken on against the board-approved appetite on a quarterly basis;
- to monitor the Group's emerging risk profiles and report its findings to the board;
- to monitor the level of available capital, both current and projected, and to report to the board on the adequacy of available capital relative to the emerging risk profile of the Group;

- to review, within the framework of the board-approved principal risks policy, the completeness of the principal risks coverage and the ongoing effectiveness of the framework as implemented in the Group;
- to review the adequacy and effectiveness of the principal risks' control frameworks and policies and annually review the effectiveness of the implementation of the frameworks;
- to liaise with the GACC to ensure appropriate oversight of key controls relating to risk management issues; and
- to ensure Absa makes appropriate disclosure of its risk management and capital management status and activities.

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

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

Legend: ✓ Attendance    A Apologies

#### Directors' Affairs Committee (DAC)

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

T M G Sexwale resigned from the committee on 9 January 2008. D C Cronjé served as the Chairperson of the committee until June 2007.

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

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

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

# Corporate governance statement

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

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

Legend: \* Special meeting    ✓ Attendance    A Apologies

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

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

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

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

- approving the Group's remuneration philosophy, principles and policy;
- approving the remuneration of the Group Chief Executive and Group Exco members. In addition, it provides oversight regarding the remuneration of the senior leadership group. Remuneration includes all elements of remuneration: guaranteed fixed remuneration, performance bonuses, incentive plans, and any other form of benefits or perquisites;
- mandating the Group Exco to negotiate conditions of service with relevant trade unions;
- reviewing the operation of the Group's various incentive plans including the approval of new incentive plans and the approval of individual incentive plan awards to Group executive directors and other Group Exco members;
- succession planning for Group executive directors and top management, including the Group Chief Executive, other Group executive directors and other strategic positions/roles, together with the DAC; and
- evaluating the performance of the Group Chief Executive and reviewing the evaluation of the performance of Group Exco members.

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

Non-executive directors receive fees for their contribution to the boards and committees on which they serve. In 2007, the GRHRC's remit included the governance of non-executive directors' remuneration. With respect to remuneration from 1 May 2008 onwards, in line with international best practice, proposals on non-executive directors' remuneration will be made by the Group Chairperson and Group Chief Executive for review by the Absa board. The remuneration of non-executive directors is submitted to shareholders for sanction at the annual general meeting held prior to implementation and payment. Full details of remuneration matters (including a statement of the Group's remuneration philosophy) are contained in the Group remuneration report set out on pages 99 to 115 of this report.



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

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

Legend: \* *Special meeting*    ✓ *Attendance*    A *Apologies*

### Group Credit Committee

**Members, composition and meeting procedures:** The committee consists of a panel of five independent directors (D C Brink, B P Connellan, A S du Plessis, G Marcus and T S Munday), of which at least two are required as a quorum for facility decisions. Certain members of executive management and risk management also attend meetings. The committee meets daily as required. A S du Plessis resigned on 31 December 2007.

**Role, purpose and principal functions:** The Group Credit Committee considers and approves credit exposures that exceed the mandated approval limits of management in the credit risk function.

### Credit Committee: Large Exposures

**Members:** S F Booyesen, D C Brink, B P Connellan, A S du Plessis, G Marcus (Chairperson), T S Munday and J H Schindehütte.

**Composition and meeting procedures:** The committee comprises four independent directors and the Group Chief Executive and Group Finance Director. Specific members of management, such as the Group Executive: Credit and the Group Executive: Risk, attend meetings ex officio. Quarterly meetings are scheduled for this committee.

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

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

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

Legend: ✓ *Attendance*    A *Apologies*

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## Board Finance Committee

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

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

**Role, purpose and principal functions:** The committee is mandated by the board to enter into and settle the terms of all transactions with regard to the acquisition and disposal of investments, as well as to approve capital-raising and securitisation transactions, subject to limits set by the board. The committee reviews the Group's annual budget prior to submission to the board for approval, as well as finalising the interim and year-end results announcements. It is also responsible for reviewing the proposed replacement of infrastructure for strategic systems.

## BOARD FINANCE COMMITTEE – MEETING ATTENDANCE (2007)

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

Legend: ✓ Attendance    A Apologies

## Implementation Committee

**Members:** B P Connellan, G Griffin (Chairperson), G Marcus and F F Seegers.

**Composition and meeting procedures:** The Implementation Committee is chaired by an independent director and the majority of its members are independent directors. Four meetings were held during 2007.

**Role, purpose and principal functions:** This committee was established to provide governance oversight and to assist the board with regard to integration and implementation risks and opportunities flowing from the acquisition by Barclays of a controlling stake in Absa. The committee's remit excludes the possible acquisition of Barclays sub-Saharan African banking operations, for which a specific committee has been formed.

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

### IMPLEMENTATION COMMITTEE – MEETING ATTENDANCE (2007)

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

Legend: ✓ Attendance    A Apologies

### Acquisitions Committee: Barclays Africa

**Members:** D C Brink, A S du Plessis, G Marcus (Chairperson), E C Mondlane, Jr., T S Munday. A S du Plessis stepped down on 31 December 2007.

**Composition and meeting procedures:** The Acquisitions Committee: Barclays Africa is chaired by an independent director and the majority of its members are independent directors. No Barclays representative director may be a member. Additional non-executive directors may be co-opted as members for meetings where particular expertise is required. Meetings are held on an ad hoc basis as required.

**Role, purpose and principal functions:** Formerly an ad hoc committee, the Acquisitions Committee: Barclays Africa was reconstituted as a standing committee by the board during 2007, with specific responsibility to oversee the potential acquisition of the sub-Saharan African banking operations of Barclays by the Absa Group. The committee is mandated by the board to:

- provide guidance to management on matters pertaining to the proposed acquisitions;
- evaluate management's proposals on potential acquisitions and make recommendations thereon to the board; and
- provide advice to management and assess management's proposed business model and post-acquisition structures.

### ACQUISITIONS COMMITTEE: BARCLAYS AFRICA – MEETING ATTENDANCE (2007)

Director	Appointment	Resignation/ retirement	Nov
D C Brink			✓
B P Connellan (co-opted)			✓
D C Cronjé		31 Jul '07	–
A S du Plessis		31 Dec '07	✓
P du P Kruger		23 Apr '07	–
G Marcus (Chairperson)	26 Oct '07		✓
E C Mondlane, Jr.	26 Oct '07		✓
T S Munday	26 Oct '07		✓

Legend: ✓ Attendance

### EXECUTIVE DIRECTORS AND THE GROUP EXECUTIVE COMMITTEE (GROUP EXCO)

There are four executive directors on the board of Absa and a number of executive directors on the boards of the Group's main subsidiaries. There are no service contracts exceeding six months relating to the position of any executive director. Executive directors are required to retire from the board (as executive directors) on reaching the age of 60. There is full disclosure in the Group remuneration report of various remuneration matters in respect of Absa's executive directors.

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

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

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

### SHARE DEALINGS

In terms of the Group's closed period policy, directors, officers, participants in the share incentive scheme and employees who may have access to price-sensitive information are precluded from dealing in Absa shares for two weeks prior to the end of the interim and year-end financial periods until release of the Group's interim and final results. In terms of the policy, "shares" include options, financial instruments and securities, as defined in the Financial Markets Control Act and the Stock Exchanges Control Act. Where appropriate, additional closed periods, as well as the persons to whom such periods apply, may be invoked by the board. Details of directors' dealings in Absa shares are disclosed to the board and the JSE through the Securities Exchange News Service (Sens). In addition, details of trades in Absa shares by Group Exco members are disclosed to the GRHRC.

### GROUP SECRETARY

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

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

### GOING CONCERN

The board has considered and recorded the facts and assumptions on which it relies to conclude that the business will continue as a going concern in the financial year ahead. The board considers this aspect at both the interim reporting stage and financial year-end. The directors are of the opinion that the business will be a going concern in the year ahead and their statement in this regard is also contained in the statement on the responsibility of directors for the consolidated financial statements on page 195 of this report.

## ORGANISATIONAL INTEGRITY AND THE CODE OF ETHICS

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

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

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

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

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

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

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

## ABSA'S REPUTATION

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

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## RISK MANAGEMENT

Absa's risk management approach is set out in the board-approved principal risks policy, which identifies 18 principal risks currently facing the Group. A five-step process for managing the risks is set out in the policy. Each risk type is managed in terms of a risk control framework and policies applicable to that risk area. Details on the approach, policies, methodologies and risk governance structure are set out in the risk management report on pages 133 to 188 of this report.

## FINANCIAL CRIME

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

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

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

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

Additional information on the management of the abovementioned areas can be found in the risk management and compliance reports on pages 133 to 188 and 189 to 192 of this report.

## REGULATORY COMPLIANCE

The board of directors is appointed by the shareholders of the Group to lead, control and monitor the business of the Group and to provide effective corporate governance. The board, through the Group Chief Executive, delegates the authority to the Group Compliance Officer to ensure that the compliance process operates effectively and that laws, regulations and supervisory requirements are adhered to. As part of the compliance process, Group Compliance independently monitors the adequacy and effectiveness of the internal controls implemented to ensure compliance with the applicable laws, regulations and supervisory requirements.

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

Details of Absa's compliance risk control framework and processes are contained in the Group compliance report set out on pages 189 to 192 of this report.

## INTERNAL CONTROL

The directors are responsible for ensuring that the Group maintains adequate records which disclose, with reasonable accuracy, the financial performance and position of the Group. In the case of a banking group in particular, great

reliance is placed on information contained in its financial statements, not least by the investing community, depositors, other banks and the regulatory authorities.

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

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

The Group's internal audit function and the external auditors independently appraise the adequacy and effectiveness of the internal controls. The GACC, with extensive input from the internal and external auditors, plays a major role in assisting the directors in satisfying themselves regarding the adequacy and effectiveness of the accounting systems, records and internal controls. The directors' report on this aspect is contained in the statement on the responsibility of directors for annual financial statements on page 195 of this report.

The board of directors reports annually on the Group's controls in terms of Regulation 39 (4) of the Banks Act. The view of the directors in this regard is contained in the statement on the responsibility of directors for the annual financial statements on page 195 of this report.

The Group's joint external auditors are Ernst & Young Registered Auditors Inc. and PricewaterhouseCoopers Inc. The report of the independent auditors for the year under review is contained on page 196 of this report.

## **INTEGRATED SUSTAINABILITY REPORTING**

### **Overall reporting approach**

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

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

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

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

- delivering sustainable earnings growth;
- empowering customers by enhancing access to financial services, increasing choice and fostering their financial education;
- encouraging an ethical trading environment;
- ensuring that employees are highly capable, empowered and motivated;
- helping to empower and uplift the communities in which Absa operates;
- developing and sustaining fair, equitable and sustainable business relationships with suppliers;

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- supporting governmental and regulatory policies in the economic and financial dimensions in proactive and positive ways;
- contributing meaningfully to the transformation in South African society, including through the BEE process; and
- helping to conserve the environment to ensure a better life for future generations. One such initiative includes the “greening” initiative which to date has specifically targeted building upgrades and new building developments, sourcing policies, power usage and recycling opportunities.

A summarised sustainability report describing the Group’s endeavours relating to the sustainability themes indicated above can be found on page 56 of this report.

### Financial Sector Charter (FSC)

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

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

The FSC targets are supported through transformation initiatives which are owned and driven by business units contributing to a particular indicator. Progress of the initiatives is measured through individual business unit scorecards which are consolidated into a Group FSC scorecard and ultimately submitted annually to the Financial Sector Charter Council (FSCC). More detail on the progress made by each indicator is contained on pages 70 to 72 of this report.

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

**Absa is preparing for the 2007 FSC submissions, which are due by March 2008. Absa’s target is to exceed the scorecard points achieved in the 2006 FSC submission.**

### JSE Socially Responsible Investment (SRI) Index

Absa is included in the JSE SRI Index. This index applies to the top companies listed on the JSE and measures companies’ systems and processes with regard to corporate governance, environmental, economic and social issues.

### Stakeholder communication and relationships

The Group has various policies governing communication, relationships and conduct with stakeholders. Absa’s stakeholders include shareholders, employees, customers, the community, government and regulators and various resource/service providers. The board recognises the importance of ensuring an appropriate balance in meeting the diverse needs and expectations of the Group’s stakeholders, building lasting relationships with them and reporting to them in a transparent, balanced and comprehensible manner that favours substance over form. Absa reports annually on the nature and extent of its social transformation, ethical, safety, health (including HIV/Aids) and environmental policies and practices.



The Group recognises the need for full, equal and timely disclosure to all shareholders, as prescribed by the Listings Requirements and guidelines of the JSE. Apart from annual and interim reports, it uses a broad range of communication channels, including Sens, print, radio and television media and the Absa website, [www.absa.co.za](http://www.absa.co.za), to achieve this.

In addition, Absa has an investor relations department responsible for ensuring appropriate communication with shareholders and the investment community. Regular contact is maintained with domestic and international institutional shareholders, fund and asset managers and analysts by means of a comprehensive investor relations programme. This includes meetings with executive management, investor roadshows, presentations to the investment community, as well as liaison with private shareholders. Copies of Sens announcements, investor briefings/presentations, interim and annual reports and other relevant information are posted on the Group's website mentioned above.

Merrill Lynch South Africa (Proprietary) Limited acts as Absa's sponsor, in compliance with the JSE Listings Requirements.

The Group recognises the importance of its shareholders' attendance at its annual general meetings. Such attendance offers an opportunity for shareholders to raise issues and participate in discussions relating to items included in the notice of meeting. Explanatory notes setting out the effects of all proposed resolutions accompany the notice of meeting.

The chairpersons of board-appointed committees attend annual and other general meetings to respond to questions from shareholders. Shareholders' meetings are conducted on the basis of a poll. The results of shareholders' meetings are posted on Sens. Shareholders have access to the minutes of such meetings in accordance with the stipulations of the Companies Act.

#### **Treating customers fairly (TCF)**

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

Activities to date include:

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

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Activities in progress are:

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

Challenges:

- Not all activities supporting TCF have measures or management information (MI) in place for validation purposes. Current feedback is mostly based on self-assessments by business units, however, current monitoring of activities through compliance, internal audits and future management assurance reviews will confirm the self-assessment status. Further work in this regard will be undertaken in 2008.
- Some challenges still face the businesses in Angola, Tanzania and Mozambique in embedding the TCF principles. The first round of “as is” assessments received indicated that supporting activities need to be identified and implemented to provide more substance to the submissions.

## Democracy support

It is critical and of mutual benefit that open two-way conversations take place between business and government, political parties and regulators. Absa believes that the principle of multiparty democracy contained in the founding provisions of the South African constitution deserves support. In the young South African democracy, such support aims at promoting political participation and competition, public scrutiny of policy and law-making, as well as the exercise of executive power. Through the Democracy Support Programme, Absa supports the case for good governance in a broad sense, as well as encouraging a policy-making environment in which there is healthy and robust competition of ideas.

The Absa board annually approves the policy and budget for the Democracy Support Programme. In the 2007 financial year, R2,4 million was distributed to qualifying political parties. Selection and participation is guided by verified provisions of the Independent Electoral Commission. Absa gives donations to national offices of all political parties who have three or more seats in Parliament. All democracy support donations are publicly declared. Regular interactions with the leadership of political parties are maintained as part of structured mutual interfaces.

All political parties benefiting from this policy must be registered in terms of section 15 of the Electoral Commission Act No 57 of 1996.

Absa remains committed to the Democracy Support Programme. Contributions made facilitate the deepening of debate on issues of national interest within the broader society and this, in Absa's view, continues to consolidate and entrench democracy in South Africa.

## **INDUSTRY INITIATIVES**

### **Code of Banking Practice**

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

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

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

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

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

### **National Credit Act (NCA)**

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

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

# Corporate governance statement

## The FAIS Ombud

The Office of the FAIS Ombud is a statutory ombudsman established in terms of the FAIS Act. The objective of the FAIS Ombud is to deal with complaints in a procedurally fair, informal, equitable, economical and expeditious manner. The Office of the FAIS Ombud investigates and makes determinations with regard to complaints received from qualifying complainants.

The FAIS Ombud attends to, inter alia, complaints relating to financial services (advice or intermediary service) rendered by authorised financial services providers (AFSPs) or representatives of providers where the provider or representative has allegedly contravened or failed to comply with the provisions of the FAIS Act and, as a result, the complainant has suffered financial prejudice or damage.

All AFSPs in the Absa Group have a comprehensive internal complaints resolution process that they follow when they receive a complaint from a customer. It is only in the event that the customer is not satisfied with the resolution of the complaint that the customer may approach the FAIS Ombud. All AFSPs must disclose to the customer the details of the FAIS Ombud, as required by the Act and its subordinate legislation, thereby promoting transparent and fair dealings with customers.

## Ombudsmen for the long- and short-term insurance industries

Members of the long- and short-term insurance industries contribute subscriptions to the offices of the ombudsmen for long- and short-term insurance.

The ombudsman for the long-term insurance industry mediates in disputes between the subscribing members of the industry and policyholders. In so doing, the ombudsman endeavours to ensure that principles of fairness, equity and independence prevail.

The ombudsman for short-term insurance seeks to resolve disputes between industry members and consumers in an independent, impartial, cost-effective, efficient, informal and fair way.

As a subscribing member, Absa cooperates fully with the offices of the ombudsmen with regard to the resolution of disputes and constantly seeks to maintain positive relationships with their offices.

# Group remuneration report

## Statement from the Chairperson of the Group Remuneration and Human Resource Committee

### Introduction

Absa has a dedicated board committee that determines the governance of remuneration matters, the Group's remuneration policy as well as executive emoluments and service contracts, the Group Remuneration and Human Resource Committee (GRHRC) (formerly known as the Group Remuneration Committee). The committee's remit was extended, in September 2007, to cover human resource-related black empowerment issues, FSC scoring and other relevant black economic empowerment scoring.

The GRHRC meets a minimum of five times a year and holds special meetings to deal with urgent matters. The GRHRC comprises non-executive directors, who are predominantly independent. Danie Cronjé retired from the board during 2007 and accordingly stepped down from the GRHRC. I would like to extend my appreciation and thanks to him for his dedication during his tenure. Danisa Baloyi also stepped down from the GRHRC during 2007. Gill Marcus and Franklin Sonn joined the GRHRC in 2007.

### THE YEAR UNDER REVIEW

Apart from attending to its regular business in 2007, the GRHRC focused on:

- strengthening the linkage between performance and remuneration across the Group, particularly in respect of annual bonuses (this includes more closely aligning the elements of reward to the practice of other comparable organisations, including international investment banking organisations);
- in-depth talent reviews, succession planning and performance development for Group Executive Committee members and the senior leadership group;
- reviewing the medical aid scheme for all Group employees;
- human resource initiatives, including progress in the areas of transformation, leadership development, wellness and training; and
- the successful implementation of the Employee Share Ownership Programme (ESOP), which was introduced in July 2004 and commenced vesting in July 2007.

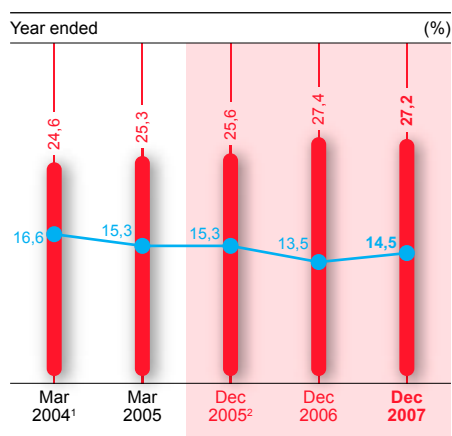
The Absa Group Performance Share Plan (PSP) and (for those employees whose bonuses exceeded a predetermined threshold during the year) the Absa Group Executive Share Award Scheme (ESAS) incentive programmes have continued to ensure alignment of the interests of Group executive directors and other senior employees with the interests of shareholders.

The remuneration of Group executives should be viewed in conjunction with the financial performance of the Group. For 2007:

- The Group achieved good earnings growth, with headline earnings increasing by 19,6% compared with 2006.
- Significant value has been created for shareholders, with the Group's return on average equity (RoE) increasing from 24,6% in the 2004 financial year to 27,2% for 2007. It is, however, also recognised that Absa's closing share price on 31 December 2007 was 11 100 cents per share (31 December 2006: 12 510 cents per share).

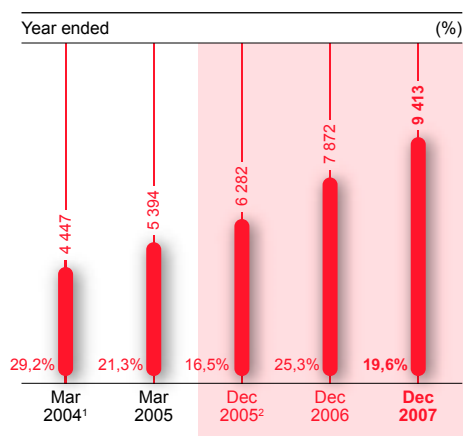
# Group remuneration report

## SHAREHOLDERS' VALUE CREATION



● Return on average equity      ● Cost of equity

## GROWTH IN HEADLINE EARNINGS



<sup>1</sup>The statistics for 2004 have not been restated for International Financial Reporting Standards (IFRS).

<sup>2</sup>Pro forma figures (twelve months).

The remuneration of Group executive directors is reviewed in conjunction with their performance objectives. The main objectives of the Group executive directors for 2007 included:

- managing the business: developing a long-term strategy and vision for the Group;
- improving franchise health: revolutionising the customer proposition and improved colleague and community perception;
- strengthening market positions in existing markets: expanding the Group's footprint and maximising Absa's value proposition;
- delivering financial performance and achieving the Barclays business case for the acquisition of a controlling stake in Absa;
- growing talent and capability;
- managing risk appropriately and ensuring that adequate controls are in place;
- representation of Absa in the national and international arenas and creating a positive perception amongst all key stakeholders; and
- being an effective Group Executive Committee and board member.

The Group remuneration report provides information on the remuneration policy and the key elements of reward for Group employees, including Group executive directors. It also discloses the remuneration of the individual directors who served the Group in 2007.

**Dave Brink**

Chairperson: Group Remuneration and Human Resource Committee

20 March 2008

## REMUNERATION GOVERNANCE

Governance of Absa Group executive directors' remuneration is performed by the GRHRC. In 2007, the GRHRC's remit included the governance of Group non-executive directors' remuneration. With respect to remuneration from 1 May 2008 onwards, in line with international best practice, proposals on Group non-executive directors' remuneration will be made by the Group Chief Executive and the Group Chairperson for review by the board and for sanction by shareholders.

The GRHRC also provides governance and strategic oversight of the Group's human resource activities with particular emphasis on remuneration and senior management development. The GRHRC's effectiveness is evaluated annually by the Absa Group board.

As at 31 December 2007, the GRHRC consisted of five members: D C Brink (Chairperson), B P Connellan, G Marcus, F F Seegers and F A Sonn. The Group Chief Executive, the Group Finance Director and the executive responsible for Human Resources attend the meetings by invitation. No Group executive director or member of management is present when his or her own remuneration or performance evaluation is discussed.

The GRHRC's responsibilities include:

- approving the Group's remuneration philosophy, principles and policy;
- approving the remuneration of the Group Chief Executive and Group Executive Committee members. In addition, it provides oversight regarding the remuneration of the senior leadership group. Remuneration includes all elements of remuneration: guaranteed fixed remuneration, performance bonuses, incentive plans and any other form of benefits or perquisites;
- mandating the Group Executive Committee to negotiate conditions of service with relevant trade unions;
- reviewing the operation of the Group's various incentive plans including the approval of new incentive plans and the approval of individual incentive plan awards to Group executive directors and other Group Executive Committee members;
- succession planning for Group executive directors and top management, including the Group Chief Executive, other Group executive directors and other strategic positions/roles, together with the Group Directors' Affairs Committee; and
- evaluating the performance of the Group Chief Executive and reviewing the evaluation of the performance of Group Executive Committee members.

## ADVISERS TO THE GRHRC

The GRHRC has access to independent external consultants to make sure it receives independent advice in respect of remuneration in general, and in respect of its specific businesses. The Group bears all the costs relating to the appointment of external consultants.

In determining the appropriate remuneration for Group executive directors, Absa makes use of the services of an independent remuneration consulting company, Global Remuneration Solutions (Proprietary) Limited<sup>1</sup>. This company provides detailed survey analysis of the banking and broader industries in respect of the remuneration of Group executive directors and top management.

In setting the annual performance measures for the Phantom PSP, Absa made use of independent consultants Kepler Associates<sup>1</sup> based in London. Kepler Associates provided advice on appropriate financial performance targets and the probabilities of achieving these targets to ensure that there is sufficient "stretch" in the targets set.

Group Human Resources, a Group specialist function, provides advice and assists the GRHRC by providing supporting information, documentation and analysis relating to matters before the GRHRC. This includes comparative data and

<sup>1</sup>Permission has been obtained for the inclusion of all references to their name in the form and context in which it appears.

# Group remuneration report

motivations for salaries, bonuses and incentive plans. In addition, the executive responsible for Human Resources also provides professional support to line management relating to human resources policies and administration, as well as for monitoring compliance with prescribed policies and programmes across the Group.

## REMUNERATION PHILOSOPHY AND POLICY

Absa's remuneration policy is designed to align the interests of directors, stakeholders and employees. In determining Group executive directors' and other senior leaders' remuneration, the GRHRC is sensitive to the conditions of pay and employment for employees across the Group. Absa's remuneration policies are intended to build long-term shareholder value, attract and retain employees of the highest calibre who embrace the Group's values, and reward success. A substantial proportion of the remuneration of the Group executive directors and other senior leaders is based on performance. The performance-related remuneration is based on a qualitative and quantitative assessment of performance. Group executive directors and other senior leaders can expect outstanding reward for outstanding performance, and below median reward for below median performance.

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

- aligning the interests of senior managerial and professional employees, including Group executive directors, with those of the Group's stakeholders;
- maximising employees' personal contribution, contribution to the business unit in which an individual works and contribution to the Group overall;
- achieving commercially competitive reward levels, enabling the Group to attract and retain people of proven ability, experience and skills;
- implementing reward programmes that are clear and transparent and reinforce the achievement of the Group's desired strategic positioning; and
- directing reward levels at encouraging behaviour consistent with the Group's values (which are: value our people and treat them with fairness; exceed the needs of our customers; take responsibility for the quality of our work; display leadership in all we do; and demonstrate integrity in all our actions).

## REMUNERATION OF EMPLOYEES (INCLUDING GROUP EXECUTIVE DIRECTORS)

Absa's remuneration structure has two components, fixed remuneration, and variable remuneration as follows:

- Fixed remuneration: annual salary and benefits; and
- Variable remuneration: annual performance bonus and long-term incentive plans.

Fixed remuneration is reviewed annually to ensure that those who contribute to the success of the Group are remunerated competitively. The Group uses variable remuneration schemes to focus behaviour on important business objectives and to sustain performance. To achieve this goal, the existing variable remuneration components are reviewed annually and adjustments are made to improve their appropriateness and effectiveness.

Each element of reward is important and has a specific role in achieving the aims of the Group's remuneration policy. In the case of Group executive directors and key managerial and professional personnel, the combined potential remuneration from the annual performance bonus and long-term incentive outweighs the fixed remuneration and is subject to performance conditions, which places a substantial portion of the Group executive directors' and other senior leaders' remuneration at risk.



### **Guaranteed fixed remuneration**

The approach adopted for all employees, including Group executive directors, is a total cost-to-company approach that encapsulates benefits provided such as retirement schemes, death and disability cover, medical cover and other benefits, as dictated by competitive market practices. The market rate of pay for a particular role and the sustainable contribution of each employee are used as the basis for remuneration reviews.

**Across the Group, remuneration reviews are undertaken at least annually.**

### **Annual performance bonuses (variable remuneration)**

Annual bonuses are based on a qualitative and quantitative assessment of performance and are linked to business achievement in terms of targeted goals. Annual bonuses are not guaranteed; they are discretionary and vary according to an individual's performance rating.

An overall performance bonus funding mechanism is utilised to fund the annual incentives for the Group. In 2007, the funding mechanism was based on the Group's profit before tax (PBT) and, in particular, the growth in PBT year-on-year. Other measures, such as attributable earnings and economic profit, were also tracked to ensure a balanced approach to the financial measures used. The individual business segments are, in turn, measured for their relative contributions to the business as a whole, so that an appropriate distribution of the overall bonus pool can be made.

The bonus multiple for Group executive directors for 2006 was capped at a maximum possible individual annual performance bonus of 2,5 times cost-to-company remuneration. This bonus cap was retained for 2007 with an exception created for one of the Group executive directors. This cap will be taken under review during 2008.

Employees, including Group executive directors, whose annual performance bonuses are in excess of a predetermined level, participate in the Group's ESAS. Under the ESAS, 75% of the annual performance bonus is delivered in cash and the remaining 25% is allocated in the form of shares.

### **Long-term incentive plans (variable remuneration)**

The Group operates a number of long-term incentive plans to increase employee and shareholder alignment through employee share ownership, as well as to retain key personnel. The two principal long-term incentive plans for Group executive directors and other senior executives are the Group's PSP and the ESAS.

### **The Absa Group Performance Share Plan (PSP)**

The PSP is aimed at rewarding future performance by incentivising senior Absa employees, including Group executive directors, to achieve performance targets.

**The GRHRC annually makes an award of PSP shares to senior managers, professionals and executives and sets performance conditions applicable for a three-year period. An award under PSP is effectively a free share award subject to performance conditions.**

## Group remuneration report

The GRHRC ensures that the performance conditions are sufficiently demanding to support profitable growth, capital efficiency, risk management and the creation of shareholder value. The vesting of the 2007 PSP awards is subject to the following:

- A basic financial hurdle, such that the cumulative profit after tax (PAT) for the Group in the three-year performance period attached to each award must be greater than the Group's cumulative PAT for the previous three-year period.
- A second, three-year performance condition that applies to 100% of the PSP shares under each award is based on Absa's earnings per share (EPS) growth in excess of the consumer price index excluding interest rates on mortgage bonds (CPIX). The more Absa's EPS growth exceeds the CPIX, the greater the number of shares that will be recommended for release at the end of the three-year period, up to a maximum of three times the initial allocation.

In respect of the performance conditions for the 2008 PSP awards to be made to members of the Group Executive Committee, senior leaders and other select key executives, 50% of the performance condition for the award is based on nominal growth in cumulative attributable earnings and 50% is based on Absa's total shareholder return out-performance of the FTSE/JSE Financial 15 Index. The 2008 PSP awards are also subject to the basic financial hurdle based on PAT described above. The number of shares that will be recommended for release at the end of the three-year period is up to a maximum of three times the initial allocation. As with the 2007 PSP awards, the GRHRC has engaged external consultants Kepler Associates to obtain independent advice on setting the performance conditions for the 2008 PSP awards.

For 2008 PSP awards made to employees other than members of the Group Executive Committee, senior leaders and other select key executives, the basic financial hurdle based on PAT described above is applicable. These awards are also subject to a less stretched performance condition based on the compound annual growth rate of attributable earnings over the performance period. If the performance conditions are met, the award vests at a multiple of one times the initial allocation (the multiplier of up to three times the initial allocation does not apply to these awards).

Awards may be made under the Absa Group PSP as well as under the Absa Group Phantom PSP (Phantom PSP). Phantom PSP awards are, from a commercial and incentive point of view, substantially the same as PSP awards. The awards made in 2007 have been made under the Phantom PSP. Rand value awards took place effective 1 March 2007. Subsequent to the awards being made, the participants were informed of the actual number of Phantom PSP shares that they were awarded, taking into account the volume-weighted average share price over the 20 days immediately preceding the award date. The use of a rand-value award mechanism enables easy communication of the underlying value of the award. It also enables the GRHRC to obtain an overall view of an individual's total compensation (total cost-to-company remuneration, annual performance bonus and long-term incentive award). The 2007 Phantom PSP awards will be cash-settled in 2010.

The details of the awards for Group executive directors are listed on page 111 of this report.

### The Absa Group Executive Share Award Scheme (ESAS)

Under the ESAS, if an employee's total annual bonus exceeds a predetermined level, 25% of the annual performance bonus is mandatorily converted into a number of nil-cost options (exercisable between three and five years after the award) over shares or phantom shares. The remaining 75% of a participating employee's bonus can be converted voluntarily by the employee under the Absa Group Voluntary Executive Share Award Scheme (VESAS) (refer to the page opposite). If the employee is still in the employ of the Group after a period of three years, he or she will receive 20% bonus (matched) shares and certain dividend shares. A further 10% bonus (matched) shares and dividend shares will be awarded if the participant is still in the employ of the Group after a period of five years from the original date. The ESAS is therefore a deferred bonus plan that rewards, and promotes the retention of participating employees with matched shares and encourages them to invest in Absa in order to align their interests with those of shareholders. No performance conditions apply to the ESAS.

As an alternative to the Absa Group ESAS, awards may also be made under the Absa Group Phantom ESAS. Phantom ESAS awards are, from a commercial and incentive point of view, substantially the same as Absa Group ESAS awards. Awards made in 2007 were made under the Phantom ESAS and will be cash settled in 2010.

The details of the awards for Group executive directors are listed on page 112 of this report.

### **The Absa Group Voluntary Executive Share Award Scheme (VESAS)**

Employees who qualify for the ESAS are also invited to participate in the VESAS, which provides employees with the opportunity to defer some or all of the balance of their total annual performance bonus (the portion remaining after the mandatory ESAS) into the VESAS. If an employee decides to convert part of his or her annual performance bonus via the VESAS, this is effected on a net (after tax) basis. The converted bonus will then take the form of an award of Absa shares under the VESAS.

As in the case of the mandatory ESAS, with the VESAS the employee will receive 20% bonus (matched) shares and certain dividend shares if he or she is still in the employ of the Group after a period of three years. A further 10% of bonus (matched) shares and dividend shares will be awarded if the participant is still in the employ of the Group after a period of five years from the original date. However, unlike in the case of the mandatory ESAS, under the VESAS, a participant is entitled to sell the VESAS shares at any time subject to "closed periods" for nominated individuals. In the event that the VESAS shares are sold before three and five years from the original date, the respective bonus (matched) shares will be forfeited. No performance conditions apply to the VESAS.

### **Share Incentive Scheme**

Until May 2006 the Group operated a share incentive scheme designed to link the interests of Group executive directors and eligible employees with those of shareholders and the long-term desired strategic positioning of the Group. One-third of the options vested on the third anniversary of the date of grant, a further third vested on the fourth anniversary of the date of grant and the final third on the fifth anniversary of the date of grant. These options have a 10-year expiry period. In addition to the requirement that recipients be in the employ of the Group on vesting dates, earnings-based performance measures were linked to the allocation of share options in 2005.

Since then, when the Group's new incentive plans were introduced, no further awards were made under this share incentive scheme. The details of the awards for Group executive directors are listed on pages 109 and 110 of this report.

### **Other senior executive incentive plans**

#### **Barclays Special Incentive Plan**

Key members of the Absa management team were given retention awards under the Barclays Special Incentive Plan. The awards are delivered in Barclays PLC shares, but are dependent on Absa's performance relative to the achievement of the business case for the acquisition of a controlling stake in the Absa Group (namely realisation of the synergy benefits, as well as delivery of Absa's business-as-usual performance). The plan is limited to selected key individuals: S F Booyen, J H Schindehütte, L L von Zeuner, R R Emslie and N P Mageza. The costs associated with the plan are borne directly by Barclays and therefore do not affect Absa's financial performance. The Barclays and Absa remuneration committees approve any awards under this plan and scrutinise the performance outcomes. Subsequent to the original awards made, no further awards have been made under this plan.

The details of the awards for Group executive directors are listed on page 113 of this report.

# Group remuneration report

## Special Discretionary Bonus Plan

In November 2005, 30 individuals in key roles were selected to receive a special discretionary performance bonus. Key criteria for the awards included the delivery of the business case for the acquisition of a controlling stake in Absa and an individual's performance. The participants included a number of individuals assigned to Absa from Barclays. Participants in the Barclays Special Incentive Plan detailed above did not participate in the Special Discretionary Bonus Plan. The bonus, which was up to 200% of guaranteed fixed remuneration at the time of the award, was delivered in cash by Absa after two years (in February 2008), subject to individual performance assessments and taking into account delivery of the business case, including growth in profit before tax, the realisation of synergies, the management of restructuring costs and personal contribution. The GRHRC approved an aggregate total award that was paid out in February 2008 of approximately R61 million.

## Other employee incentive plans

### Batho Bonke Capital (Proprietary) Limited

Shareholders approved the allocation of cumulative redeemable option-holding preference shares to a number of previously disadvantaged individuals, qualifying employees and black non-executive directors in accordance with the black economic empowerment transaction that the Group entered into with Batho Bonke Capital (Proprietary) Limited in July 2004.

As at 31 December 2007, Peter Mageza held an interest of approximately 500 000 shares in Batho Bonke Capital (Proprietary) Limited, through the Batho Bonke Absa HDSA Trust.

Further details are provided on page 201 of this report.

### Absa Group Limited Employee Share Ownership Administration Trust

All employees (as of the implementation date of 1 July 2004) of South African wholly owned subsidiaries, including South African employees on secondment elsewhere in the Group, were eligible to participate in a one-off offer of 200 cumulative redeemable option-holding preference shares. Each employee who elected to participate was issued and allotted 200 redeemable option-holding preference shares against receipt of the R400 subscription price. Further details, including the number and weighted average exercise price of share options as at 31 December 2007, are provided on page 297 of this report.

## GROUP EXECUTIVE DIRECTORS' SERVICE CONTRACTS

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

## SEVERANCE ARRANGEMENTS

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

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

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

## **NON-EXECUTIVE DIRECTORS**

### **Non-executive directors' remuneration**

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

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

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

Absa's fee structure, as approved by shareholders, is indicated in the table on page 114 of this report.

### **Absa shares held by non-executive directors**

Certain executive and non-executive directors have an interest in the Group. This is disclosed in the directors' report as indicated below:

- |  |                   |
|--|-------------------|
| • Absa Group ordinary shares (beneficial and non-beneficial interests) | Pages 199 and 200 |
| • Absa Group redeemable cumulative option-holding preference shares    | Page 201          |
| • Absa Bank Limited preference shares                                  | Page 201          |

### **Non-executive directors' terms of employment**

Non-executive directors do not have service contracts. Letters of appointment confirm the terms and conditions of their service. In terms of Absa's articles of association, one-third of the directors are required to retire at each AGM and may offer themselves for re-election. In line with international best practice, Absa has introduced a requirement in terms of which all directors on the board for longer than nine years are subject to annual re-election by shareholders at the AGM.

# Group remuneration report

## GROUP EXECUTIVE DIRECTORS' GUARANTEED FIXED REMUNERATION AND PERFORMANCE BONUSES

Name	Note	Directors' fees				Travel allow- ances	Retire- ment fund contri- butions	Total guaran- teed remune- ration	Con- ditional fixed remune- ration (Note 9)	Perfor- mance bonuses (Note 10)	Total
		Absa Group	Absa Bank and other divisional boards	Salaries							
		R	R	R	R	R	R	R	R	R	
<b>Year ended 31 December 2007</b>											
S F Booyesen	1 & 8	131 400	—	5 174 217	54 514	413 554	5 773 685	—	13 000 000	18 773 685	
D Bruynseels	2, 6, 7 & 8	86 234	89 793	—	—	—	176 027	—	—	176 027	
N P Mageza	3, 7 & 8	45 167	—	711 476	3 956	56 790	817 389	—	4 600 000	5 417 389	
J H Schindehütte	4 & 8	131 400	—	2 543 494	26 133	203 096	2 904 123	—	6 000 000	8 904 123	
L L von Zeuner	5 & 8	131 400	—	3 208 709	45 980	256 313	3 642 402	—	10 000 000	13 642 402	
<b>Total</b>		<b>525 601</b>	<b>89 793</b>	<b>11 637 896</b>	<b>130 583</b>	<b>929 753</b>	<b>13 313 626</b>	<b>—</b>	<b>33 600 000</b>	<b>46 913 626</b>	
<b>Year ended 31 December 2006</b>											
S F Booyesen	1 & 8	119 467	—	4 608 081	25 233	368 519	5 121 300	378 911	12 000 000	17 500 211	
D Bruynseels	2, 6, 7 & 8	119 467	129 838	—	—	—	249 305	—	—	249 305	
J H Schindehütte	4 & 8	119 467	—	2 288 637	24 862	182 963	2 615 929	184 042	5 500 000	8 299 971	
L L von Zeuner	5 & 8	119 467	—	2 885 628	66 906	230 722	3 302 723	249 625	7 900 000	11 452 348	
<b>Total</b>		<b>477 868</b>	<b>129 838</b>	<b>9 782 346</b>	<b>117 001</b>	<b>782 204</b>	<b>11 289 257</b>	<b>812 578</b>	<b>25 400 000</b>	<b>37 501 835</b>	

### Notes

- (1) Appointed to the Absa Group board on 1 August 2004.
- (2) Appointed to the Absa Group board on 27 July 2005. Subsequently resigned from the Absa Group board on 21 August 2007. D Bruynseels did not receive any awards under the Share Incentive Scheme, the Phantom PSP, the ESAS or the VESAS and consequently is not included in the following tables for those incentive plans.
- (3) Appointed to the Absa Group board on 10 September 2007.
- (4) Appointed to the Absa Group board on 1 January 2005.
- (5) Appointed to the Absa Group board on 1 September 2004.
- (6) Remunerated by Barclays PLC, and any directors' fees earned were paid to Barclays PLC.
- (7) The remuneration relates only to the period an individual is/was a Group executive director.
- (8) Group executive directors' guaranteed remuneration, conditional fixed remuneration and performance bonuses are paid by Absa Bank Limited, other than in the case of D Bruynseels.
- (9) The payment of conditional fixed remuneration took place in respect of 2006 for the last time, as the conditional fixed remuneration scheme was discontinued with effect from 1 January 2007. For 2006, the conditional fixed remuneration was separated from the performance bonuses, owing to the total cost-to-company remuneration adjustments (effective 1 April 2007).
- (10) Performance bonuses for 2007 comprise a cash portion (as to 75% of the notional performance bonus) which will have accrued to the Group executive director concerned, and a non-cash portion (as to 25% of the notional performance bonus), which will be deferred into the mandatory ESAS. For 2007, the respective portions were as follows: (i) S F Booyesen: cash R9 750 000, deferred under the ESAS R3 250 000, total R13 000 000; (ii) N P Mageza: cash R3 450 000, deferred under the ESAS R1 150 000, total R4 600 000; (iii) J H Schindehütte: cash R4 500 000, deferred under the ESAS R1 500 000, total R6 000 000; (iv) L L von Zeuner: cash R7 500 000, deferred under the ESAS R2 500 000, total R10 000 000.

**GROUP EXECUTIVE DIRECTORS' SHARE INCENTIVE SCHEME OPTIONS – COMPOSITION OF OPENING BALANCES AT 1 JANUARY 2007**

Name	Note	Share options granted		Number granted	Price R
		Date of grant	Expiry date of options		
<b>S F Booysen</b>	1	7 Jun '02	7 Jun '12	40 000	33,67
		5 Jun '03	5 Jun '13	90 000	35,01
		7 Jun '04	7 Jun '14	300 000	48,73
		18 Aug '05	18 Aug '15	180 000	91,70
				<b>610 000</b>	
<b>N P Mageza</b>	2	19 Jun '01	19 Jun '11	16 668	37,43
		7 Jun '02	7 Jun '12	17 334	33,67
		5 Jun '03	5 Jun '13	17 500	35,01
		7 Jun '04	7 Jun '14	88 000	48,73
		18 Aug '05	18 Aug '15	43 000	91,70
				<b>182 502</b>	
<b>J H Schindehütte</b>	3	7 Jun '02	7 Jun '12	23 334	33,67
		5 Jun '03	5 Jun '13	20 000	35,01
		31 May '04	31 May '14	186 856	46,56
		18 Aug '05	18 Aug '15	30 000	91,70
				<b>260 190</b>	
<b>L L von Zeuner</b>	4	19 Jun '01	19 Jun '11	21 668	37,43
		7 Jun '02	7 Jun '12	40 000	33,67
		5 Jun '03	5 Jun '13	95 000	35,01
		7 Jun '04	7 Jun '14	26 000	48,73
		19 Aug '04	19 Aug '14	102 000	51,61
		18 Aug '05	18 Aug '15	60 000	91,70
				<b>344 668</b>	

**Notes**

- (1) Appointed to the Absa Group board on 1 August 2004.
- (2) Appointed to the Absa Group board on 10 September 2007. Opening balance as at 10 September 2007, at the time of appointment as a Group executive director.
- (3) Appointed to the Absa Group board on 1 January 2005.
- (4) Appointed to the Absa Group board on 1 September 2004.

# Group remuneration report

## GROUP EXECUTIVE DIRECTORS' SHARE INCENTIVE SCHEME OPTION – MOVEMENTS DURING 2007

### Share options exercised (Note 5)

Name	Note	Opening balance	Number	Purchase date/ exercise date (Note 6)	Option price R	Shares purchased/ gains on share options exercised R (Note 7)	Balance of share options
<b>Year ended 31 December 2007</b>							
S F Booysen	1	610 000	—	—	—	—	610 000
N P Mageza	2	182 502	—	—	—	—	182 502
J H Schindehütte	3	260 190	23 334	24 Aug '07	Shares purchased at share option price of R33,67		164 571
			10 000	24 Aug '07	Shares purchased at share option price of R35,01		
			62 285	24 Aug '07	Shares purchased at share option price of R46,56		
L L von Zeuner	4	344 668	19 100	28 Feb '07	Shares exercised at share option price of R37,43 and sold at R137,07		9 986 <sup>8</sup>
			2 568	28 Feb '07	Shares purchased at share option price of R37,43		271 334
			20 000	28 Feb '07	Shares purchased at share option price of R33,67		
			31 666	28 Feb '07	Shares purchased at share option price of R35,01		
<b>Year ended 31 December 2006</b>							
S F Booysen	1	718 334	23 334	25 Aug '06	Shares purchased at share option price of R37,43		610 000
			40 000	25 Aug '06	Shares purchased at share option price of R33,67		
			45 000	25 Aug '06	Shares purchased at share option price of R35,01		
J H Schindehütte	3	316 857	23 334	24 Aug '06	Shares purchased at share option price of R37,43		260 190
			23 333	24 Aug '06	Shares purchased at share option price of R33,67		
			10 000	24 Aug '06	Shares purchased at share option price of R35,01		
L L von Zeuner	4	361 336	16 668	6 Apr '06	Shares purchased at share option price of R32,61		344 668

### Notes

- (1) Appointed to the Absa Group board on 1 August 2004.
- (2) Appointed to the Absa Group board on 10 September 2007. Opening balance as at 10 September 2007, at the time of appointment as a Group executive director.
- (3) Appointed to the Absa Group board on 1 January 2005.
- (4) Appointed to the Absa Group board on 1 September 2004.
- (5) The share incentive scheme has not been used for new allocations to Group executive directors since 2006, because of the introduction of the PSP.
- (6) Options are exercisable at any date from the vesting date. Where the activity reported upon is a purchase of shares, the purchase date has been reflected, in which event a preceding exercise of the options would already have taken place.
- (7) A "gain" arises where the options have been exercised at a price higher than the grant date price during the year under review. Where no cash gain has been realised in circumstances where a purchase of the shares has taken place, the details of this purchase have been disclosed instead.
- (8) The amount relates to the net balance subsequent to the sale of shares to cover the purchase of shares at the option price.



**GROUP EXECUTIVE DIRECTORS' SHARE AWARD MOVEMENTS DURING 2007 – PHANTOM PSP (NOTE 1)**

**Phantom PSP shares granted**

Name	Note	Opening balance at 1 January	Date of grant	Number issued	Price R (Note 6)	Expiry date	Closing balance as at 31 December
<b>Year ended 31 December 2007</b>							
S F Booyesen	2	51 194	1 Mar '07	44 228	135,66	1 Mar '10	95 422
N P Mageza	3	15 529	1 Mar '07	14 742	135,66	1 Mar '10	30 271
J H Schindehütte	4	23 464	1 Mar '07	24 878	135,66	1 Mar '10	48 342
L L von Zeuner	5	33 617	1 Mar '07	31 696	135,66	1 Mar '10	65 313
<b>Year ended 31 December 2006</b>							
S F Booyesen	2	—	22 May '06	51 194	117,20	22 May '09	51 194
J H Schindehütte	4	—	22 May '06	23 464	117,20	22 May '09	23 464
L L von Zeuner	5	—	22 May '06	33 617	117,20	22 May '09	33 617

**Notes**

- (1) The first allocations of the Phantom PSP Scheme took place in 2006. One Phantom PSP share has a value equivalent to one Absa ordinary share. As mentioned on page 104 of this report, for 2007 (as for 2006) the scheme is subject to profit after tax and stretched earnings per share performance measures, which, if achieved, will have the effect of an increase on the initial allocation of Phantom PSP shares to a maximum of three times.
- (2) Appointed to the Absa Group board on 1 August 2004.
- (3) Appointed to the Absa Group board on 10 September 2007.
- (4) Appointed to the Absa Group board on 1 January 2005.
- (5) Appointed to the Absa Group board on 1 September 2004.
- (6) The price is the volume-weighted average price for the 20 trading days immediately preceding the grant date.

# Group remuneration report

## GROUP EXECUTIVE DIRECTORS – HOLDINGS UNDER THE ESAS

ESAS shares							
Name	Note	Opening balance at 1 January (Note 5)	Date of grant	Number issued	Price R (Note 6)	Expiry date (Note 7)	Closing balance as at 31 December (Note 8)
<b>Year ended 31 December 2007</b>							
S F Booysen	1	32 934	24 Feb '07	22 237	134,91	24 Feb '10	55 171
N P Mageza	2	—	24 Feb '07	7 597	134,91	24 Feb '10	7 597
J H Schindehütte	3	15 665	24 Feb '07	10 191	134,91	24 Feb '10	25 856
L L von Zeuner	4	23 653	24 Feb '07	14 639	134,91	24 Feb '10	38 292
<b>Year ended 31 December 2006</b>							
S F Booysen	1	—	14 Jun '06	32 934	107,63	14 Jun '09	32 934
J H Schindehütte	3	—	14 Jun '06	15 665	107,63	14 Jun '09	15 665
L L von Zeuner	4	—	14 Jun '06	23 653	107,63	14 Jun '09	23 653

### Notes

- (1) Appointed to the Absa Group board on 1 August 2004.
- (2) Appointed to the Absa Group board on 10 September 2007. In addition to the ESAS award shown above, N P Mageza also participated in the 2007 award under the VESAS in respect of 4 340 shares purchased at R140,32 per share on 27 February 2007, expiry date 27 February 2010.
- (3) Appointed to the Absa Group board on 1 January 2005.
- (4) Appointed to the Absa Group board on 1 September 2004.
- (5) The figures in this column relate to the conversion of banked bonuses to the ESAS. The banked bonus is not a new award, as this has been disclosed as part of the performance bonus awards for 2005 and 2006.
- (6) For the awards made in 2006 and 2007, the price is the volume-weighted average share price over the 20 trading days up to and including 14 June 2006 and 24 February 2007 respectively.
- (7) Although the vesting date is the third anniversary of the award date, there is an opportunity for a participant to remain in the scheme for a further two-year period.
- (8) The column does not include the portion of the 2007 annual performance bonus that is deferred into the ESAS (which takes place in 2008). This is shown on page 108 of this report.

**GROUP EXECUTIVE DIRECTORS – BARCLAYS SPECIAL INCENTIVE PLAN AWARDS (NOTE 1)**

Name	Note	Opening balance at 1 January 2007 (Note 2)	Barclays PLC shares granted during 2007	Performance period in respect of outstanding awards granted in 2006	Vesting date of outstanding awards granted in 2006	Closing balance as at 31 December 2007
<b>Year ended 31 December 2007</b>						
S F Booyesen	3	100 224	—	1 Apr '05 – 30 Jun '08	30 Sept '08	100 224
D Bruynseels	4	27 839	—	1 Apr '05 – 30 Jun '08	30 Sept '08	27 839
N P Mageza	5	22 962	—	1 Apr '05 – 30 Jun '08	30 Sept '08	22 962
J H Schindehütte	6	29 209	—	1 Apr '05 – 30 Jun '08	30 Sept '08	29 209
L L von Zeuner	7	49 090	—	1 Apr '05 – 30 Jun '08	30 Sept '08	49 090

**Notes**

- (1) This is an award of Barclays shares. Absa does not bear the cost of these awards. The specific performance conditions are linked to the underlying Absa Group performance for the period from 1 April 2005 to 30 June 2008. There is a multiple dependent on Absa's performance, the range of the multiple being from zero to 6,6 times the initial allocation, with the maximum award being made in the event of performance being equal to 130% of the predetermined business case. The shares granted, as reflected above, represent "one times" the initial allocation. These conditions have been approved by the Barclays Board Human Resource and Remuneration Committee. The attainment of these measures will be determined in respect of the published results for June 2008.
- (2) The opening balance shown in this column relates to awards granted during 2006.
- (3) Appointed to the Absa Group board on 1 August 2004.
- (4) Appointed to the Absa Group board on 27 July 2005. D Bruynseels subsequently resigned from the Absa Group board on 21 August 2007.
- (5) Appointed to the Absa Group board on 10 September 2007.
- (6) Appointed to the Absa Group board on 1 January 2005.
- (7) Appointed to the Absa Group board on 1 September 2004.

# Group remuneration report

## NON-EXECUTIVE DIRECTORS' FEE STRUCTURE AS APPROVED BY SHAREHOLDERS (NOTE 1)

Category	Note	Remuneration for the 12-month period from 1 May 2007 to 30 April 2008 R	Remuneration for the 12-month period from 1 May 2006 to 30 April 2007 R
Chairperson	2	3 500 000	3 154 200
Board member	3, 4 & 11	135 500	123 200
Group Audit and Compliance Committee (GACC) member	5 & 11	114 800	104 400
Group Risk and Capital Management Committee (GRCMC) member	6 & 11	74 800	68 000
Group Remuneration and Human Resource Committee (GRHRC) member	7 & 11	60 000	54 600
Directors' Affairs Committee (DAC) member	8 & 11	45 100	41 000
Credit Committee: Large Exposures member	9 & 11	45 100	41 000
Implementation Committee member	10 & 11	41 000	41 000
			<b>Pool of R350 000 per annum payable to Board Lending Committee members pro rata to the number of facilities reviewed.</b>
Group Credit Committee member	12	<b>1 000 per facility reviewed</b>	<b>reviewed.</b>
Special board meeting (per meeting)		18 200	16 500
Special board committee meeting (per meeting)		11 700	10 600
Ad hoc board fees:			
• per ad hoc board committee meeting attended		11 700	10 600
• consultancy work		3 000 per hour	2 750 per hour

### Notes

- (1) The proposed remuneration payable to the Chairperson and non-executive directors from 1 May 2008 is shown on page 404 of this report.
- (2) The figure shown above is the annual remuneration payable for the outgoing Chairperson (D C Cronjé). The actual remuneration paid to D C Cronjé and G Marcus in 2007 is shown in the next table.
- (3) The Deputy Chairperson receives fees equal to 1,5 times the fee payable to a board member.
- (4) Executive directors of Absa Group Limited receive fees, as members of the Absa Group Limited board, equal to the fees payable to a board member.
- (5) The GACC Chairperson receives fees equal to twice the fee payable to a GACC member.
- (6) The GRCMC Chairperson receives fees equal to twice the fee payable to a GRCMC member.
- (7) The GRHRC Chairperson receives fees equal to twice the fee payable to a GRHRC member.
- (8) As the Group Chairperson is Chairperson of the DAC, this fee is covered by the Group Chairperson's fee.
- (9) As the Group Chairperson is also the Chairperson of the Credit Committee: Large Exposures, this fee is covered by the Group Chairperson's fee.
- (10) The Implementation Committee Chairperson receives a fee equal to twice the fee payable to an Implementation Committee member.
- (11) The fees payable to non-executive directors of Absa Group Limited in respect of subsidiary companies are not included as these fees are approved by the shareholders of the respective subsidiaries.
- (12) The Group Credit Committee's fee structure has been changed from a "pool" basis to a rate per facility reviewed per committee member.

## NON-EXECUTIVE DIRECTORS' EMOLUMENTS

Name	Note	2007 (Note 17)					2006 (Note 17)
		Absa Group Limited R	Absa Bank and its subsidiaries R	Ad hoc fees R	Committees R	Total R	Total R
<b>Directors at 31 December 2007</b>							
G Marcus (Chairperson)	1	1 250 000	—	4 689	—	1 254 689	—
D C Brink (Deputy Chairperson)		197 100	158 500	124 000	515 568	995 168	904 717
L N Angel	2	131 400	105 667	80 200	32 001	349 268	270 721
D C Arnold		131 400	105 667	18 200	372 633	627 900	435 050
B P Connellan		131 400	105 667	69 100	272 933	579 100	587 380
Y Z Cuba	3	131 400	105 667	36 400	151 433	424 900	—
A S du Plessis	4	131 400	105 667	80 100	532 966	850 133	802 158
G Griffin		131 400	105 667	41 483	395 936	674 486	439 942
M W Hlahla	5	131 400	105 667	18 200	72 533	327 800	243 800
R A Jenkins	6	79 042	63 583	36 400	46 800	225 825	—
L N Jonker		131 400	105 667	36 400	101 133	374 600	303 250
R Le Blanc	6	79 042	63 583	—	122 300	264 925	—
E C Mondlane, Jr.	7	33 875	27 250	11 700	—	72 825	—
T S Munday	8	90 333	72 667	62 600	131 850	357 450	—
F F Seegers	9	131 400	105 667	39 200	193 633	469 900	75 400
T M G Sexwale		131 400	105 667	36 400	77 733	351 200	266 400
F A Sonn		131 400	105 667	68 400	152 833	458 300	299 400
P E I Swartz		131 400	105 667	82 200	72 533	391 800	328 050
<b>Past directors</b>							
D C Cronjé (Chairperson)	10	1 926 400	—	—	—	1 926 400	3 114 800
D E Baloyi	11	30 800	24 750	—	24 250	79 800	286 067
N Kheraj	12 & 13	41 067	33 000	—	62 466	136 533	425 100
P du P Kruger	14	41 067	33 000	—	80 133	154 200	553 234
L W Maasdorp	2 & 15	—	—	—	—	—	350 550
D L Roberts	12 & 16	—	—	—	—	—	364 266
<b>Total</b>		<b>5 345 526</b>	<b>1 744 337</b>	<b>845 672</b>	<b>3 411 667</b>	<b>11 347 202</b>	<b>10 050 285</b>

### Notes

- (1) Appointed as Chairperson to the Absa Group board on 1 July 2007.
- (2) Appointed to the Absa Group board on 16 August 2004.
- (3) Appointed to the Absa Group board on 16 December 2006.
- (4) Resigned from the Absa Group board on 31 December 2007.
- (5) Appointed to the Absa Group board on 23 December 2005.
- (6) Appointed to the Absa Group board on 4 June 2007.
- (7) Appointed to the Absa Group board on 26 September 2007.
- (8) Appointed to the Absa Group board on 16 April 2007.
- (9) Appointed to the Absa Group board on 23 October 2006.
- (10) Retired as Chairperson of the Absa Group board on 30 June 2007 and as a director on 31 July 2007.
- (11) Appointed to the Absa Group board on 31 December 2004. Her services were terminated effective 20 March 2007.
- (12) Appointed to the Absa Group board on 27 July 2005.
- (13) Resigned from the Absa Group board on 30 April 2007.
- (14) Retired from the Absa Group board on 23 April 2007.
- (15) Resigned from the Absa Group board on 30 September 2006.
- (16) Resigned from the Absa Group board on 23 October 2006.
- (17) All emoluments to Group non-executive directors are paid by Absa Bank Limited, except as disclosed in note 48.2 to the financial statements.

# The Group board

## Introduction

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

### THE YEAR UNDER REVIEW

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

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

### BOARD MEMBERSHIP

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

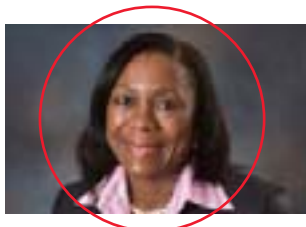
Independent directors	→	D C Arnold, D C Brink (Deputy Chairperson), B P Connellan, A S du Plessis <sup>4</sup> , G Griffin, M W Hlahla, L N Jonker, G Marcus (Chairperson), T S Munday, F A Sonn and P E I Swartz <sup>6</sup>
Non-executive directors	→	L N Angel, Y Z Cuba, R A Jenkins <sup>1</sup> , R Le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

### BOARD COMMITTEE MEMBERSHIP AS AT 31 DECEMBER 2007

Committee	Members
Group Audit and Compliance Committee	→ D C Arnold (Chairperson), Y Z Cuba, A S du Plessis <sup>4</sup> , R Le Blanc <sup>1</sup> , G Griffin and T S Munday
Group Risk and Capital Management Committee	→ D C Arnold, A S du Plessis <sup>4</sup> , G Griffin (Chairperson), M W Hlahla, R Le Blanc <sup>1</sup> , G Marcus and P E I Swartz <sup>6</sup>
Directors' Affairs Committee	→ D C Brink, L N Jonker, G Marcus (Chairperson), F F Seegers <sup>2</sup> , T M G Sexwale <sup>5</sup> and F A Sonn
Group Remuneration and Human Resource Committee	→ D C Brink (Chairperson), B P Connellan, G Marcus, F F Seegers <sup>2</sup> and F A Sonn
Group Credit Committee	→ D C Brink, B P Connellan, A S du Plessis <sup>4</sup> , G Marcus and T S Munday
Credit Committee: Large Exposures	→ S F Booysen, D C Brink, B P Connellan, A S du Plessis <sup>4</sup> , G Marcus (Chairperson), T S Munday and J H Schindehütte
Board Finance Committee	→ D C Brink, A S du Plessis <sup>4</sup> , R A Jenkins <sup>1</sup> and G Marcus (Chairperson)
Implementation Committee	→ B P Connellan, G Griffin (Chairperson), G Marcus and F F Seegers <sup>2</sup>
Acquisition Committee: Barclays Africa	→ D C Brink, A S du Plessis <sup>4</sup> , G Marcus (Chairperson), E C Mondlane, Jr. <sup>3</sup> and T S Munday

<sup>1</sup>British. <sup>2</sup>Dutch. <sup>3</sup>Mozambican. <sup>4</sup>Resigned on 31 December 2007. <sup>5</sup>Resigned on 9 January 2008. <sup>6</sup>Resigned on 11 March 2008.

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



**Age:** 53

**Qualifications:** BA (Hons),  
MSc (Sociology)

**Year appointed:** 2004

**Independence:** Non-executive  
director

### L N (NTHOBI) ANGEL

#### Absa board committee memberships

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

#### Other directorships/trusteeships

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

#### Skills, expertise and experience

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

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

### D C (DES) ARNOLD

#### Absa board committee memberships

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

#### Other directorships/trusteeships

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

#### Skills, expertise and experience

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

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

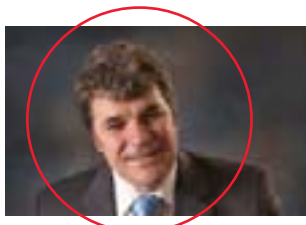


**Age:** 67

**Qualifications:** CA(SA), FCMA, AMP

**Year appointed:** 2003

**Independence:** Independent director



**Age:** 45

**Qualifications:** DCom (Acc), CA(SA)

**Title:** Group Chief Executive

**Year appointed:** 2004

**Independence:** Group executive  
director

### S F (STEVE) BOOYSEN

#### Absa board committee memberships

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

#### Other directorships/trusteeships

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

#### Skills, expertise and experience

After completing his articles with Ernst & Young (1980 –1983), Dr Booysen became a senior lecturer in accounting at the University of South Africa (1983 –1988). He joined the Group in 1988 and held various positions in the Group until he was appointed as Group Chief Executive of Absa in August 2004.

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

# The Group board



**Age:** 68

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

**Title:** Deputy Chairperson

**Year appointed:** 1992

**Independence:** Independent director

## D C (DAVE) BRINK

### Absa board committee memberships

- Directors' Affairs Committee
- Group Remuneration and Human Resource Committee (Chairperson)
- Group Credit Committee
- Credit Committee: Large Exposures
- Board Finance Committee
- Acquisitions Committee: Barclays Africa

### Other directorships/trusteeships

Mr Brink is a director of Sappi Limited. He is a trustee of the Absa Foundation and Chairperson of the Absa Group Retirement Fund. He is Co-Chairperson of the Business Trust, a director of the National Business Initiative and Vice-President of the South African Institute of Directors.

### Skills, expertise and experience

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

## B P (BRIAN) CONNELLAN

### Absa board committee memberships

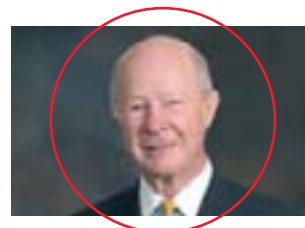
- Group Remuneration and Human Resource Committee
- Group Credit Committee
- Credit Committee: Large Exposures
- Implementation Committee

### Other directorships/trusteeships

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

### Skills, expertise and experience

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



**Age:** 67

**Qualifications:** CA(SA)

**Year appointed:** 1994

**Independence:** Independent director



**Age:** 30

**Qualifications:** BCom (Stats), BCom  
(Hons) (Acc), CA(SA)

**Year appointed:** 2006

**Independence:** Non-executive  
director

## Y Z (YOLANDA) CUBA

### Absa board committee memberships

- Group Audit and Compliance Committee

### Other directorships/trusteeships

Yolanda is a director of Mvelaphanda Group Limited, Total Facilities Management Company (Proprietary) Limited and Life Healthcare (Proprietary) Limited. She is a member of the Nelson Mandela Foundation Investment and Endowment Committee.

### Skills, expertise and experience

In 1999, Ms Cuba commenced her career in marketing with Robertsons Foods. Thereafter, she moved to Fisher Hoffman, an auditing firm, where she completed her articles in 2002. She joined Mvelaphanda in January 2003 in its corporate finance division. She was appointed as Deputy Chief Executive Officer prior to being appointed as the Chief Executive Officer of Mvelaphanda Group Limited in July 2007.





## A S (ATTIE) DU PLESSIS

**Age:** 63

**Qualifications:** BCom, CA(SA), HDip Tax, AMP

**Year appointed:** 1992

**Independence:** Independent director

### Absa board committee memberships

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

### Other directorships/trusteeships

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

### Skills, expertise and experience

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

## G (GARTH) GRIFFIN

### Absa board committee memberships

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

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

### Other directorships/trusteeships

He is Chairperson of two privately held companies based in Cape Town and is a trustee of the University of Cape Town Foundation.

### Skills, expertise and experience

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

He has consulted to a number of South African and international businesses, including Orbis, Investec Asset Management and Old Mutual plc and served as a non-executive director on a number of boards in the financial services sector, including Sage Group plc, Swiss Re of South Africa and Citadel Holdings. Mr Griffin was Group Chief Executive Officer of the Sage Group from April 2003 to May 2005.

He is currently President of the Actuarial Society of South Africa.



**Age:** 58

**Qualifications:** BSc, FIA, FASSA

**Year appointed:** 2001

**Independence:** Independent director



## M W (MONHLA) HLAHLA

### Absa board committee memberships

- Group Risk and Capital Management Committee

### Other directorships/trusteeships

Ms Hlahla is a non-executive director of Air Traffic and Navigation Services and the Industrial Development Corporation. She is the second Vice-Chairperson and special adviser to the Chairperson of the Airports Council International World Governing Body.

### Skills, expertise and experience

Ms Hlahla completed her studies in the United States of America. During her studies she also worked at the Coalition for Women's Economic Development in Los Angeles, a provider of micro-loans to woman entrepreneurs in the greater Los Angeles area.

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

**Age:** 44

**Qualifications:** BA (Hons) (Economics), MA (Urban and regional planning)

**Year appointed:** 2005

**Independence:** Independent director

## The Group board



### R A (ROGER) JENKINS

#### Absa board committee memberships

- Board Finance Committee

#### Skills, expertise and experience

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

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

**Age:** 52

**Qualifications:** BA (Economics)  
Member of the Institute of Bankers (ACIB, DipFS)

**Year appointed:** 2007

**Independence:** Non-executive director

### L N (LOURENS) JONKER

#### Absa board committee memberships

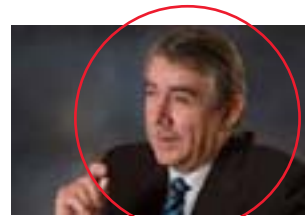
- Directors' Affairs Committee

#### Other directorships/trusteeships

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

#### Skills, expertise and experience

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



**Age:** 68

**Qualifications:** BSc (Agric)

**Year appointed:** 1996

**Independence:** Independent director



### R (ROBERT) LE BLANC

#### Absa board committee memberships

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

#### Other directorships/trusteeships

Mr Le Blanc is a member of the board of directors of Barclays Global Investors.

#### Skills, expertise and experience

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

**Age:** 51

**Qualifications:** MSc, MBA

**Year appointed:** 2007

**Independence:** Non-executive director



## N P (PETER) MAGEZA

### Absa board committee memberships

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

### Skills, expertise and experience

Mr Mageza is a fellow of the Association of Chartered Certified Accountants (ACCA) and is the Group's Chief Operating Officer.

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

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

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

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

**Age:** 53

**Qualifications:** ACCA

**Year appointed:** 2007

**Independence:** Group executive director

## G (GILL) MARCUS

### Absa board committee memberships

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

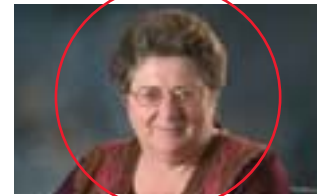
### Other directorships/trusteeships

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

### Skills, expertise and experience

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

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



**Age:** 58

**Qualifications:** BCom

**Title:** Chairperson

**Year appointed:** 2007

**Independence:** Independent director

## The Group board



**Age:** 50

**Qualifications:** Political Science  
Extension Student UCLA

**Year appointed:** 2007

**Independence:** Non-executive  
director

### E C (EDUARDO) MONDLANE, JR.

#### Absa board committee memberships

- Acquisitions Committee: Barclays Africa

#### Other directorships/trusteeships

Mr Mondlane is the Managing Director of Ninham Shand Mozambique Lda.

#### Skills, expertise and experience

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

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

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

### T S (TREVOR) MUNDAY

#### Absa board committee memberships

- Group Audit and Compliance Committee
- Credit Committee: Large Exposures
- Acquisitions Committee: Barclays Africa
- Group Credit Committee

#### Other directorships/trusteeships

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

#### Skills, expertise and experience

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

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

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



**Age:** 58

**Qualifications:** BCom

**Year appointed:** 2007

**Independence:** Independent director



### J H (JACQUES) SCHINDEHÜTTE

**Age:** 48

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

**Year appointed:** 2005

**Independence:** Group executive director

#### Absa board committee memberships

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

#### Other directorships/trusteeships

Jacques is a director of various companies in the Absa Group.

#### Skills, expertise and experience

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

### F F (FRITS) SEEGER

#### Absa board committee memberships

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

#### Other directorships/trusteeships

Mr Seegers is an executive director on the boards of Barclays PLC and Barclays Bank PLC.

#### Skills, expertise and experience

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

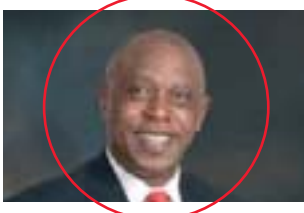


**Age:** 49

**Qualifications:** Master's degrees in engineering and finance

**Year appointed:** 2006

**Independence:** Non-executive director



### T M G (TOKYO) SEXWALE

#### Absa board committee memberships

- Directors' Affairs Committee

#### Other directorships/trusteeships

Mr Sexwale is the Executive Chairperson of Mvelaphanda Holdings (Proprietary) Limited and Mvelaphanda Group Limited and a director of Mvelaphanda Resources Limited and of Gold Fields Limited. He is a trustee of the Nelson Mandela Foundation and Chancellor of the Vaal University of Technology, as well as a trustee of the Desmond Tutu Peace Trust.

#### Skills, expertise and experience

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

**Age:** 54

**Qualifications:** Certificate in Business Studies

**Year appointed:** 2001

**Independence:** Non-executive director

# The Group board



## F A (FRANKLIN) SONN

### Absa board committee memberships

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

### Other directorships/trusteeships

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

### Skills, expertise and experience

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

**Age:** 68

**Qualifications:** BA (Hons), PTD, FIAC

**Year appointed:** 1999

**Independence:** Independent director

## P E I (PETER) SWARTZ

### Absa board committee memberships

- Group Risk and Capital Management Committee

### Other directorships/trusteeships

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

### Skills, expertise and experience

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



**Age:** 66

**Qualifications:** Advanced Primary Teacher's Diploma

**Year appointed:** 1994

**Independence:** Independent director



## L L (LOUIS) VON ZEUNER

### Absa board committee memberships

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

### Other directorships/trusteeships

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

### Skills, expertise and experience

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

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

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

**Age:** 46

**Qualifications:** BEcon

**Year appointed:** 2004

**Independence:** Group executive director

# The Group Executive Committee

## Introduction

The Group Executive Committee (Exco), comprises the Group's executive directors and other members of the executive management of Absa and of the Group's major subsidiary, Absa Bank. The committee meets, as a general rule, once a week and deals with all material matters relating to the implementation of the agreed strategy, the monitoring of performance and the consideration of company policies.

### THE YEAR UNDER REVIEW

A number of developments impacted the membership of Group Exco during the year under review. These included:

- the appointment of W T Lategan on 1 January 2007;
- the resignation of R East on 2 August 2007; and
- the resignation of D Bruynseels on 21 August 2007.

### ABSA GROUP EXECUTIVE COMMITTEE DETAILS AS AT 31 DECEMBER 2007



**Age:** 45  
**Qualifications:** DCom (Acc), CA(SA)  
**Title:** Group Chief Executive  
**Tenure at Absa:** 19 years (appointed 1988)

#### S F (STEVE) BOOYSEN

**Year appointed as an Executive Committee member**  
2001

**Areas of responsibility**  
Steve is the Absa Group Chief Executive.

**Skills, expertise and experience**  
After completing his articles with Ernst & Young (1980 – 1983), Steve became a senior lecturer in accounting at the University of South Africa (1983 – 1988). He joined the Absa Group in 1988 and held various positions in the Group until he was appointed as Group Chief Executive of Absa in August 2004.  
He is an honorary professor in the School of Accounting at the University of Pretoria.

# The Group Executive Committee

## Z B M (ZARINA) BASSA

Year appointed as an Executive Committee member

2005

### Areas of responsibility

Zarina was responsible for Absa Private Bank and Islamic Banking. Subsequent to year-end, Zarina became the Vice-Chairperson of Absa's retail banking operations.

### Skills, expertise and experience

Zarina commenced her career at Ernst & Young in 1986. In 1989 she was seconded to Ernst & Young London for three years, where she worked with a number of the firm's key multinational customers.

Zarina returned to South Africa in 1992 and was appointed as a senior manager in Ernst & Young's accounting and auditing technical department. In 1996 she was appointed as a partner at Ernst & Young and in 1998 as the Chief Operating Officer of Ernst & Young Africa Group.

In 2002, Zarina joined Absa as Managing Executive: Retail Banking Services. In February 2005, she became Managing Executive of Absa Private Bank. She was appointed to Absa's Executive Committee in July 2005.

### Participation in external entities

She has, over the years, served on the boards of the South African Institute of Chartered Accountants (SAICA) and the Unisa Foundation. She also served as Vice-President and Chairperson of the Association for the Advancement of Black Accountants (ABASA) and as Chairperson of the Public Accountants' and Auditors' board.



**Age:** 43

**Qualifications:** BAcc, CA(SA)

**Tenure at Absa:** Six years  
(appointed 2002)

## R R (ROBERT) EMSLIE

Year appointed as an Executive Committee member

2004

### Areas of responsibility

Robert is responsible for Absa Corporate and Business Bank, Real Estate Asset Management, Absa Development Company Holdings (Proprietary) Limited and the Group's African operations.

### Skills, expertise and experience

Robert commenced his career as a lecturer at the then Rand Afrikaans University (now the University of Johannesburg) focusing on accountancy and taxation. He joined the Absa Group in 1987 as the head of Taxation for the Bankorp Group. He has held numerous positions in the Group's finance department.

From 1998 until 2000, Robert was a member of Absa Corporate and Merchant Bank's (now Absa Capital) Executive Committee and was responsible for volume transactional products and the back office environment.

In 2000, he was appointed as the Managing Executive responsible for Business Banking Services and in 2003, he became the Managing Executive of Absa Corporate and Merchant Bank. In 2005, he took responsibility for the Group's corporate and business banking operations.



**Age:** 49

**Qualifications:** BCom (Hons),  
CA(SA)

**Tenure at Absa:** 20 years  
(appointed 1987)



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## V J (VENETE) KLEIN

Year appointed as an Executive Committee member

2005

### Areas of responsibility

Venete is responsible for Sales and Service, Customer Markets and Solutions, as well as a number of Group functions, including Group Customer Experience and Group Service Innovation. Subsequent to year-end, she also became responsible for Absa Private Bank.

### Skills, expertise and experience

Prior to joining the Absa Group, Venete worked for various financial services institutions.

She joined Absa in June 2003 as head of Agriculture. Her portfolio grew to include franchising, consumables, black business, banking to women-owned business and medium business. In January 2005, she was appointed as Deputy Managing Executive: Business Banking Services. Her portfolio was expanded to include the public sector. Venete was appointed as a member of the Group Executive Committee in July 2005.

### Participation in external entities

Venete is a director of the Office of the Ombudsman for Banking Services, Deputy Vice-President of the Afrikaanse Handelsinstituut (AHI), economic adviser to the premier of the North West, a trustee of the Absa Foundation and the Community Impact Trust and a member of the International Policy Commission.

She serves on a number of bodies appointed by the Minister of Finance, namely:

- the standing committee for the Short-term Insurance Act;
- the standing committee for the Revision of the Banks Act 1990;
- the policy board for Financial Services and Regulation; and
- the task team – South Africa, Regional Financial Centre of Africa.



**Age:** 49

**Qualifications:** Graduate of various senior executive programmes (including Harvard, MIT, Insead, IMD and Wits)

**Tenure at Absa:** Four years (appointed June 2003)



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## W T (WILLIE) LATEGAN

Year appointed as an Executive Committee member

2007

### Areas of responsibility

Willie is responsible for Absa's bancassurance operations (Absa Investments, Absa Life Limited, Absa Insurance Company Limited, Absa Fiduciary Services and Absa Brokers (Proprietary) Limited).

### Skills, expertise and experience

In May 1995, Willie was appointed as an actuary at Absa Consultants and Actuaries.

He was then appointed as General Manager of Operations at Absa Life in 1997 and as Managing Director of Absa Life in 2001. In December 2005, he was appointed Managing Executive of Absa Financial Services:

Corporate and in 2007 as Chief Executive: Absa Financial Services, responsible for the Group's bancassurance operations.

### Participation in external entities

Willie is a director of the Life Offices' Association (LOA). He is also a member of the Actuarial Training Programme steering committee at the Unit for Business Mathematics and Informatics (University of North West).

**Age:** 39

**Qualifications:** BCom (Hons), FFA

**Tenure at Absa:** 12 years (appointed 1995)

# The Group Executive Committee

## N P (PETER) MAGEZA

Year appointed as an Executive Committee member

2003

### Areas of responsibility

Peter is the Group Chief Operating Officer. He is responsible for overseeing the Group's support functions: Group Strategy and Planning, Group Change and Support Services, Group Information Technology, Information Management, Group Communication and Public Relations, Group Black Economic Empowerment, Government Relations and Corporate Social Responsibility, Group Human Resources, Group Sourcing and Support Services and Group Operations.

### Skills, expertise and experience

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

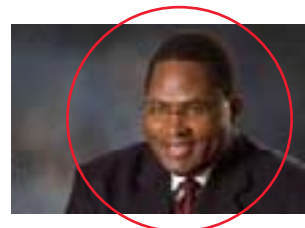
In 1998, Peter moved to the financial services sector, joining Nedcor Bank Limited's Technology and Operations Process Management division.

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

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

### Participation in external entities

He is a fellow of the Association of Chartered Certified Accountants (ACCA) and is a member of the Johannesburg Rotary Club.



**Age:** 53

**Qualifications:** ACCA

**Tenure at Absa:** Seven years (appointed 2000)

## V (ALFIE) NAIDOO

Year appointed as an Executive Committee member

2005

### Areas of responsibility

Alfie is responsible for Small Business and Micro-Enterprise Finance, Micro-Lending, Telephony, Digital Channels, Venture and Alliances and AllPay Consolidated Investment Holdings (Proprietary) Limited. Subsequent to year-end he also became responsible for Absa Islamic Banking.

### Skills, expertise and experience

Alfie joined Absa Bank in September 2001 in the position of Managing Executive: Electronic Channels, with the responsibility of developing, managing and growing the market of the Group's electronic channel offerings, including the internet, mobile, contact centre and ATM environments.

In 2004, he assumed responsibility for Absa Card and in March 2005, he was appointed as a member of the Absa Group Executive Committee, with responsibility for customer segments and payment systems.

In 2007, Alfie was appointed to the portfolio of businesses for which he currently holds responsibility.

Alfie has a background in technology, business management and sales, with career experience in the manufacturing, consulting and high-tech industries. He has spent more than 10 years working on and leading large-scale transformation initiatives for local and international customers in the financial services, mining, retail, telecommunications and electricity industries.

### Participation in external entities

He represents Absa's interests on various industry bodies and in various joint ventures.



**Age:** 39

**Qualifications:** BSc

**Tenure at Absa:** Six years (appointed 2001)

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## J H (JACQUES) SCHINDEHÜTTE

Year appointed as an Executive Committee member

2005

### Areas of responsibility

Jacques is responsible for Group Investor Relations, Group Finance, the General Legal Counsel, Group Secretariat, Corporate Development, Capital Management, Portfolio Optimisation Analytics and the Group's productivity and efficiency programme (PEP). During 2007, he was responsible for the Group's risk portfolio, which included Operational Risk, Compliance and Market Risk. David Hodnett, who was appointed as the Group's Risk Director in January 2008, has subsequently taken responsibility for the Group's risk portfolio.

### Skills, expertise and experience

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



**Age:** 48

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

**Tenure at Absa:** Seven years (appointed 1999)



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## J F (JOHN) VITALO

Year appointed as an Executive Committee member

2005

### Areas of responsibility

John is responsible for Absa Capital.

### Skills, expertise and experience

John joined Barclays Capital in 2002 as Chief Operating Officer of Global Emerging Markets before moving into the position of Chief Operating Officer of Rates (which included Fixed Income, FX, Equities, Commodities, Collateralised Finance, Emerging Markets and Money Markets). Prior to this, he was with Credit Suisse First Boston as director of e-Commerce for Emerging Markets. He previously held a number of other positions at Credit Suisse First Boston, including proprietary trader for the emerging markets group and global head of the emerging markets repo desk.

John is a graduate of Georgetown University, where he received a Bachelor of Science degree in Business Administration in 1990. He is also a veteran of the US Marine Corps (1982 – 1986), having served in Beirut, where he was awarded the Combat Action Ribbon.

John joined the Absa Group Executive Committee as executive director of Absa Corporate and Merchant Bank (now Absa Capital) upon the completion of the acquisition by Barclays of a majority stake in the Group on 27 July 2005.

**Age:** 43

**Qualifications:** BSc

**Tenure at Barclays:** Five years (appointed 2002)

# The Group Executive Committee

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## L L (LOUIS) VON ZEUNER

Year appointed as an Executive Committee member

2001

### Areas of responsibility

Louis is responsible for the Retail Bank, Absa Home Loans, Absa Card, Absa Vehicle and Asset Finance, Credit Operations and Delivery and Group Marketing.

### Skills, expertise and experience

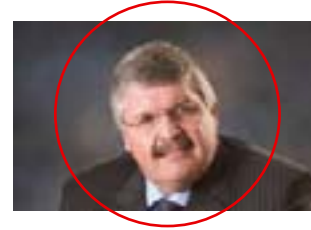
Louis's first position was that of a clerk in the Goodwood branch of Volkskas in 1981. He worked in the branch system until 1995, by which time he had been branch manager of four branches: Wynberg (1989 – 1990), Cape Town (1990 – 1991), Old Paarl Road (1991 – 1992) and Stellenbosch (1992 – 1995).

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

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

### Participation in external entities

Louis serves on the boards of the Banking Association South Africa, Section 21 Housing Company, MasterCard, and the SA Payments Strategy Association.



**Age:** 46

**Qualifications:** BEcon

**Tenure at Absa:** 26 years  
(appointed 1981)

# RISK MANAGEMENT AND COMPLIANCE

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# Risk management report

## Introduction

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.

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 (GRCCM). The GACC assists the board with regard to financial information, accounting policies, internal control and compliance matters. The GRCCM'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.

# Risk management report

- 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 GRMC, 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.

# Risk management report

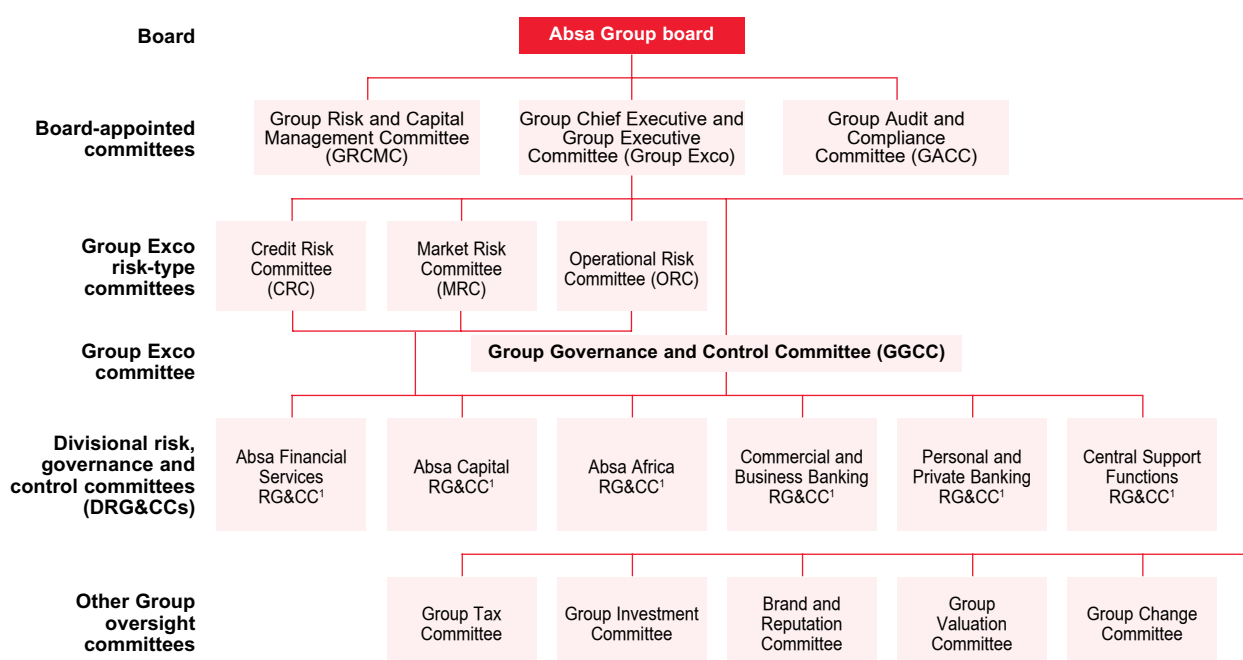
## FRAMEWORK FOR INTEGRATED RISK MANAGEMENT

### Risk governance

Risk governance refers to the approach that balances the demands for entrepreneurship, control and transparency, while supporting Absa's objectives with an efficient decision-making process. Formal risk governance processes are established in Absa, whereby the management of risk in Absa is guided and monitored by a number of committees.

### Risk governance structure

The main elements of Absa's risk governance structure are shown below:



<sup>1</sup>Risk Governance and Control Committee.

The most influential role players in the risk management framework (as indicated in the governance structure) and their responsibilities are:

### Absa Group board and board committees

Information regarding Absa's board and its various committees can be found in the corporate governance statement on page 76 of this report.

### Group Chief Executive

Absa's Group Chief Executive (GCE) is appointed by the Absa Group board to manage, with the assistance of Group Exco, Absa's business within an acceptable risk profile, while achieving sustainable profits. From a risk control perspective, the Absa GCE is required to ensure that the PRP is adhered to. From a risk management perspective he is responsible to monitor and ensure that (inter alia):

- all risks are managed within the approved risk appetite;
- the various risk profiles of Absa are understood and appropriately managed (including the risk profiles of proposed new initiatives, ventures, products/services and major projects which may impact on Absa's risk/reward profile);

- appropriate internal controls are in place, which are achieved by developing and providing a strong control environment;
- risk control frameworks and supporting risk management policies are approved and are in place from a Group and divisional/subsidiary perspective;
- reporting systems pertaining to risk management and control are adequate, accurate and effective;
- risk is taken into account in long-term plans and investments; and
- risks are reported to the GRCMC, GACC and the board on a regular basis.

#### ***Group Governance and Control Committee (GGCC)***

The GGCC is a Group Exco committee that assists Group Exco and the GACC through oversight of the design and operation of the internal control framework in Absa. The committee meets quarterly and is responsible for the design and operation of Absa's control framework, communication of the framework and its contents, independent assurance and escalation of issues. The GGCC reviews control issues escalated from the divisional risk governance and control committees (DRG&CCs) incorporated in the control issues of Group significance (CIGLS) report.

#### ***Divisional/subsidiary risk, governance and control committees (DRG&CCs)***

DRG&CCs were established by the Absa GCE to assist Group Exco, the GACC and the GRCMC to discharge their responsibilities from a business unit perspective. It is the overall responsibility of Group Risk to assist business unit heads with the effective functioning of the divisional/subsidiary risk governance structures in accordance with Absa's risk management framework.

#### ***Group Exco risk-type committees***

The Credit Risk Committee (CRC), Market Risk Committee (MRC) and Operational Risk Committee (ORC) are committees established by Group Exco to manage the credit, market and operational risk-reward profiles of the Absa Group respectively. The committees convene monthly with the overall objective of aligning developments in the three risk areas with the requirements of Basel II and ensuring that the risk type risk-reward profile supports the overall risk appetite of Absa.

#### ***Other oversight committees***

Absa has established a number of committees with oversight of specialised areas such as investments, taxation and actuarial valuation in the long-term insurance business. These committees convene either monthly or quarterly.

#### ***Specialist functions and shared services***

Absa's operating model is designed to obtain maximum operational efficiency from a number of shared services in the Group. Specialist functions, aided by specialist committees, assist with risk management, including strategic investment activities. These operate according to clear governance guidelines.

# Risk management report

The main functions with specialised knowledge are listed below, together with the principal risk areas in which they are primarily involved.

<b>FUNCTION</b>	<b>PRINCIPAL RISK AREA INVOLVED IN</b>
Absa Internal Audit	Internal audit assurance and advisory.
Group Strategy and Planning	Strategic risk.
Group Change and Support Services	Major change programme risk.
Group Information Technology and Information Management	Technology; operational risk pertaining to information and systems.
Group Marketing	Brand risk.
Group Communication and Public Relations	Brand risk.
Group Black Economic Empowerment (BEE)	Brand and regulatory risk.
Government Relations and Corporate Social Investment (CSI)	Brand and reputation risk.
Group Human Resources	People risk, operational risk pertaining to people.
Group Sourcing and Support Services	Operational risk pertaining to sourcing and logistical processes.
Group Operations	Operational risk, operational risk pertaining to processes.
Group Economic Research	Operational risk pertaining to incorrect economic analyses and forecasts.
Group Investor Relations	Brand and regulatory risk.
Group Finance	Financial reporting, tax and regulatory risk.
General Legal Counsel	Legal risk and regulatory risk.
Group Secretariat	Compliance and governance risk.
Corporate Development	Brand risk.
Group Treasury	Market risk pertaining to asset and liability interest rate risk, liquidity risk and capital risk.
Absa Risk	Credit risk, market risk, operational risk, strategic investment risk and financial crime risk.
Group Compliance	Regulatory risk, operational risk pertaining to anti-money-laundering monitoring.
Absa Investments, Absa Life, Absa Insurance Company and Absa Fiduciary Services	Underwriting and investment risk.

## Risk management responsibility and accountability

The responsibility for risk management resides at various levels, from members of the board to individuals throughout Absa, and is governed by the PRP. Associated risk management control frameworks and policies are established on a comprehensive, organisation-wide basis by senior management, reviewed and where appropriate, approved by the board of directors.

The control frameworks, policies, appetites and tolerances are clearly communicated throughout Absa and apply to all business units in the various divisions, wholly owned subsidiaries, as well as non-wholly owned subsidiaries and majority equity stakes over which Absa has management control.

### **Board and executive management responsibility**

The Absa Group board is responsible for annually approving Absa's risk appetite. This risk appetite is translated into risk limits per business unit and per risk type. Adherence to these limits is monitored and reported monthly and culminates in a risk-reward profile for Absa. Details of the risk appetite methodology are provided further on in this report.

Risk appetite does not specifically address all types of operational risk, inadequate corporate governance processes, reputation risk and long-term strategic risk. These risks are addressed in Absa's risk management framework.

### **Business unit/subsidiary accountability**

Business units/subsidiaries are accountable for managing the risks associated with their activities within established and approved tolerance limits, as well as for the results, both positive and negative, of taking those risks. In discharging this responsibility, business units are assisted by Absa's independent risk management division (Group Risk). Oversight is provided by the DRG&CCs.

### **Independent risk function**

Group Risk is an independent specialist function accountable to the GRCCM, and in certain areas to the GACC. The activities of this division are evaluated and governed by the Absa GCE through the effective functioning of the CRC, MRC, ORC and the DRG&CCs.

The risk division is responsible for ensuring that an integrated and effective risk management framework is maintained throughout Absa. Group Risk comprises a number of specialist risk management areas, chiefly credit, market, operational, insurance and investment risk, as well as the compliance and forensic services functions. External validations of Group Risk and Absa's risk management frameworks are performed by independent external parties.

### **Risk management and control**

The pinnacle of the Absa framework is outlined by the board-approved PRP, which 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 using the five-step process described below. Eighteen principal risks are identified as relevant to Absa's business and form the cornerstone for the internal control environment. These risks have been highlighted earlier in this report.

### **Risk management process**

Integrated, structured risk assessments take place across all risk types and businesses in accordance with the established risk management framework. Monitoring is done through ongoing processes built into the normal, recurring operating activities of Absa, as well as internal and external audit recommendations. All risks are comprehensively and regularly reported across Absa. The five-step process of directing, assessing, controlling, reporting and managing/challenging is followed, as described below.

#### **Direct**

- Understand the principal risks to achieving Absa's strategy.
- Establish the risk appetite.
- Establish and communicate the risk management framework including responsibilities, authorities and key controls.

#### **Assess**

- Establish the process for identifying and analysing business-level risks.
- Agree and implement measurement and reporting standards and methodologies.

# Risk management report

## Control

- Establish key control processes and practices, including limit structures, provisioning criteria and reporting requirements.
- Monitor the operation of the controls and adherence to risk direction and limits.
- Provide early warning of control or appetite breaches.
- Ensure that risk management practices and conditions are appropriate for the business environment.

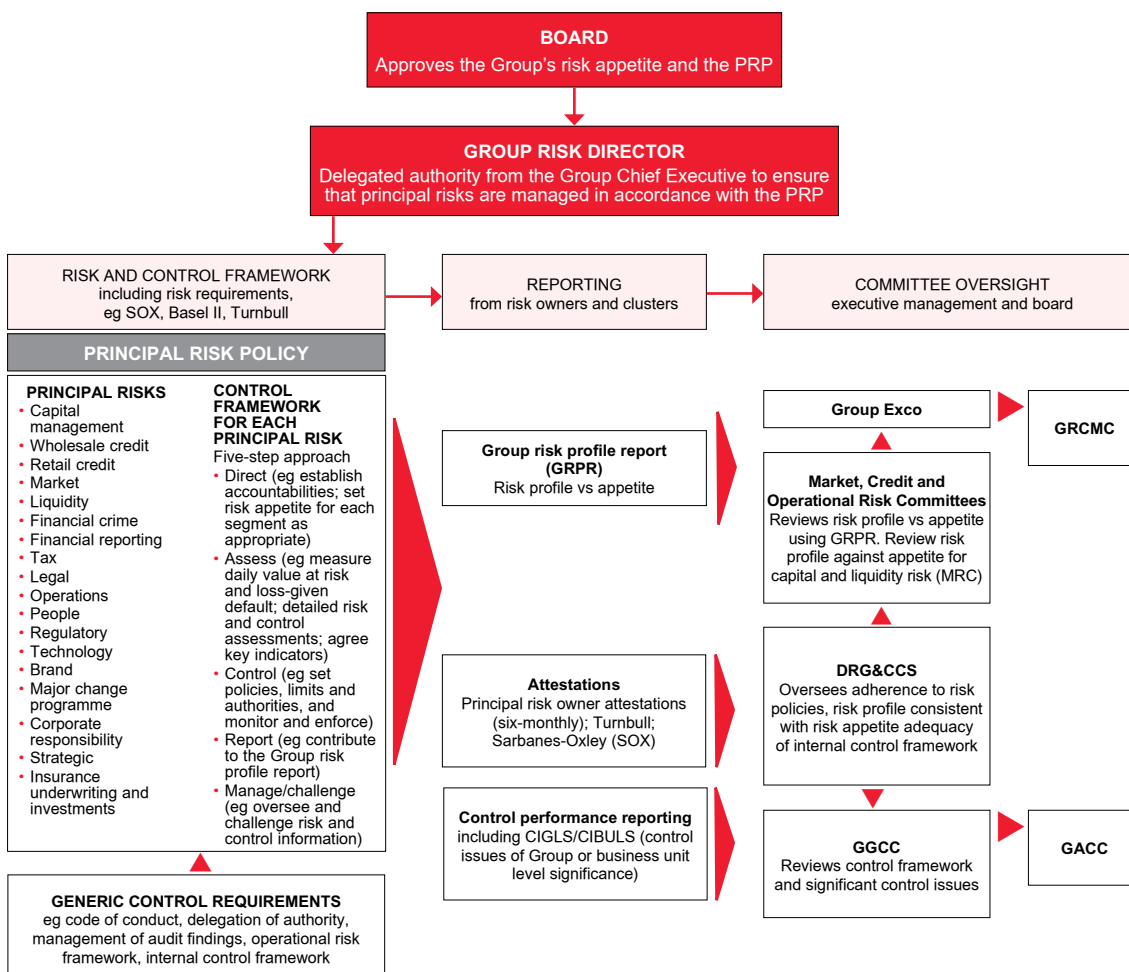
## Report

- Interpret and report on risk exposures, concentrations and risk-taking outcomes.
- Interpret and report on sensitivities and key risk indicators.
- Communicate with external parties.

## Manage/challenge

- Review and challenge all aspects of Absa's risk profile.
- Assess new risk-return opportunities.
- Advise on optimising Absa's risk profile.
- Review and challenge risk management practices.

The relationship between the risk and control framework and the various committees providing the oversight via the established risk governance structures is depicted in the following diagram:



## **Risk appetite**

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

### **Risk appetite methodology**

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 believes that this enables it to improve risk and return characteristics across the business and help meet growth targets within an overall risk appetite.

Absa remains committed to the objective of increasing shareholder value by developing and growing business that is consistent with its risk appetite, and by building more effective risk management capabilities. Absa seeks an appropriate balance in its business and aims to continue to build the risk management capabilities that will help the Group to deliver its growth plans in a controlled environment.

Absa's framework, approved by the GRCMC, combines a top-down view of its capacity to take risk, with a bottom-up view of the business risk profile requested and recommended by each business area.

The objectives of the risk appetite framework are to:

- help protect Absa's performance;
- enable unused risk capacity to be identified and thus profitable opportunities to be highlighted;
- improve management confidence and debate regarding Absa's risk profile; and
- help executive management improve control and coordination of risk-taking across businesses.

The risk appetite framework considers credit, market, operational, liquidity, investment and insurance underwriting risk and is applied using two perspectives: "earnings volatility" and "mandate and scale".

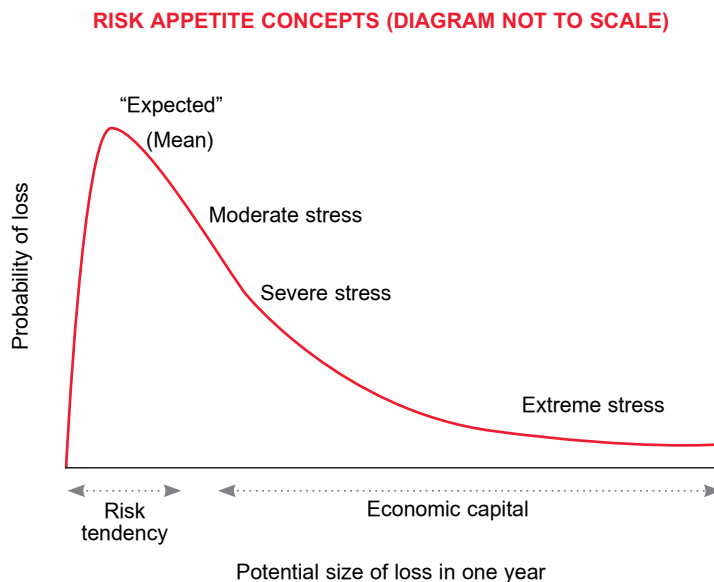
### **Earnings volatility**

This is the level of potential deviation from expected financial performance that Absa is prepared to sustain at relevant points on the risk profile. It is established with reference to the strategic objectives and to Absa's business plans, including the achievement of annual financial targets, payment of dividends, funding of growth and maintenance of acceptable capital ratios. The portfolio is analysed in this way at four representative levels:

- Expected performance (including the average credit losses, based on measurements over many years).
- A moderate stress level of loss that is likely to occur only infrequently and is meant to correspond to a macroeconomic cycle.
- A severe stress level of loss, which is much less likely.
- An extreme but highly improbable stress level of loss, which is used to determine Absa's economic capital (EC).

# Risk management report

These ascending, but increasingly less likely, levels of loss are illustrated in the following chart:



## **Mandate and scale**

This second perspective is a risk management approach that seeks to formally review and control Absa's business activities to ensure that they are within its mandate (ie aligned to the expectations of external stakeholders) and are of an appropriate scale (relative to the risk and reward of the underlying activities). This is achieved by using limits and triggers to avoid concentrations and operational risks that could lead to unexpected losses of a scale that would result in a disproportionate drop in Absa's market capitalisation.

Taken as a whole, the risk appetite framework provides a basis for the allocation of risk capacity to each business. Since the level of loss at any given probability is dependent on the portfolio of exposures in each business, the statistical measurement for each key risk category gives Absa clearer sight and better control of risk-taking throughout the enterprise.

The risk appetite framework is designed to be:

- simple and practical, to assist in the measurement and monitoring of exposures;
- geared to risk-return, where capacity is directly related to opportunity;
- based on a top-down capacity for earnings volatility;
- based on the bottom-up identification of risk factors in each business;
- relevant, recognising the impact and likelihood of losses; and
- aggregated across businesses where appropriate.



### ***Stress testing***

The risk appetite numbers are validated by estimating Absa's sensitivity to adverse changes in the business environment and include operational events that impact Absa as a whole by using stress testing and scenario analysis. For instance, changes in certain macroeconomic variables represent environmental stresses that may reveal systemic credit and market risk sensitivities in the Group's retail and wholesale portfolios. The recession scenarios considered incorporate changes in macroeconomic variables, including:

- weaker gross domestic product;
- lower employment levels;
- higher interest rates;
- a shift in the interest rate curve;
- lower equity prices; and
- weaker property prices.

Such "Group-wide" stress tests allow senior management to gain a better understanding of how portfolios are likely to react to changing economic and geopolitical conditions and how Absa can best react to them. The stress test simulates the balance sheet and profit and loss effects of stresses across Absa, investigating the impact on profits and the ability to maintain appropriate capital ratios. Insights gained are fully integrated into the senior management process and the risk appetite framework. This process of analysis and senior management oversight also provides the basis for fulfilling the stress testing requirements of the Basel II advanced approach.

This "Group-wide" stress testing is only one of a number of stress test analyses that are performed as part of the wider risk management process. Specific stress test analysis is used across all risk types to gain a better understanding of the risk profile and the potential effects of changes in external factors. These stress tests are performed at a range of different levels, from analysis covering specific stresses on individual subportfolios (eg high-value mortgages), to portfolio level stresses (eg the overall commodities portfolio).

### ***Capital and performance measurement***

A common approach to assessing the creation of shareholder value is applied across Absa. This is measured by risk-adjusted value added (the profit attributable to shareholders excluding the interest-free benefit of equity, less a notional charge, calculated at a risk-adjusted rate, for the EC invested in the business). The focus on value added allows Absa to compare the returns being made on capital employed in each business.

The use of EC and regulatory capital with greater risk sensitivity is closely monitored at a business and Group level.

## **Absa's risk capital model covers credit, market, operational, insurance, business risks, fixed assets and private equity.**

### ***Economic capital (EC)***

Absa assesses capital requirements by measuring its risk profile using both internally and externally developed models. Absa assigns EC primarily within seven risk categories: credit risk, market risk, business risk, operational risk, insurance risk, fixed assets and private equity.

Absa regularly enhances its EC methodology and benchmarks outputs to external reference points. The framework reflects default probabilities during average credit conditions, rather than those prevailing at the balance sheet date, thus removing cyclicity from the EC calculation. EC for wholesale credit risk includes counterparty credit risk arising as a result of credit risk on traded market exposures. The framework also adjusts EC to reflect time horizon, correlation of risks and risk concentrations.

# Risk management report

EC is allocated on a consistent basis across all of Absa's businesses and risk activities. A single cost of equity is applied to calculate the cost of risk. EC allocations reflect varying levels of risk.

The total average EC required by Absa, as determined by risk assessment models and after considering Absa's estimated portfolio effects, is compared with the supply of EC to evaluate EC utilisation. Supply of EC is calculated as the average available shareholders' equity after adjustment and including non-redeemable non-cumulative preference shares but excluding other minority interests.

Absa's EC calculations form the basis of the Group's submission for the Basel II internal capital adequacy assessment process.

## *Economic capital supply*

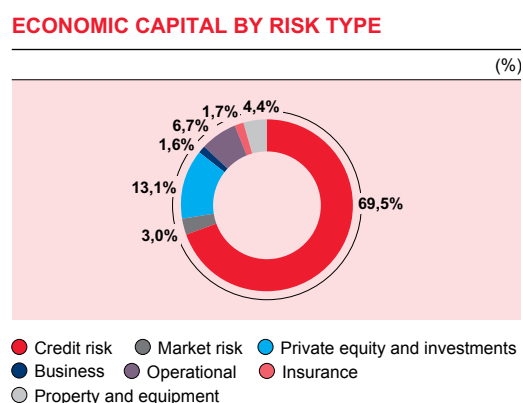
EC is impacted by a number of factors that have arisen with the application of IFRS and are modified in calculating available funds for EC. This applies specifically to:

- Cash flow hedging reserve – To the extent that Absa undertakes the hedging of future cash flows, shareholders' equity will include gains and losses that will be offset against the gain or loss on the hedged item when it is recognised in the income statement at the conclusion of the future hedged transaction. Given the future offset of such gains and losses, they are excluded from shareholders' equity when calculating EC.
- Available-for-sale reserve – Unrealised gains and losses on such securities are included in shareholders' equity until disposal or impairment. Such gains and losses are excluded from shareholders' equity for the purposes of calculating EC.
- Retirement benefits liability – Absa has recorded a surplus with a consequent increase in shareholders' equity. This represents a non-cash increase in shareholders' equity. For the purposes of calculating EC, pension surplus is excluded from shareholders' equity.

## *Current EC consumption by risk type*

EC allocations reflect varying levels of risk. The EC framework covers not only Basel II Pillar 1 risks but also the additional economic risks not covered or inadequately covered in Pillar 1:

Absa's EC by risk type is indicated in the following graph:



### **Capital deployment (allocation and utilisation)**

With the implementation of Basel II and the EC methodologies, a capital allocation methodology was developed in order to change business behaviour in such a way that the risk associated with balance sheet growth and the quality of income statement profits is managed to ensure risk/reward optimisation. Absa Bank holds regulatory capital centrally in the Absa Treasury function and not at a business unit level. Subsidiaries, being legal entities, will continue to hold their own capital. The change in capital allocation and performance metrics is driven by the advent of Basel II, the associated Basel II use test requirements and the adoption of best practice value-aligned performance measurement (VAPM) and EC frameworks.

Economic profit (EP) as a performance measure plays a significant role in measuring business unit performance. The monthly EP target that is determined during the forecast processes (medium-term plan (MTP) and short-term plan (STP)) is based on a forecast target EC level (approved risk level). This target EC level is also determined during the forecast process by Group Risk. Actual capital consumption is monitored as follows:

- Monthly variance analysis of actual versus forecast capital consumption has to be reported to the MRC and the Capital Management Committee (CMC).
- A capital application has to be completed and approved by the MRC and CMC for any significant variances.
- Underutilisation of EC consumption has to be justified to prevent a reallocation of the capital to other business areas.

The ability of business units to generate capital (ie free cash flow) with sustainable profits after provision for the desired dividend cover and the capital requirements of new business growth is also monitored on a monthly basis and reported to the MRC and CMC.

### **Principal risk types**

The main risk type categories are: capital management, credit risk, market risk, liquidity risk, operational risk and insurance underwriting risk. The financial risks and the processes to manage them are described in detail in the financial risk report, which appears on pages 303 to 355 of this report. A summary of the main aspects follows.

**Absa managed its risks effectively throughout 2007, resulting in all the risk profiles being within the approved risk appetite and tolerance limits. All risk profiles were also regarded as acceptable to support the financial objectives of Absa.**

### **Capital management**

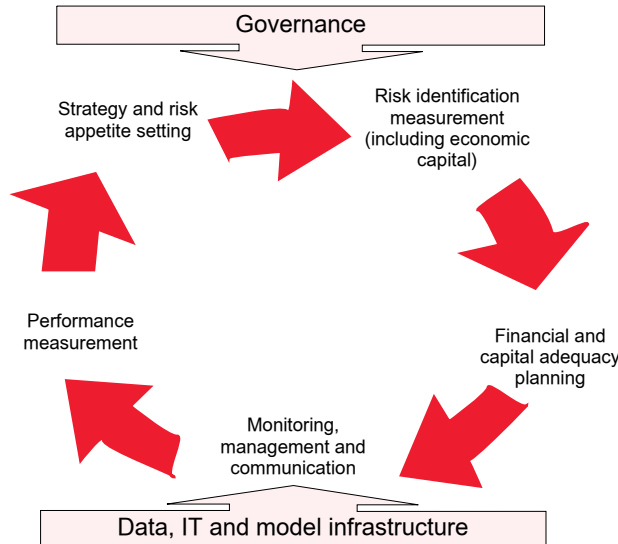
#### **Governance and risk framework**

Capital is managed as a board level priority in Absa. The board is responsible for assessing and approving the capital management policy, capital target levels, capital strategy and actively monitoring capital consumption.

Capital strategy includes managing the capital that is required for organic growth and strategic acquisitions, as well as optimising Absa's capital structure within approved target levels. The target levels are set to provide Absa with adequate buffers for unforeseen changes to balance sheet growth and economic conditions.

# Risk management report

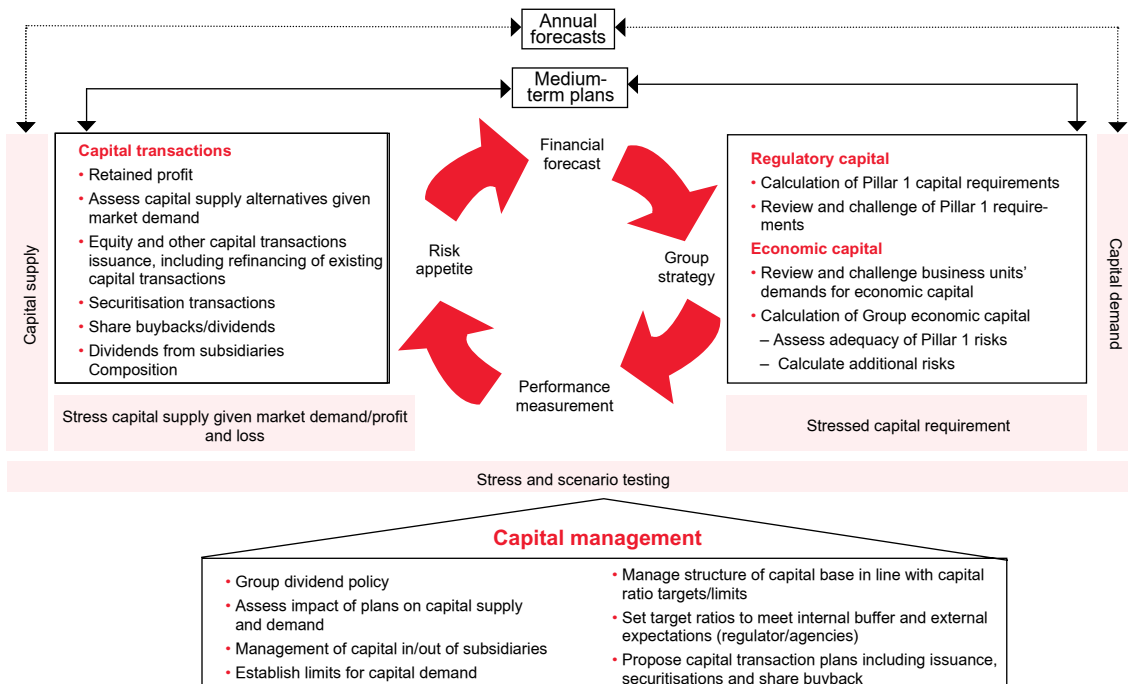
A dedicated Capital Management team has been deployed to support the board in executing these responsibilities. This team operates synergistically with Absa's EC team in Absa Group Risk, which is an essential element of the internal capital adequacy assessment process (ICAAP) and presents regular capital reports to the MRC, the CMC, the GRCMC, Group Exco and the board. Risk oversight of the capital management function is provided by the GRCMC. The Basel II ICAAP programme is being driven by the Capital Management team as a component of the wider Basel II implementation programme in Absa. The key building blocks of Absa's ICAAP can be illustrated as follows:



A capital management framework provides effective capital planning, capital issuance executions, Basel II alignment, EC utilisation and EP performance measurement criteria.

The following diagram illustrates the process Absa follows to ensure end-to-end integration of the Group's strategy, risk management and financial processes into the capital management process. The purpose is to ensure that capital consumption in the business divisions has an impact on performance measurement, which, in turn, translates into management performance assessment and product pricing requirements and achievement of the overall strategy within the risk appetite.

## CAPITAL MANAGEMENT PROCESS



## **Capital adequacy and value creation**

### **Enhancement for effective gearing over the period**

Absa's capital management activities maximise shareholder value by optimising the level and mix of its capital resources. These activities mitigate the risk of insufficient capital by:

- ensuring access to a broad range of investor markets;
- maintaining a strong credit rating by ensuring robust capital resources, together with a diverse portfolio of activities, consistent profit performance, prudent risk management and a focus on value creation; and
- managing Absa's demand for capital.

The effective leveraging of capital enhances returns and creates shareholder value. Effective capital leveraging results from growing the customer base and leveraging it efficiently at an optimum gearing, given the cost of equity. Absa's ratios, composition and cost of capital are managed to ensure that entities are adequately capitalised, that dividend payout ratios are appropriate to sustain the required levels of risk-weighted asset growth in terms of Absa's strategy, and that Absa's capital structure is optimal in view of approved target capital ratios.

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

- Dividend.
- Ordinary shareholders' equity.
- Preference shares.
- Accounting reserves impacting capital.
- Subordinated debt instruments.
- The development of hybrids (Basel II).

### **Capital-raising activities**

Absa has achieved further optimisation in its capital structure by issuing the following instruments during the year:

<b>Instrument</b>	<b>Amount executed Rm</b>
Preference shares	1 657
Subordinated debt	1 725
Securitisation	8 800
Employee Share Ownership Programme (ESOP)	250

### **Basel II capital impact**

Basel II is operational in South Africa from 1 January 2008. Under the Basel II regime, the Group's regulatory capital requirement is determined, based on the risk-sensitive measurement approaches of Basel II.

Absa has progressed well with the implementation of the requirements of Basel II and has performed a number of impact assessments on capital levels and operational processes.

Approval has been received from the SARB for Absa to implement the advanced IRB approach for retail credit, while the foundation IRB approach will be implemented for wholesale and corporate credit. The AMA will be implemented for operational risk. The standardised approach will be implemented in all African entities for both credit and operational risk.

## Risk management report

The Group has participated in the parallel-run process initiated by the SARB since 31 October 2007 to determine the impact of Basel II on the Group's capital position. Management has allocated substantial time and effort in refining the assumptions of the risk models and obtaining guidance on the interpretation of the new bank regulations. Absa was ready to comply with the requirements with effect from 1 January 2008.

The capital requirements of Absa Bank are expected to reduce while the net qualifying capital will also decrease mainly as a result of:

- the deduction of the excess of expected loss above IFRS accounting impairments from qualifying capital; and
- portfolio impairments no longer qualifying as regulatory capital.

The impact on the total capital adequacy position of Absa Bank is expected to be neutral to marginally positive.

The impact on the capital adequacy ratios of Absa Group will be more profound because the excess capital of insurance entities above the minimum regulatory requirement is excluded from the capital base of Absa Group, resulting in a reduction in the total capital adequacy ratio of the Group.

### Credit risk

Credit risk is the risk of suffering financial loss, should any of Absa's customers, clients or market counterparties fail to fulfil their contractual obligations to Absa. Credit risk may also arise where the downgrading of an entity's credit rating causes the fair value of Absa's investment in that entity's financial instruments to fall.

## The credit risk that Absa faces arises mainly from commercial and consumer loans and advances, including credit card lending and trading transactions.

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. The importance of credit risk is illustrated by noting that more than three quarters of risk-based EC is allocated to businesses for credit risks.

In managing credit risk, Absa applies the five-step risk management process and internal control framework described previously on pages 136 to 140 of this report.

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. These teams assist Absa Group Risk in the formulation of the Group risk policy and the implementation of it across the businesses. Examples include ensuring that:

- maximum exposure guidelines are in place relating to the exposures to any individual customer or counterparty;
- 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. Functional support is provided by the Portfolio Optimisation and Analytics team, which assists with the resolution of all significant credit policy issues.

The principal committees that review credit risk management, formulate overall Group credit policy and resolve all significant credit policy issues are the Absa CRC, the Credit Committee: Large Exposures and GRMC (refer to page 84 for more details of this committee). The GACC 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 risk responsibility and governance**

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

The effectiveness of the credit risk control framework and its supporting processes is a board responsibility. The GRCCM is the board-appointed risk committee and it is informed through the CRC.

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

The GRCCM and subcommittees are responsible for the approval of the relevant credit policies and the ongoing review of the credit exposure of Absa. These include, but are not limited to, the monitoring and approval of the following:

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

# Risk management report

The following table identifies the individuals who are specifically responsible for credit risk control within Absa:

<b>Functional area</b>	<b>Credit governance owner (title)</b>	<b>Principal supporting policy documentation</b>
Absa Group Credit	Absa Group Chief Credit Officer	Absa Group credit policy Absa Treasury credit policy
Absa Corporate and Business Bank (ACBB)	Chief Credit Officer, ACBB	ACBB credit policy Absa Group policy for impaired assets (sections pertaining to wholesale assets)
Absa Capital	Head of Credit, Absa Capital	Absa Capital credit policy
Retail Credit Customer Value Management	Director: Customer Value Management	Absa Group retail credit policy
Absa Card	Director: Customer Value Management, Absa Card	Absa Card credit policy
Group Credit Operations and Delivery	Head of Credit Operations and Delivery	Absa Group policy for impaired assets (sections pertaining to retail assets)
Credit Portfolio Optimisation and Analysis	General Manager, Credit Portfolio Optimisation and Analysis	Absa Group credit policy (specifically section covering modelling and reporting)

## **Credit risk management**

Absa leverages off the Barclays centralised database of large corporate, sovereign and bank facilities and is currently constructing a database covering all the Group's assets. System-based credit application processes for bank lending are operational throughout Absa and an electronic corporate credit application system is deployed in Absa's corporate and commercial business.

Within the retail portfolios, which tend to comprise homogeneous assets, statistical techniques more readily allow impairment to be monitored on a portfolio basis.

## **Credit risk measurement**

Absa uses statistical modelling techniques throughout its business in its credit-rating systems to measure credit risk. These systems assist the Group in frontline credit decisions on new commitments and in managing the portfolio of existing exposures. These enable the application of consistent risk measurement across all retail and wholesale credit exposures.

Losses generated by retail loans are more predictable than wholesale losses, but are subject to cyclical and seasonal factors. Although the frequency of loss is higher on retail loans than on wholesale loans, the severity of loss on the former is typically lower and more manageable. As a result of these differences, methodologies vary depending on certain factors, including type of asset (eg consumer instalment versus wholesale loan), risk measurement parameters (eg delinquency status and credit bureau score versus wholesale risk rating) and risk management and collection processes (eg retail collection centre versus a centrally managed unit specialising in wholesale recoveries and restructuring).



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

A description of the internal ratings process is set out below:

### ***Central governments and central banks***

Absa manages country risk by setting a country risk appetite, which is known as the country guideline that is agreed at the Absa CRC. All cross-border or domestic foreign currency transactions are aggregated to give the current utilisation, in terms of country loss-given default (CLGD), against country appetite. The level of CLGD incurred by a counterparty transaction will largely depend on three main factors: the country severity, the product severity and counterparty grade.

CLGD is incurred in the country of direct risk, defined as where the majority of operating assets are held. This may differ from the country of incorporation. However, where transactions are secured with collateral, the country risk can be transferred from the country of the borrower to the country of the collateral provider. This is only permitted where the collateral definitely covers the borrowing and is not expected to decrease over time.

Country risk grades are assigned to all countries where Absa has, or is likely to have, exposure and are reviewed every quarter to ensure they remain appropriate. Country grades, which are derived from long-term sovereign foreign currency ratings, range from 1 (lowest probability of default) to 21 (highest probability of default). A ceiling is applied where a country is graded 12 or worse so that the counterparty cannot be graded better than the country, unless some form of protection is available in the event of a cross-border event, such as a significant portion of the counterparty's assets or income being held or generated in hard currency.

### ***Institutions***

The rating process for institutions can be divided into two approaches depending on whether the institution is rated by an external credit assessment institution or not.

The first part of any rating process involves the collection of the information necessary to assign an obligor to one of the 21 default grades. The degree of information analysis required in respect of a new credit proposal will depend to some extent on (i) the nature and purpose of the underlying transaction, (ii) the risk profile of the customer, (iii) the repayment source and (iv) whether the transaction is secured or unsecured.

The rating process that follows the collection of the required data involves the following:

- Calculation of a PD for all customers.
- Preparation of a "business viability" analysis.
- Preparation of a "financial analysis" focusing on (i) profitability, (ii) asset management, (iii) solvency and stability, and (iv) cash flow. A key feature to any financial analysis relates to the use of financial ratios to facilitate, in particular, trend analysis.

The wholesale process involves the application of human judgement in the assignment of the final default grade. Human judgement is incorporated into the rating process through the application of model overrides. Model overrides are permitted in cases where additional information (either positive or negative) is available which suggests that a model output should be manually overridden (either upwards or downwards). Model overrides are reserved for more unusual circumstances and should not become a standard part of the risk factor selection. All model overrides are approved by mandated credit officers.

# Risk management report

The rating of institutions can be divided into two approaches:

- A rating agency equivalent approach, which approach references external agency ratings and dynamically translates the ratings into point-in-time (PIT) risk measures.
- An internal model approach, which approach processes the financial information through an internal model to produce the required risk measures.

The credit policy requires that the internal model approach be applied in all instances and be used as a confirmation of the agency ratings.

The rating process also includes the assessment of collateral and security. This information is used in determining the LGD. The recognition of collateral as a credit risk mitigant is managed in terms of the credit policy that clearly defines the following:

- The definition of what qualifies as collateral.
- The requirements around the valuation of collateral.
- Haircuts that need to be applied to the collateral values.
- Operational requirements that must be met for collateral to be recognised as credit mitigation.

## ***Corporates, including small and micro-enterprises (SMEs), specialised lending and purchased corporate receivables***

The rating process for the corporate asset class incorporates the following asset types:

- Listed corporate exposure.
- Large unlisted corporate exposures.
- SME corporate exposures.
- Income-producing real estate.
- Project finance.
- Asset-based finance.
- Non-bank financial institutions.

All grading overrides are reported on a monthly basis using a standard approved template. Group Credit takes accountability for the preparation of the monthly report of all overrides. The overrides are also stored in the workflow systems, which feeds into the broader risk management process.

In the majority of cases, bespoke rating models have been developed for the corporate portfolios listed above. The rating models developed for the above portfolio include both statistical and expert models depending on the availability of data. The criteria underlying these models include:

- financial statement information;
- future cash flow projections;
- equity information;
- external agency ratings; and
- an analysis of a customer's past history with the bank based on the customer's behavioural score, credit bureau data, etc.

Where bespoke models are not available for a specific asset type, an internal credit review process is applied. This is limited to a small fraction of the wholesale portfolio. Steps are being taken to put bespoke models in place for these niche segments.

***Retail (exposures to retail SMEs, retail exposures secured by real estate collateral, qualifying revolving retail exposures and other retail exposures)***

For retail assets, expected loss is based on a statistical analysis of inherent losses over discrete periods, estimated using sophisticated portfolio modelling, credit scoring and decision support tools to project credit risk losses. In addition, common attributes of credit quality within asset classes that are derived from historical loss experience are used to predict consumer losses. Product level PDs are calculated per behaviour score category. Each individual exposure is then mapped to a PD category based on the customer behaviour score.

The internal rating process on Absa's retail exposures is based on a number of data elements in order to ensure risk is measured correctly. The rating process consists of the following main elements:

- Regulatory policy rules (mainly rules driven by the NCA, for example, affordability modelling).
- High-risk policy rules (rules relating to negative internal and external data).
- Application scoring (combination of application and credit bureau data).
- Behaviour scoring on existing customer (combination of a customer's internal payment behaviour and external payment behaviour).
- Product specific rules.

The first four measurements are mainly similar across all asset classes, whether home loans, vehicle and asset finance or unsecured lending, however, the weightings of characteristics or data elements in making the final decisions are different, based on statistically proven methodologies and variances in risk appetite across asset classes. The product-specific rules are vastly different across asset classes, owing to the difference in underlying securities, different risk-based pricing matrices and so forth.

***Equities***

Absa has adopted the market-based approach, applying the simple risk-weighted method consistent with the amount and complexity of its holdings and aligned to the Basel II rules for equity exposures.

Under the simple risk-weighted method, a 300% risk weight is applied to listed equity holdings and a 400% risk weight to other equity holdings.

The use of internal estimates in calculating risk-weighted exposure amounts in accordance with the IRB approach for the determination of regulatory capital requirements also forms the foundation of risk management models that are relied upon as key components of an integrated risk management framework. These include:

- the credit EC calculation;
- calculation of impairment on accounts in the pre-legal environment;
- risk tendency (PIT PD x EAD x LGD);
- risk appetite; and
- return on EC (ROEC) and EP.

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

# Risk management report

## ***Probability of customer default – commonly known as probability of default (PD): Internal risk ratings***

Absa assesses the credit quality of borrowers and other counterparties and assigns them an internal risk rating. Two different categories of default rating are used. The first reflects the statistical probability of a customer in a rating class defaulting within the next 12-month period, and is referred to as a PIT rating. The second also reflects the statistical probability of a customer in a rating class defaulting, but the period of assessment is different. In this case the period is defined as 12 months of average credit conditions for the customer type. This type of rating therefore provides a measure of risk that is independent of the current credit conditions for a particular customer type, is much more stable over time than a PIT rating and is referred to as a through-the-cycle (TTC) rating.

Multiple rating methodologies may be used to inform the rating decision on individual large credits, such as internal and external models, rating agency grades and, for wholesale assets, market information such as credit spreads. For smaller credits, a single source may suffice, such as the result from a rating model.

**Absa categorises its current exposures according to a 21-grade internal rating scale default grades (DG) that correspond to a statistical probability of customers in that rating class defaulting within a 12-month period. The 21 DGs represent the best estimate of credit risk for each counterparty, based on current economic conditions.**

## ***Exposure in the event of default – commonly known as exposure at default (EAD)***

Exposure in the event of default represents the expected level of usage of the credit facility when default occurs. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit. When Absa evaluates loans, it takes exposure at default into consideration, using its extensive historical experience. It recognises that customers may make heavier than average usage of their facilities as they approach default.

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

## ***Severity of loss given default – commonly known as loss-given default (LGD)***

When a customer defaults, some part of the amount outstanding on his/her loans is usually recovered. The part that is not recovered, the actual loss, together with the economic costs associated with the recovery process, combine to produce a figure called the LGD. The severity of the LGD is measured as a percentage of the EAD.

Using historical information, Absa can estimate how much is likely to be lost, on average, for various types of loans. To illustrate, LGD is lower for residential mortgages than for unsecured loans because of the property pledged as collateral.

The level of LGD depends on the type of collateral (if any); the seniority or subordination of the exposure; the industry in which the customer operates (if a business); the jurisdiction applicable and work-out expenses. The outcome is also dependent on economic conditions that may determine, for example, the prices that can be realised for assets or whether businesses can readily be refinanced. Individual defaults show a wide range of outcomes, varying from full to nil recovery and all points in-between.

### **Expected loss: Risk tendency**

The three components described above – the probability of default, exposure at default and loss-given default – are building blocks used in a variety of applications that measure credit risk across the entire portfolio. One of these applications is a measurement of expected loss that is used by Absa and is known as risk tendency (RT).

RT is a statistical estimate of the average loss for the loan portfolio for a 12-month period taking into account portfolio size and risk characteristics under current credit conditions. It is a PIT measure and therefore requires a point-in-time PD as an input. RT provides insight into the credit quality of the portfolio and assists management in tracking risk changes as Absa's stock of credit exposures evolves in size or risk profile in the course of business.

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

$$RT = PIT PD \times EAD \times LGD.$$

The RT of each individual loan is aggregated to produce the RT of the various subportfolios in Absa and ultimately for the whole Group. At this aggregate level, RT is a statistical estimate of predicting the average loss over a 12-month period that is inherent in Absa's credit exposures.

Many models are used in the estimation of the components of RT in each of Absa's businesses. The majority of the models are developed internally using Absa's own historical data and other external information. In some cases, externally developed models and rating tools are used. The appropriateness of these external models for use within Absa is validated as part of the model approval process. It is also an Absa policy that all existing models are validated annually to ensure their applicability to the current portfolios and credit conditions.

To interpret RT, the following should be considered:

- RT is calculated using PDs that are relevant to the current credit conditions for each customer. These figures are therefore a PIT estimate based on current economic and credit conditions.
- RT is calculated for different purposes and using different methods than impairment allowances, so RT cannot be used as a forecast of the total allowances for impairment. It is rather a statistical estimate that reflects changes in the size and quality of the loan portfolio. RT does not equate to Absa's budget or internal forecast of impairment allowance in the coming year.
- The principal reasons for the difference between impairment and RT are:
  - RT is a forecast estimate of the average loss associated with the current performing portfolio over a 12-month period; impairment is the accounting value of incurred loss realised on the whole portfolio.
  - RT covers only the loans at the date of estimation and does not make allowance for subsequent growth or change in the composition of the loan book which can affect impairment.
  - RT is a statistical estimate of losses arising only in the current performing loan portfolio and therefore it is not calculated for non-performing loans in the wholesale portfolio or for retail loans in arrears.
  - Impairment can include significant additional charges, write-backs and recoveries arising during the year from impaired loans. These items can materially affect the impairment allowance charge, but are not included in RT.
  - The actual credit impairment charge arising from new defaults in any one year, from loans that are performing at the start of the year, vary significantly around the RT value. This can be owing to changes during the year in the economic environment or in the business conditions in specific sectors or countries and from unpredictable or unexpected external events. This applies especially in wholesale portfolios where the default of a small number of large exposures will significantly increase the period's impairment allowance but will not have been included in the RT figure. For retail portfolios, consisting of a very large number of small exposures, the variation in the rate of change in new impairments compared with the RT figure is usually much smaller than for wholesale portfolios.

## Risk management report

RT increased by 147% to R5 073 million for the year under review (2006: R2 053 million). Although the increase also included the impact of a methodology enhancement, it reflected a weakening of retail credit conditions in South Africa.

### *Credit risk mitigation*

For the purposes of credit risk mitigation, management of collateral (security) and other credit enhancements, 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. The principal collateral types are as follows:

- Personal sector – mortgages over residential properties.
- Commercial and industrial sector – charges over business assets such as premises, stock and debtors.
- Commercial real estate sector – charges over the properties being financed.
- Over-the-counter (OTC) trading exposures – acceptable forms of collateral include:
  - cash;
  - direct debt obligation government bonds denominated in the domestic currency of the issuing country;
  - debt issued by supranationals; and
  - letters of credit issued by an institution with a long-term unsecured debt rating of A+/A3 or better.

Absa policy is that security will exhibit some or all of the following characteristics as appropriate to qualify. These characteristics are that the security will:

- have a resale value that is simple to establish and may be prescribed;
- be a self-liquidating security;
- not depreciate significantly over the repayment term;
- be easily identifiable;
- enjoy an established market for sale within a reasonable timeframe;
- be fit for the intended purpose;
- be unlikely to become obsolete over the term of the credit risk exposure; and
- demonstrate ease of repossession.

Collateral, in the form of residential property, motor vehicles, equipment, long-term insurance policies and so on is maintained on a specific system, known as the Security Management System (SMS). The market value of collateral as at inception of the facility is captured on this system. The value of residential property will be updated on the system in the case of further advances or at the request of the customer. All collateral types are revalued when an account enters the legal process to ensure that the impairment allowance is appropriate given the current valuation.

For Basel II LGD modelling purposes, the market value of residential properties are estimated using statistical models and updated quarterly. The market value of motor vehicles is updated monthly by using the values published by Mead and McGrouther.

All relevant factors, including local market conditions and practices, are considered before any collateral is realised. Any repossessed properties are made available for sale in an orderly and timely fashion, with any proceeds realised being used to reduce or repay the outstanding loan. Any additional funds are returned to the customer.

Valuation of the collateral taken will be within agreed parameters and will be conservative in value. Any collateral taken in respect of OTC trading exposures will be subject to a haircut which is negotiated at the time of signing the collateral agreement. A haircut is the valuation percentage applicable to each type of collateral and will largely be based on the liquidity and price volatility of the underlying security.

Within the corporate sectors, collateral for impaired loans, including guarantees and insurance, is reviewed regularly and at least annually, to ensure that it is still enforceable and that the impairment allowance remains appropriate given the current valuation. Where the collateral has decreased in value, an additional impairment allowance may be considered. Conversely, increases in collateral may result in a release of the impairment allowance.

Security structures and legal covenants are subject to regular review, at least annually, to ensure that they remain fit for purpose and remain consistent with accepted local market practice.

Absa also uses various forms of specialised legal agreements to reduce risk, including netting agreements which permit it to offset positive and negative balances with customers in certain circumstances to minimise the exposure at default, financial guarantees, and the use of covenants in commercial lending agreements. Other techniques include the use of credit derivatives and other forms of credit protection.

Bespoke documentation may only be used in relation to high value or specialised transactions. In all other cases, only standard documentation approved by the General Legal Counsel and Group Credit Risk may be utilised. The standard documentation is reviewed as and when required, but at least twice a year.

Absa manages the diversification of its portfolio to avoid unwanted credit risk concentrations. This takes several dimensions. Maximum exposure guidelines are in place relating to the exposures to any individual counterparty. These permit higher exposures to higher-rated borrowers than to lower-rated borrowers. They also distinguish between types of counterparty, for example, between sovereign governments, banks and corporations.

**Excesses are considered individually at the time of credit sanctioning, are reviewed regularly, and are reported to the Group Lending Committee, CRC and GRCCM.**

Similarly, the country risk policy specifies risk appetite by country and avoids excessive concentrations of credits in individual countries. Finally, there are policies that limit lending to certain industries, for example, commercial real estate.

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.

# Risk management report

## **Country risk**

### **Country risk appetite**

To manage exposure to country risk, Absa uses two country limits; the prudential guideline and the country guideline. The prudential guideline is identified through the strict mapping of a country grade to derive a model-driven acceptable level of LGD. The country guideline for all graded countries is set by the CRC based on the prudential guideline and the internal appetite for country risk. The country guideline may therefore be above or below the prudential guideline.

### **Measuring country risk**

Country risk is managed by applying country loss-given default (CLGD). All cross-border or domestic foreign currency transactions incur CLGD from the country guideline as agreed at the CRC. The level of CLGD incurred by a counterparty transaction will largely depend on three main factors: the country severity, the product severity and counterparty grade.

CLGD is incurred in the country of direct risk, defined as where the majority of operating assets are held. This may be different to the country of incorporation. However, where transactions are secured with collateral, the country risk can be transferred from the country of the borrower to the country of the collateral provider. This is only permitted where the collateral definitely covers the borrowing and is not expected to decrease over time.

### **Country executives**

There are country managers for all countries where Absa has exposure and they, under the direction of the CRC, have responsibility for allocating country risk to individual transactions. The total allocation of country limits is monitored daily by the Group Credit Risk team.

## **Credit risk concentration**

There is a concentration of credit risk when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

## **The Credit Committee: Large Exposures has been established by the board of directors to approve or ratify SARB-defined large exposures.**

The membership of the committee consists of five non-executive directors and a quorum comprises any three of the five members present at the meeting, of which three must be non-executive directors.

The board of directors of a bank is responsible for establishing and monitoring compliance with policies governing the large exposures and credit risk concentrations of the bank.

The purpose of the Absa large exposures policy is to prescribe the key principles for managing large exposures, focusing on credit risk concentrations arising from excessive exposures to individual counterparties, groups of related counterparties and groups of counterparties with similar characteristics including outlining the requirement for stress testing and scenario analysis that should be conducted to assess the impact of changes in the market conditions or key risk factors.

In certain circumstances, the above limits can be exceeded and authorisation given to approve such excesses, for example by the bank's board of directors or Credit Committee: Large Exposures with delegated authority from the board.



In addition, the CRC has been established to manage:

- matters including policy and procedures relating to large exposures, the review and recommendation for approval of the macro portfolio concentration limits such as obligor, risk rating, industry, product, geography, term, market segment and country;
- monitoring of consolidated exposures against limits with reference to the management of the overall credit risk profile with an approved risk appetite and tolerance, and to evaluate credit exposures and risk sensitivity to extreme market exposures;
- reviewing of policy and procedure exceptions; and
- risk assessment and response: to report large exposures and concentration exposure to the Group Exco, GRCMC and GACC where it affects Absa's risk/reward.

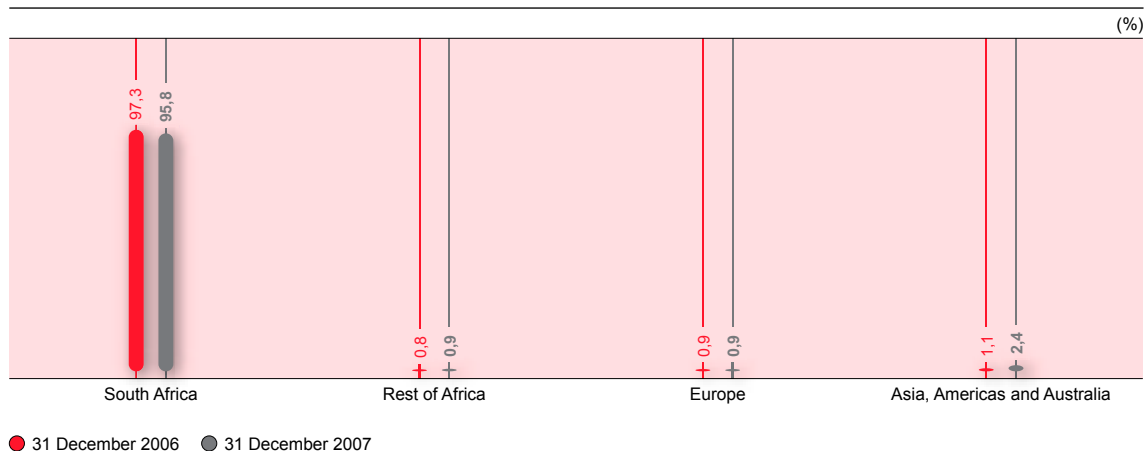
A further protection against undesirable concentration of risk is the mandate and scale framework described on page 142 of this report. Mandate and scale limits, which can also be set at a Group level to reflect overall risk appetite, can relate either to the stock of current exposures in the relevant portfolio or to the flow of new exposures into that portfolio. Typical limits include the caps on commercial investment property lending, the proportion of lending with maturity in excess of seven years and the proportion of new mortgage business that is buy-to-let. Policy constraints also limit mortgage lending in certain areas, above a certain loan amount and to customers above a certain risk level.

Wrong way credit risk exposure is taken into account when agreeing and assessing the initial trade and will have a bearing on the terms and conditions applying, including collateral requirements. Thereafter the potential future exposure (PFE) of such trades is monitored daily against each individual counterparty and assessed against the agreed limit and the quality of the counterparty.

The concentrations of credit exposure, described in the loans and advances to customers section, are not proportionally related to credit loss. Some segments of Absa's portfolio have and are expected to have proportionally higher credit charges in relation to the exposure than others. Moreover, the volatility of credit loss is different in different parts of the portfolio. Thus, comparatively large credit charges could arise in parts of the portfolio not mentioned below.

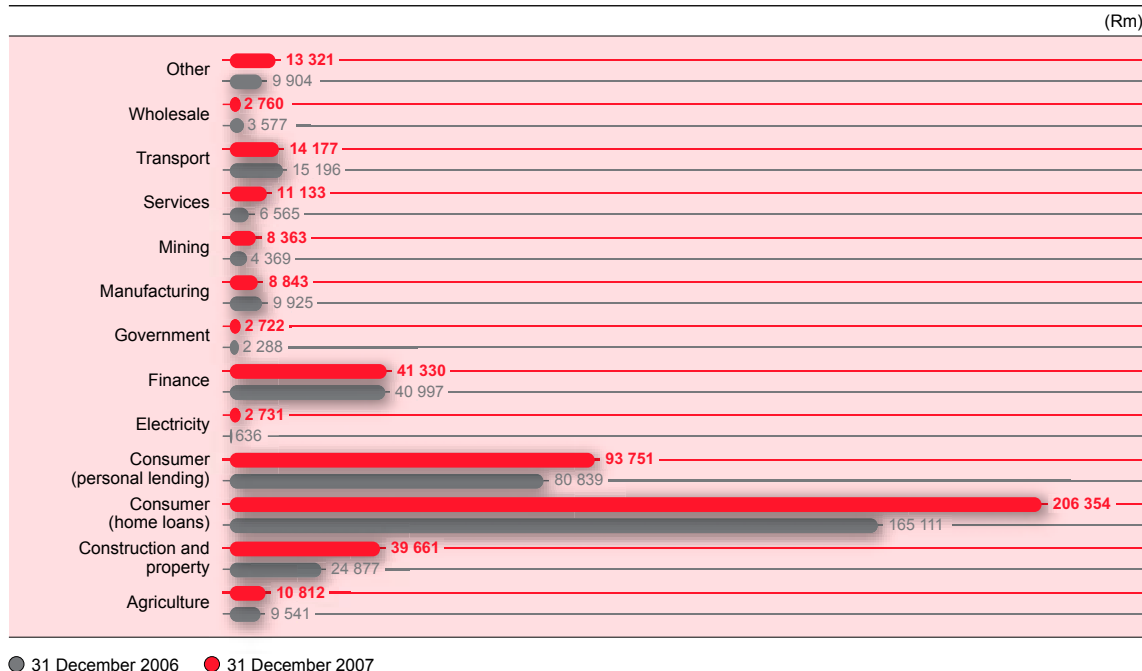
### Loans and advances to customers

#### GEOGRAPHICAL ANALYSIS OF LOANS AND ADVANCES TO CUSTOMERS



# Risk management report

## CREDIT EXPOSURES BY INDUSTRY



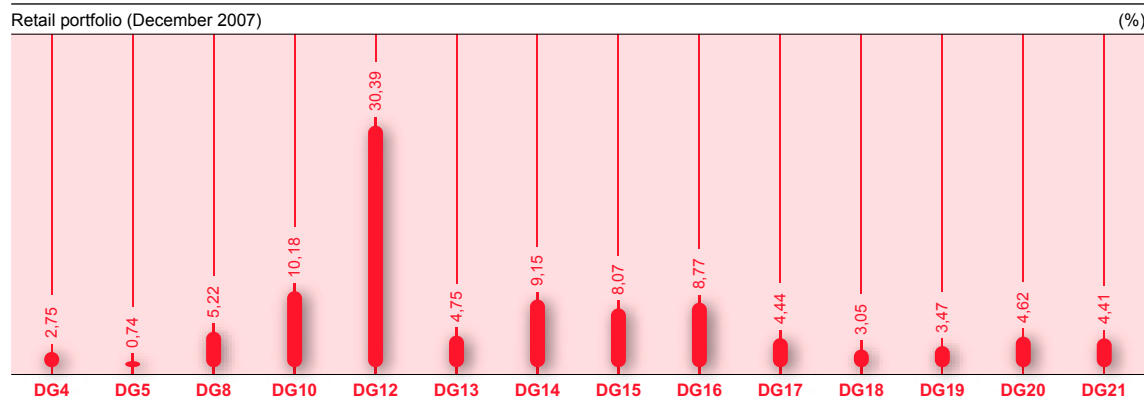
### Risk profile of customer loans and advances (DG1-21)

#### Retail (balances)

Product level PDs are calculated per behaviour score for each scorecard. Each individual exposure is then mapped to PD category based on customer behaviour score.

During the year, PD models were refined as part of the Basel II implementation programme. These models place emphasis on the borrower rating (at a more granular level and dependent on the product holding of the customer), includes a conservative definition of default, and excludes adjustments for roll and cure rates (addressed as part of the LGD methodologies), hence the higher PD outcomes. The graph below represents a cycle neutral view of the retail portfolio distribution. The average PD measured on this PIT basis equates to 4,45% and is showing signs of regressing towards average credit conditions.

### EXPOSURE DISTRIBUTION ACROSS DG BUCKETS



The average PD for the overall retail portfolio measured on a through-the-cycle basis is 3,85% and is the equivalent to a DG16 internal rating, indicative of a B+ rating based on international credit ratings scales reflected on page 312. This is, however, before any risk mitigation is taken into account, which is a main attribute of the retail portfolio of which approximately 78% comprises secured lending. An overall rating based on expected loss (post-collateral) would translate into a higher equivalent rating.

*Wholesale (balances and limits)*

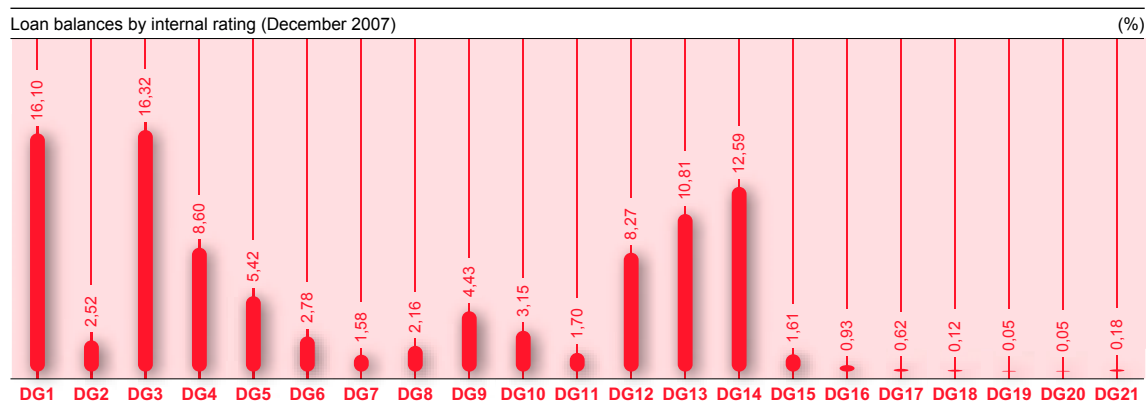
In relation to corporate credit counterparties, Absa's sanctioning processes have traditionally been centred on expert judgement based on detailed assessments of customers' financial and business risks considering underlying creditworthiness, transaction characteristics and collateral.

In 2007, the embedding of several statistical ratings models for use in the credit assessment, approval and review processes enabled a systematic rerating of the respective wholesale portfolios and has brought about greater coverage in terms of the rating of all corporate counterparties.

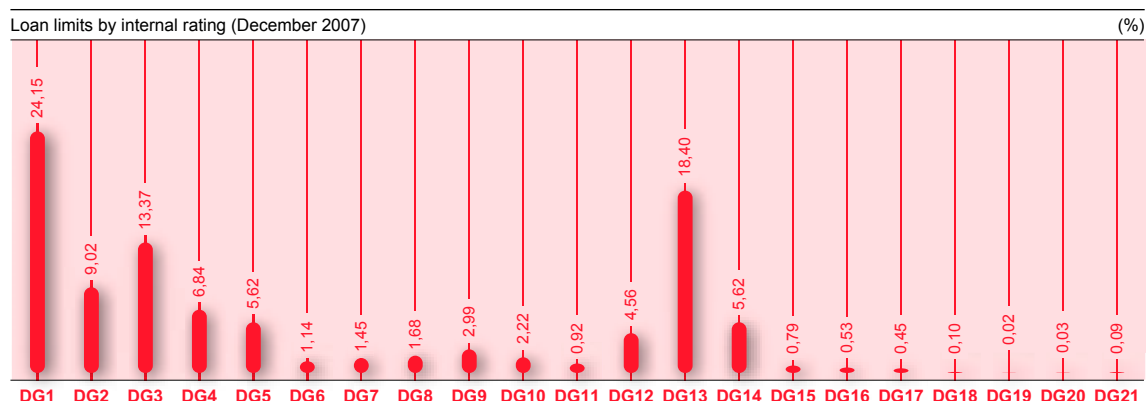
The graphs indicated below show a distribution of Absa's corporate loans (including Absa Corporate and Business Bank and Absa Capital) by internal risk grade assigned to individual counterparties (but excluding financial institutions and sovereign exposures).

The wholesale distributions are shown on a PIT basis and represent an assessment of client creditworthiness based on current credit conditions. The current position shows an improvement on the previous year owing to further model embedding and data improvements that have improved the aggregate grading of the book, given greater internal ratings coverage.

**CORPORATE (ABSA CAPITAL AND ABSA CORPORATE AND BUSINESS BANK) (INCLUDING LOANS TO BANKS)**



**CORPORATE (ABSA CAPITAL AND ABSA CORPORATE AND BUSINESS BANK)**

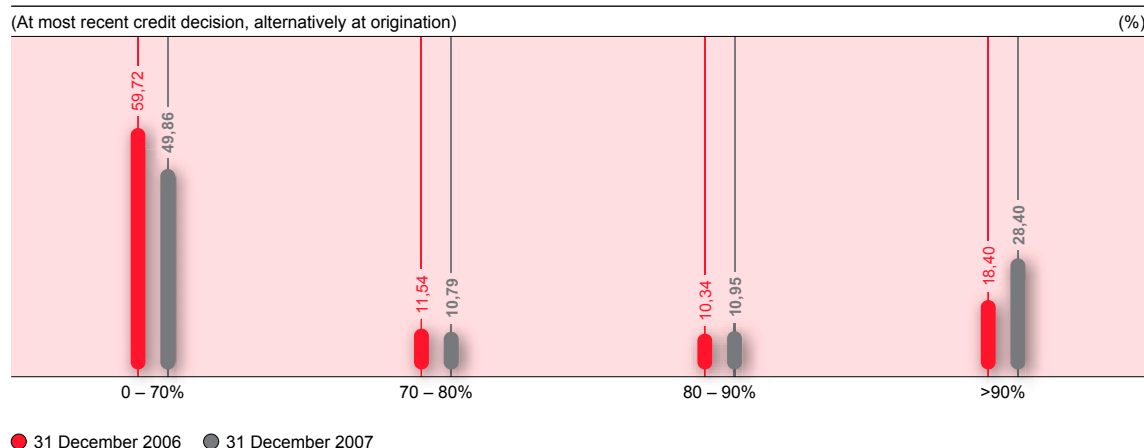


The valuations in the graph on the page to follow are those which applied at the last credit decision on each loan (ie when the customer last requested an increase in the limit or, if there has been no increase, at inception of the loan) and shows that the business flows (new business versus loans redeemed) have contributed to an increase in the average CLTV of the portfolio.

# Risk management report

The decrease in exposure in the 0 – 70% CLTV band and increase in the greater than 90% band reflects the effect of slowing momentum in property value appreciation combined with increased utilisations over the last year as well as new flows in high LTV loans. The impact of this will result in an increase in the overall LTV ratio within the mortgage book on a current valuation basis. The comparative distribution for 2006 is shown based on the more recent valuation methodologies applied in credit risk measurement models.

## ANALYSIS OF LOAN-TO-VALUE RATIOS OF MORTGAGES (ABSA HOME LOANS' PORTFOLIO)



### Other credit risks

In addition to drawn loans and advances, Absa is exposed to other credit risks. These exposures comprise loan commitments, contingent liabilities, debt securities and other exposures arising in the course of trading activities. The risks are managed in a similar way to those in loans and advances, and are subject to the same or similar approval and governance processes.

The nature of the credit risks among these exposures differs considerably.

- Loan commitments may become loans and the risks are thus similar to those attached to loans.
- Contingent liabilities (such as guarantees, assets pledged as security, acceptances and endorsements) historically experience low loss rates.
- Losses arising from exposures held for trading (derivatives and debt securities) are accounted for as trading losses, rather than credit charges, even though the drop in value causing the loss may be attributable to credit deterioration.

Further details of these exposures are shown in the tables in note 57 to the financial statements. The most notable other credit risks are to guarantees and irrevocable loan commitments to settlement risk and to debt securities.

### Guarantees and irrevocable loan commitments

Absa is exposed to loss through the financial guarantees it issues to customers and commitments to provide loan finance that cannot be withdrawn once entered into. The credit risks associated with such contracts are managed in a similar way to loans and advances, and form part of the exposure at default measure.

### Settlement risk

Absa is also exposed to settlement risk in its dealings with other financial institutions. For example, this risk arises in foreign exchange transactions when Absa pays away its side of the transaction to another bank or other counterparty before receiving payment from the other side. The risk is that the counterparty may not meet its obligation.

While these exposures are of short duration, they can be large. In recent years, settlement risk has been reduced by several industry initiatives that have enabled simultaneous and final settlement of transactions (such as payment-versus-payment through continuous linked settlement).

Absa has worked with its peers in the development of these arrangements. Increasingly, the majority of high-value transactions are settled by such mechanisms. Where these mechanisms are not available, the risk is further reduced by dealing predominantly with highly rated counterparties, holding collateral and limiting the size of the exposures according to the rating of the counterparty, with smaller exposures to those of higher risk.

### ***Debt securities***

Assessing the creditworthiness of debt securities differs in two important respects from the assessment process for loans. Firstly, a market price is generally available for a bond or other debt security, which gives a good indicator of creditworthiness. However, the financial position of the issuer still needs to be assessed and monitored, just as it would be in the case of a borrower taking out a loan. Moreover, care needs to be taken when using market price as a proxy for credit risk. To give a simple example, if a bond pays a coupon higher than equivalent market yields, it tends to trade at below par (say 98 rather than 100) so as to realign the yield to market levels. In this case, the market is not expecting a credit loss of 2% of the face value of the bond.

A second key difference is that many debt securities are rated by independent rating agencies, giving a further indicator of credit quality. However, even with continuous monitoring by the rating agencies, there is often a lag between a credit event and rerating. So, while useful, external ratings can only inform and are not a substitute for the credit assessment Absa undertakes for each exposure (refer to pages 160 and 161 of this report) using its own grading system (refer to page 312 of this report).

### ***Potential credit risk loans***

#### ***Non-performing loans and potential problem loans***

The Absa credit policy considers the following to be key indicators (albeit not the only) indicators of default:

- Absa considers that the borrower is unlikely to pay its credit obligation in full, without recourse by Absa to actions such as realising any security held.
- The obligor is more than 90 days delinquent.

All exposures flagged as being in default are assessed independently for impairment.

# Risk management report

## *Allowances for impairment*

### Absa establishes, through charges against profit, an impairment allowance for the incurred loss inherent in the lending book.

Under IFRS, impairment allowances are recognised where there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition, and where these events have had an impact on the estimated future cash flows of the financial asset or portfolio of financial assets.

Impairment is measured individually for assets that are individually significant or have been flagged as being in default and collectively where a portfolio comprises homogeneous assets and where appropriate statistical techniques are available.

For loans and receivables and assets held to maturity, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. If the carrying amount is less than the discounted cash flows, then no further impairment is necessary. The amount of the loss is recognised using an allowance account and recognised in the income statement.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure costs for obtaining and selling the collateral, whether or not foreclosure is probable. In terms of individual assessment, the trigger point for impairment is formal classification of an account as exhibiting serious financial problems and where any further deterioration is likely to lead to failure. Two key inputs to the cash flow calculation are the valuation of all security and the timing of all asset realisations, after allowing for all attendant costs.

For collective assessment, the trigger point for impairment is when a contractual payment is missed. The impairment calculation is based on a roll-rate approach, where the percentage of assets that move from the initial delinquency to default is derived from statistical probabilities based on experience. Recovery amounts and contractual interest rates are calculated using a weighted average for the relevant portfolio.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Unidentified impairment allowances, albeit significantly lower in amount than those reported above, are also raised to cover losses that are judged to be incurred but not yet specifically identified in customer exposures at the balance sheet date, and which, therefore, have not been specifically reported.

The incurred but not yet reported calculation is based on the asset's probability of moving from the performing portfolio to being specifically identified as impaired within the given emergence period and then on to default within a specified period. This is calculated on the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The emergence periods vary across businesses, are based on actual experience and are reviewed on an annual basis. This methodology ensures that Absa only captures the loss incurred at the balance sheet date.

These impairment allowances are reviewed and adjusted monthly by an appropriate charge or release of the stock of impairment allowances based on statistical analysis and management judgement.

Where appropriate, the accuracy of this analysis is periodically assessed against actual losses.

#### ***Writing-off of assets***

After an advance has been identified as impaired and is subject to an impairment allowance, the stage may be reached whereby it is concluded that there is no realistic prospect of further recovery. Write-off will occur when, and to the extent that, the whole or part of a debt is considered irrecoverable.

The timing and extent of write-offs may involve some element of subjective judgement. Nevertheless, a write-off will often be prompted by a specific event, such as the inception of insolvency proceedings or other formal recovery action, which makes it possible to establish that some or the entire advance is beyond realistic prospect of recovery. In any event, the position of impaired loans is reviewed at least quarterly to ensure that irrecoverable advances are being written off in a prompt and orderly manner and in compliance with any local regulations.

Such assets are only written off once all the necessary procedures have been completed and the amount of the loss has been determined.

Subsequent recoveries of amounts previously written off are written back and hence decrease the amount of the reported loan impairment charge in the income statement.

#### ***Treatment of interest on impaired loans***

IFRS requires that interest on impaired loans be recognised on the net asset value (gross asset value less impairment allowance) at the rate used to discount the expected cash flows (ie the original effective interest rate).

#### ***Retail versus wholesale calculation of impairments***

Corporate accounts that are deemed to contain heightened levels of risk are recorded on graded problem loan lists known as the early-warning watch list (EWWL). These are updated monthly and circulated to the relevant risk control points. Once listing has taken place, exposure is very carefully monitored and, where possible, exposure reductions are effected.

These lists are graded in line with the perceived severity of the risk attached to the lending. Businesses with exposure to corporate customers all work to three categories of increasing concern. By the time an account becomes impaired it will normally, but not necessarily, have passed through all three categories, which reflect the need for ever-increasing caution and control. Where an obligor's financial health gives grounds for concern, it is immediately placed into the appropriate category.

All obligors are subject to a full review of all facilities on at least an annual basis. Interim reviews may be undertaken if circumstances dictate.

Within the retail portfolios, which tend to comprise homogeneous assets, statistical techniques more readily allow impairment to be monitored on a portfolio basis. This is consistent with Absa's policy of raising an impairment allowance as soon as objective evidence of impairment is identified as a result of one or more loss events that have occurred after initial recognition.

## Risk management report

Where models are used, they are based upon customers' personal and financial performance information over recent periods as a predictor for future performance. The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

### *Group model risk policy*

Absa has a large number of models in place across the Group, covering all risk types, including credit risk, market risk, operational risk and finance. To minimise the risk of loss through model failure, Absa has adopted the Barclays policy for the control of model risk. The policy minimises the potential for model failure by setting minimum standards for the end-to-end model development and implementation process. The policy also sets Absa governance processes for all models, which makes it possible to monitor model risk across the Group and ensures any potential problems are identified and escalated at an early stage.

The key areas where minimum requirements are defined are:

**Model materiality** – Absa uses a large number of models. To help ensure sufficient management time is spent on the more material models, there is a method of providing each model with a materiality rating. The materiality rating for an individual model depends on the assets for which the model is used and the expected loss and EC associated with the assets. Models that are more material are subject to higher levels of independent scrutiny and challenge prior to implementation.

**Model documentation** – Documentation should be sufficiently detailed to allow an expert to recreate the model from the original data sources. It must include a description of the data used for model development, the methodology used (and the rationale for choosing such a methodology), a description of any assumptions used in the model, details of where the model works well and areas of known model weakness.

**Initial model validation** – All models are subject to a validation and independent review process before they can be signed off for implementation. The model validation exercise must demonstrate that the model is fit for a specific purpose and provides accurate estimates. The independent review process will also ensure that all aspects of the model development process have been performed in a suitable manner.

**Model sign-off** – There are clearly laid-out rules for the sign-off process for models. The most material models in Absa receive their final sign-off for implementation from the GRCMC, whereas the less material models can be signed off at the CMMC.

Model sign-off processes include ensuring that the model is technically fit for the stated purpose, as well as satisfying business and regulatory requirements.

**Basel II models** – Absa has spent a considerable amount of time on upgrading a number of models to ensure that it could meet the requirements of Basel II from the commencement of the parallel-run exercise during the last quarter of 2007. All aspects of such models are reviewed against regulatory requirements as part of the sign-off process to ensure that, once signed off, such models are also fit for regulatory purposes.

**Ongoing model validation and monitoring** – All models used in Absa are subject to an annual review to ensure that they work well and that the assumptions used in model development are still appropriate. All credit risk models are also subject to more frequent performance monitoring, which ensures that deficiencies in models are identified early and remedial action can be taken before the deficiency becomes serious and affects the decision-making process.



### **Counterparty credit risk management**

Internal capital is assigned to counterparty exposures using the EC process applied to primary lending. The level of capital assigned is directly determined by the:

- through-the-cycle (TTC) probability of default assigned to the obligor as part of the normal rating process;
- LGD, which is determined by the level of collateral pledged;
- exposure at default (EAD), which is directly affected by the net position of the obligor and the enforceability of the International Swaps and Derivatives Association (ISDA) agreement. The EAD is currently determined using the mark-to-market method.

### **Interest rate sensitivity of the retail portfolio**

Various economic factors will impact on the actual future credit losses that will be realised. The non-retail segment of Absa's credit portfolio is influenced by several economic factors, whereas changes in interest rates are the main driver of credit quality for the retail segment.

An analysis of the historical relationship between interest rates and impairments indicates that the lower the interest rates, the weaker the correlation, and vice versa. Consumers are able to absorb some increase from lower levels of debt servicing cost relative to their disposable income before cash flow strains are experienced. However, extreme interest rate increase scenarios on the other hand make the sensitivity more severe as additional factors determining credit risk (such as recovery rates and loan growth) are negatively affected.

Current sensitivity levels are considered acceptable and in line with risk appetite and tolerances.

### **Basel II and credit risk**

Absa has obtained approval from the SARB to apply the IRB approach to all its retail portfolios and the internal ratings-based foundation (IRB foundation) approach to its wholesale portfolio. Absa has applied for permanent exemption on intergroup exposures and the exposures carried by the African entities.

Absa has made significant progress in the implementation of internal credit rating systems in accordance with the Basel II requirements for the IRB approach.

During the past year, major Basel II implementation focus areas have been internal rating systems that segment borrowers based on homogenous risk characteristics, measure default risk, assign facility ratings and measure recovery risk.

### **Market risk**

Market risk is the risk that Absa's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads.

Absa's market risk management objectives include:

- the protection and enhancement of the balance sheet and income statement, and facilitating business growth within a controlled and transparent risk management framework;
- concentrating traded market risk in Absa Capital; and
- concentrating the primary interest rate and foreign exchange rate risk appetite of the Group in Absa Capital's trading book, and minimising banking book interest income volatility.

### **Management and control responsibilities**

Market risk is managed in terms of the market risk control framework, in line with the PRP requirements. Under delegated authority from the GCE, the Group Risk Director has appointed a principal risk owner for market risk who is responsible for the design of the market risk control framework, which is approved by the GRCCM.

# Risk management report

The board approves the overall appetite for market risk at Group level, within which the GRMC approves the market risk appetite for all categories of market risk. Market risk limits are set within the context of the approved market risk appetite. The MRC governs market risk across the Group and meets monthly to review, approve and make recommendations concerning the market risk profile including risk appetite, limits and utilisation. Oversight and support is provided to the business by the central market risk team, assisted by risk management teams in the businesses. The head of each business, assisted by the business risk management team, is accountable for all market risks associated with its activities, which are reported to business risk governance and control committees. Each business is responsible for the identification, measurement, management, control and reporting of market risk as outlined in the market risk control framework.

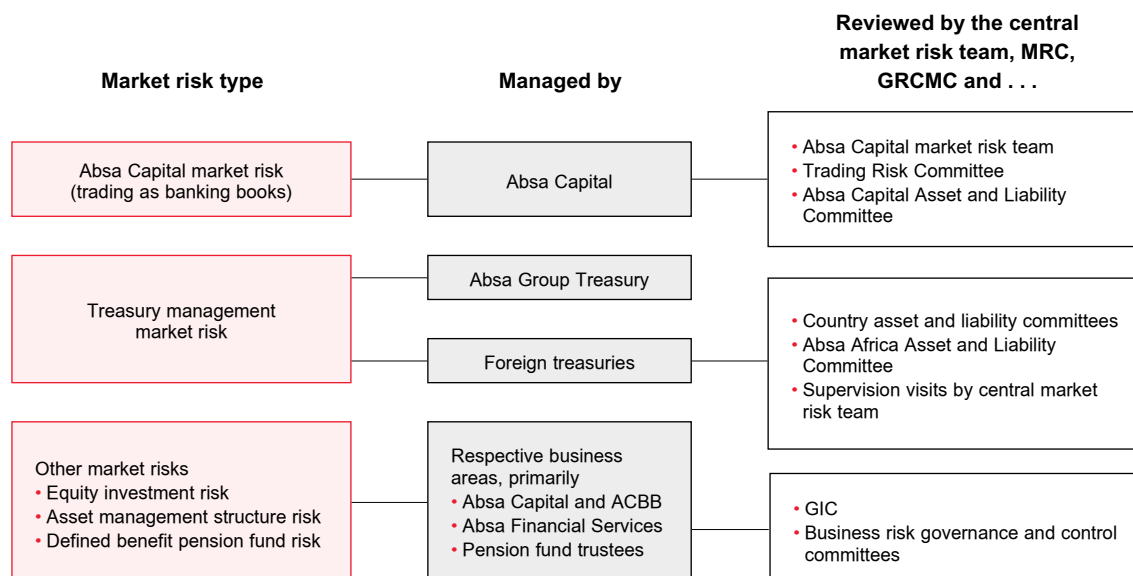
In Absa Capital, a dedicated market risk team is responsible for the market risk governance and control framework. Day-to-day responsibility for market risk lies with the senior management of Absa Capital, supported by the market risk team that operates independently of the trading areas. Daily market risk reports are produced for the main Absa Capital business areas covering the different types of risk categories including interest rate, equity, foreign exchange, commodity and credit spread risk. More detailed traded market risk presentations are discussed at the Trading Risk Committee, a subcommittee of the MRC. Absa Capital's asset and liability market risks are reported to the Absa Capital Asset and Liability Committee.

Abisa Group Treasury and Absa Africa treasuries manage non-traded asset and liability market risks. Each of the Absa Africa subsidiaries has its own asset and liability committee which monitors asset and liability market risks, and that reports into the central Absa Africa Asset and Liability Committee.

The Group Investment Committee (GIC) is responsible for the approval and monitoring of all equity investments within a set governance framework. The new ventures and asset policy requires that a specific sign-off procedure be followed prior to the approval of an investment. The policy requires regular investment performance reviews to be conducted. Reports on the overall investments are provided to the GRMC. The risk on the two main equity investment portfolios is managed by Absa Capital and ACBB within approved limits, and are reported to the MRC.

The chart below gives an overview of the business control structure.

## MANAGING MARKET RISK – BUSINESS CONTROL STRUCTURE



### Traded market risk

Abisa's policy is to concentrate its traded market risk exposure in Absa Capital. This includes transactions where Absa Capital acts as principal with clients or with the market. For maximum efficiency, Absa Capital manages client and market activities together.

In anticipation of future client demand, Absa maintains access to market liquidity by quoting bid and offer prices with other market makers and carries an inventory of capital market and treasury instruments, including a broad range of cash, securities and derivatives. Derivatives entered into for trading purposes include swaps, forward rate agreements,

futures, credit derivatives, options and combinations of these instruments, as reported in notes 5 and 17 to the financial statements. For a description of the nature of derivative instruments, see note 64.1 to the financial statements.

In Absa Capital, market risk occurs in both the trading book and the banking book as defined for regulatory purposes. Interest rate risk in Absa Capital's banking book is subjected to the same rigorous measurement and control standards as described below for its traded market risk, but the associated sensitivities are reported in the banking book interest rate risk section further on.

### **Traded market risk measurement**

The measurement techniques used to measure and control traded market risk include daily value at risk and stress testing.

#### *Daily value at risk (DVaR)*

**DVaR is an estimate of the potential loss that might arise from unfavourable market movements if the current positions were to be held unchanged for one business day, measured to a confidence level of 98%. Daily losses exceeding the DVaR figure are likely to occur, on average, twice in every 100 business days.**

Absa Capital uses an internal DVaR model based on the historical simulation method. Two years of historical price and rate data is applied, and updated daily. This internal model is also used for measuring value at risk over a 10-day holding period at a 99% confidence level for regulatory capital calculation purposes. The model has been signed off and is regularly reviewed by the SARB for use in Absa.

There are a number of considerations that should be taken into account when reviewing DVaR numbers. These are:

- Historical simulation assumes that the past is a good representation of the future. This may not always be the case.
- The assumed one-day time horizon will not fully capture the market risk of positions that cannot be closed out or hedged within one day.
- DVaR does not indicate the potential loss beyond the 98<sup>th</sup> percentile.

To complement DVaR, stress testing and other sensitivity measures are used.

#### *DVaR backtesting*

DVaR is an important market risk measurement and control tool and consequently the performance of the model is regularly assessed. The main approach employed is a technique known as backtesting, which counts the number of days when losses from the regulatory trading book exceed the corresponding DVaR estimate. The regulatory standard for backtesting is to measure losses against DVaR assuming a one-day holding period with a 99% level of confidence. The regulatory green zone of four or less exceptions over a 12-month period – daily trading revenue loss exceeding the corresponding backtesting DVaR – is consistent with a good working DVaR model.

For both 2007 and 2006, green status was maintained for Absa Capital's regulatory trading book.

#### *Stress testing*

Stress testing provides an indication of the potential size of losses that could arise in extreme conditions. Absa Capital performs two main types of stress testing. Firstly, risk factor stress testing, where historical stress moves are applied to each of the main risk categories, which include interest rate, equity, foreign exchange and credit spread risk. Secondly, the trading book is subjected to ad hoc stress scenarios.

If the potential stress loss exceeds the trigger limit, the positions captured by the stress test are reviewed and discussed by Absa Capital market risk and the respective Absa Capital business heads, including the merits of the position and the appropriate course of action. Stress testing results are reported to the Trading Risk Committee and MRC.

# Risk management report

## Risk limits

Risk limits are set to govern Absa Capital's trading activities within the risk appetite of the Group and are reviewed at least annually. Criteria for setting risk limits include among others relevant market analysis, market liquidity and business strategy. Trading risk limits are set at an aggregate and a portfolio level and are expressed in terms of DVaR. This is further supported by a comprehensive set of non-DVaR limits, including foreign exchange concentration limits and interest rate delta limits. Appropriate performance triggers are also used as part of the risk management process.

## Analysis of traded market risk exposures

Absa Capital's traded market risk exposure, as measured by average total DVaR, increased by 77% to R12,69 million (2006: R7,19 million). The increase in average total DVaR was consistent with Absa Capital's business plan to grow its risk solutioning to clients and increased market volatility during the second half of 2007.

The table below reflects the DVaR statistics for Absa Capital's trading book activities for the 12 months ended at the balance sheet date.

### ABSA CAPITAL TRADING BOOK DVaR

	2007			2006		
	Average Rm	High <sup>1</sup> Rm	Low <sup>1</sup> Rm	Average Rm	High <sup>1</sup> Rm	Low <sup>1</sup> Rm
Interest rate risk <sup>3</sup>	7,92	21,38	1,52	3,34	8,82	0,68
Foreign exchange risk	1,75	26,46	0,08	2,35	10,28	0,37
Equities risk	9,41	31,60	3,23	5,16	18,18	0,04
Commodities risk	0,76	10,16	0,03	0,30	2,29	0,00
Diversification effect	(7,15)	—	—	(3,96)	—	—
<b>Total DVaR<sup>2</sup></b>	<b>12,69</b>	<b>31,81</b>	<b>3,81</b>	<b>7,19</b>	<b>20,83</b>	<b>2,11</b>

#### Notes

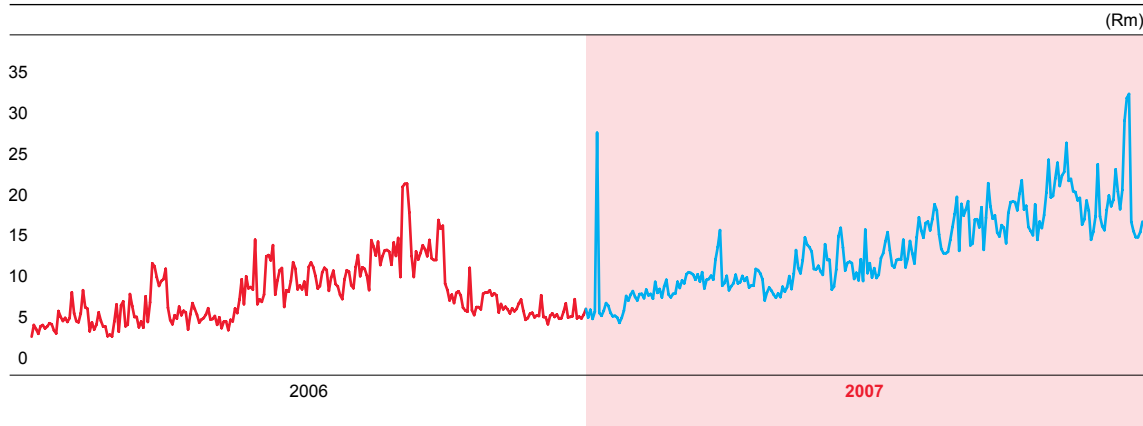
<sup>1</sup>The high (and low) DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) total DVaR. Consequently a diversification effect number for the high (and low) DVaR figures would not be meaningful and is therefore omitted from the above table.

<sup>2</sup>The year-end total DVaR for 2007 was R16,19 million (2006: R4,80 million). The year-end total value at risk over a 10-day holding period at a 99% confidence level for 2007 was R55,04 million (2006: R19,12 million).

<sup>3</sup>Credit spread risk remains small and is reported together with interest rate risk.

The graph below shows the history of Absa Capital's total trading book DVaR on a daily basis for 2006 and 2007. Throughout 2007, Absa Capital's total trading book DVaR remained within the approved risk appetite and DVaR limit. The trend for 2007 reflects a controlled take-on of risk in line with Absa Capital's business plan. Absa Capital does, on some occasions in the conduct of client transactions, take on significantly larger than usual market risk. However, this is always undertaken within Absa's market risk governance framework.

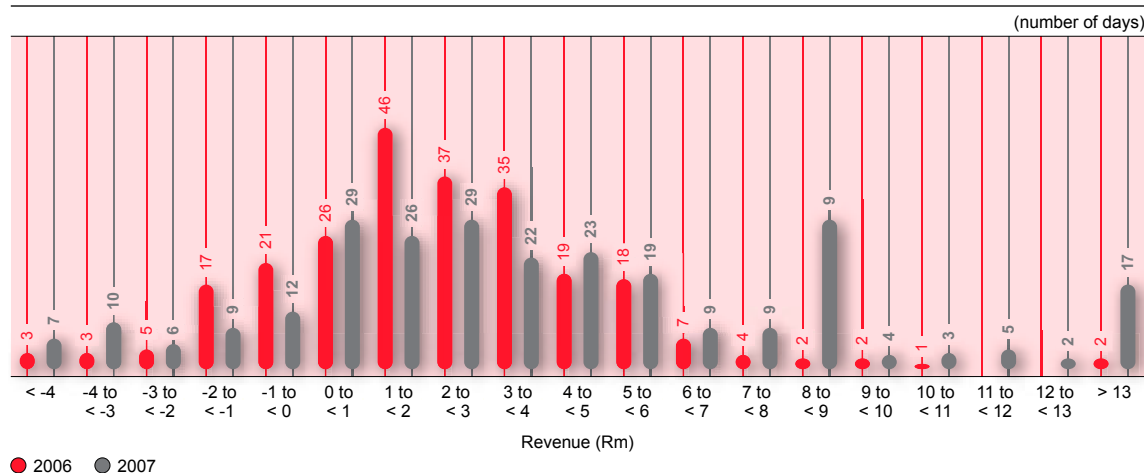
### ABSA CAPITAL TRADING BOOK TOTAL DVaR (daily values)



### Analysis of trading revenue

The graph below shows the frequency distributions of daily trading revenue for Absa Capital during 2007 and 2006. The distributions are skewed to the profit side, with revenue in 2007 up from 2006. The average daily revenue in 2007 was R3,4 million (2006: R2,2 million) and there were 206 positive revenue days out of 250 (2006: 199 positive revenue days out of 248).

### ABSA CAPITAL DAILY TRADING REVENUE



### Banking book interest rate risk

Interest rate risk is the risk that Absa's financial condition may be adversely affected as a result of changes in interest rate levels, yield curves and spreads. Banking book interest rate risk arises from the provision of retail and wholesale (non-traded) banking products and services, as well as certain structural exposures on the Group balance sheet. These risks impact both the earnings and the economic value of the Group.

Banking book interest rate risk management strategies considered by the asset and liability committees and MRC include:

- strategies regarding changes in the volume, composition, pricing and interest rate risk characteristics of assets and liabilities; and
- the execution of applicable derivative contracts to maintain the Group's interest rate risk exposure within limits. Where this is the case, hedge accounting is applied where possible so that the benefits of risk management are reflected in the financial statements. Hedge accounting techniques used include cash flow hedge accounting and fair value hedge accounting and may involve applying hedge accounting with respect to future anticipated transactions. The applicable accounting rules as stipulated in the Group's accounting policies are followed.

### Domestic banking book

As part of Absa Group Treasury's balance sheet management role, interest rate exposures arising from the repricing mismatches of assets and liabilities in the domestic banking book are transferred from the businesses to Absa Group Treasury through matched funds transfer pricing. These positions are aggregated and the net exposure is hedged with the market via Absa Capital. Mainly owing to timing considerations, market risk can arise when some of the net position stays with Absa Group Treasury.

Structural interest rate risk arises from the variability of income from non-interest-bearing products, managed variable rate products and the Group's equity, and is managed by Absa Group Treasury.

# Risk management report

## **Foreign banking books**

Banking book interest rate risk is also taken in each of the Absa Africa subsidiaries to support and facilitate customer activity, and is managed by local treasury functions subject to modest risk limits and other controls. Each of the Absa Africa subsidiaries has its own asset and liability committee, which monitors banking book interest rate risk, and reports into the central Absa Africa Asset and Liability Committee. The central market risk team maintains regular contact with the treasuries and oversees a comprehensive risk management and reporting framework. On-site supervision visits by the central market risk team are conducted at least annually.

## **Risk measurement**

The techniques used to measure and control banking book interest rate risk include annual earnings at risk, daily value at risk and stress testing.

### *Annual earnings at risk (AEaR)*

AEaR measures the sensitivity of net interest income over the next 12 months to a specified shock in interest rates. Where appropriate, AEaR is assessed across a range of interest rate scenarios, including parallel shocks, yield curve twists, inversions and other relevant scenarios. Key AEaR measures are reported to the MRC and the African asset and liability committees monthly.

The structural balance is hedged using a portfolio of swaps where the maturity is based on the assumed stability of the underlying balance. The AEaR calculation takes into account both the underlying structural balance and the portfolio of swaps.

### *Daily value at risk (DVaR)*

Outside Absa Capital, Absa uses a simplified approach to calculate DVaR. It is used as a complementary tool to AEaR. Both AEaR and DVaR are supplemented by stress testing.

### *Stress testing*

Stress testing is carried out by each business. The stress testing is tailored to each banking book and consists of a combination of stress scenario and historical stress movements applied to the respective banking books. Stress testing results are reviewed by senior management, the central market risk team and the African asset and liability committees. Key stress testing results are reported to the MRC.

## **Repricing profile**

The repricing profile of the Group's domestic and foreign subsidiary bank books is depicted in the table on the next page. Items are allocated to time periods with reference to the earlier of the next contractual interest rate repricing date and the maturity date. Instruments which have no explicit contractual repricing or maturity dates are placed in time buckets according to management's judgement and analysis, based on the most likely repricing behaviour. For example, retail deposits are repayable on demand or at short notice, but form a stable base for the Group's operations and liquidity needs because of the broad customer base – numerically and by depositor type.

The repricing profile shows that the consolidated banking book remains asset-sensitive, or positively gapped, as interest-earning assets reprice sooner than interest-paying liabilities before and after derivative hedging activities. Thus, future net interest income remains vulnerable to a decrease in market interest rates. Hedging activities undertaken during 2007 resulted in a less asset-sensitive profile, compared with 2006, contributing to greater future interest margin stability.

## EXPECTED REPRICING PROFILE

	31 December 2007			
	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
<b>Domestic bank book</b>				
Interest rate sensitivity gap	104 629	(25 904)	(38 779)	(27 734)
Derivatives	(77 307)	19 375	27 591	30 342
Net interest rate sensitivity gap	27 322	(6 529)	(11 188)	2 607
Cumulative interest rate gap	27 322	20 793	9 605	12 213
Cumulative gap as a percentage of Absa Bank Limited's total assets	4,7%	3,5%	1,6%	2,1%
<b>Foreign subsidiary bank books</b>				
Cumulative interest rate gap	(233)	(113)	(130)	(37)
Cumulative gap as a percentage of foreign subsidiaries' total assets	(3,0%)	(1,5%)	(1,7%)	(0,5%)
<b>Total</b>				
Cumulative interest rate gap	27 089	20 680	9 475	12 176
Cumulative gap as a percentage of Group total assets	4,2%	3,2%	1,5%	1,9%

	31 December 2006			
	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
<b>Domestic bank book</b>				
Interest rate sensitivity gap	98 262	(20 696)	(34 692)	(23 724)
Derivatives	(53 236)	8 925	25 855	18 457
Net interest rate sensitivity gap	45 026	(11 771)	(8 837)	(5 267)
Cumulative interest rate gap	45 026	33 255	24 418	19 151
Cumulative gap as a percentage of Absa Bank Limited's total assets	9,9%	7,3%	5,4%	4,2%
<b>Foreign subsidiary bank books</b>				
Cumulative interest rate gap	(406)	(325)	(159)	(48)
Cumulative gap as a percentage of foreign subsidiaries' total assets	(6,5%)	(5,2%)	(2,6%)	(0,8%)
<b>Total</b>				
Cumulative interest rate gap	44 620	32 930	24 259	19 103
Cumulative gap as a percentage of Group total assets	9,0%	6,7%	4,9%	3,9%

### Notes

- Derivatives for interest rate risk management purposes (net nominal value).
- The following banking books are included: Absa Bank domestic banking book; National Bank of Commerce (Tanzania); and Barclays Bank Mozambique S.A.
- 2006 has been restated. Barclays Bank Mozambique S.A.'s defined-benefit pension fund assets and liabilities for 2006 are comparable with the 2007 treatment. Additionally, reporting has been done on the basis of expected repricing (previously contractual repricing), which more closely reflects Absa's judgement and past repricing experience. Expected repricing assumptions are approved annually by the MRC.

### Analysis of annual earnings at risk

The table on the following page shows the annual net interest income sensitivity in the Group's domestic and foreign subsidiary bank books. Assuming no management action in response to interest rate movements, a hypothetical immediate and sustained parallel drop of 100 basis points in all interest rates would generate a reduction in projected net interest income of R376 million. The decrease in total net interest income sensitivity was mainly owing to a less asset-sensitive profile in 2007, compared with 2006.

# Risk management report

## NET INTEREST INCOME SENSITIVITY (AEaR) FOR A 100 BASIS POINT DROP IN INTEREST RATES

		Domestic bank book	Foreign subsidiary bank books	Total
As at 31 December 2007	Change (Rm)	(377)	1	(376)
	Percentage of projected 12 months net interest income (%)	(1,81)	0,21	(1,75)
	Percentage of Group equity (%)	—	—	(1,00)
As at 31 December 2006	Change (Rm)	(416)	3	(413)
	Percentage of projected 12 months net interest income (%)	(2,33)	0,64	(2,25)
	Percentage of Group equity (%)	—	—	(1,30)

### Notes

- The following banking books are included: Absa Bank domestic banking book (including exposures held in the Absa Capital banking book); National Bank of Commerce, Tanzania; and Barclays Bank Mozambique S.A.
- 2006 has been restated. The change reflects the inclusion of the African banking subsidiaries.
- Banking book interest rate risk as managed by each of Absa Capital, Absa Group Treasury and the Absa Africa subsidiary treasuries are also measured in terms of DVaR and subject to DVaR limits.

### Other market risks

#### Equity investment risk in the banking book

Equity investment risk refers to the risk of changes in the value of listed and unlisted equity investments owing to price risk. These investments are longer-term investments, including investments made for strategic or operational reasons.

Equity investments are managed in terms of the new ventures and asset framework. The GIC is responsible for the approval and monitoring of all equity investments within its mandate. The new ventures and asset policy framework requires a specific sign-off procedure to be followed prior to the approval of an investment, and requires regular investment performance reviews to be performed. Reports on the overall investments are provided to the GRCMC. The MRC regularly reviews the market risk arising from the two main equity investment portfolios in Absa Capital and ACBB. Equity investments are primarily managed in accordance with the purpose and strategic benefits of such investments. Risk and capital implications are tracked against approved risk appetite and other constraints.

Further information is provided in notes 12 and 13 to the financial statements.

#### Asset management structural market risk

Asset management structural market risk arises where the fee and commission income earned by asset management products and businesses are affected by a change in market levels, primarily through the link between income and the value of assets under management. This exposure arises mainly within Absa Financial Services. The risk is measured in terms of AEaR and is controlled and managed by the affected businesses, and reviewed by the MRC and the central market risk team. Asset management structural market risk was not material during 2007.

#### Defined-benefit pension risk

The Group has different pension plans with defined-benefit and defined-contribution structures. In respect of defined-benefit pension plans, the ability of these plans to meet the projected pension payments is maintained through investments and regular contributions. Market risk arises because the estimated market value of the pension fund assets might decline or their investment returns might reduce or because the estimated value of the pension liabilities might increase, resulting in a funding deficit. In these circumstances, the Group could be required or might choose to make additional contributions to the pension fund.

Financial details of the pension plans are provided in note 44 to the financial statements.



### **Foreign exchange risk**

The Group considers two sources of foreign exchange risk: non-structural foreign exchange transaction exposures and structural foreign exchange translation exposures.

Non-structural foreign exchange risk arises when a business undertakes a transaction in a currency other than its functional currency. Absa's policy is for non-structural foreign exchange risk to be concentrated and managed in the Absa Capital trading book, as reported in note 58.2.2 to the financial statements. In accordance with this policy, there were no material net currency exposures outside Absa Capital that would give rise to material foreign exchange gains and losses being recognised in the profit and loss account. The MRC approves a small open position and DVaR limits for each of the Absa Africa subsidiary treasuries to support and facilitate customer activity. Foreign exchange exposures are monitored daily against these limits and reported monthly to the various Africa asset and liability committees and the MRC.

Structural foreign exchange risk arises primarily in relation to the Group's foreign investments in subsidiaries, branches or associated undertakings, the functional currencies of which are currencies other than the Group's presentation currency, the South African rand. For consolidation purposes these are periodically translated into rand on a periodic basis, according to the accounting treatment set out in note 1.5 to the financial statements. Rand equivalent values are thus affected by exchange rate movements, which may impact either the income statement or equity.

Non-structural and structural foreign exchange risk is covered in note 58.4 to the financial statements.

### **Liquidity risk**

#### **Definition of liquidity risk**

Liquidity risk is the risk of Absa being unable to meet its payment obligations when they fall due and being unable to replace funds when they are withdrawn. The risk that it will be unable to do so is inherent in all banking operations and can be impacted by a range of institution-specific and market-wide events including, but not limited to, market rumours, credit events, payment system disruptions, merger and acquisition activity, systemic shocks, terrorist attacks and even natural disasters.

#### **Liquidity risk management**

Absa Group Treasury is responsible for the management of liquidity risk on behalf of the Absa Group. Liquidity risk is managed in terms of the liquidity risk control framework and policy document, as approved by GRCMC. This policy describes the framework of responsibilities, processes, reporting and assurance that supports the management of liquidity risk across Absa.

Prudent management of liquidity contributes positively to earnings, with sound liquidity risk management being pivotal to the viability of Absa and the maintenance of overall banking stability. Absa believes that the management of liquidity should encompass an overall balance sheet approach, which consolidates all sources and uses of liquidity, while aiming to maintain a balance between liquidity, profitability and interest rate risk considerations.

In order to effectively manage liquidity risk, Absa is required to measure, monitor and manage on- and off-balance-sheet liquidity mismatch risk, taking cognisance of business-as-usual liquidity conditions, stress liquidity scenarios, guidelines and limits as set by the GRCMC, regulatory requirements and requirements in terms of best practice liquidity contingency planning.

Liquidity management in Absa focuses on a number of key areas including:

- the continuous management of net anticipated cash outflows, between assets and liabilities, within approved cash outflow limits set for periods of one day, one week and monthly out to 12 months;
- the ongoing management of key liquidity ratios such as the short-term funding ratio, the short-term contractual and behavioural mismatch ratios, participation in the money market shortage and concentration in deposits;

## Risk management report

- the active participation in local money and capital markets required to support day-to-day funding needed to refinance maturities, meet customer withdrawals and growth in advances;
- the maintenance of a portfolio of highly liquid assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- the monitoring and managing of liquidity costs; and
- the ongoing assessment and evaluation of various funding sources designed to grow and diversify Absa's funding base to achieve an optimal funding profile and sound liquidity risk management.

The efficient management of liquidity risk is essential to Absa to ensure that financial market confidence is maintained at all times. The Absa liquidity risk management process therefore focuses on the requirement of being able to meet commitments as they fall due, at an appropriate cost, while maintaining market confidence at all times.

### *Liquidity risk measurement*

Measurement of liquidity risk begins with the quantification of the projected net cash flows likely to occur over various time buckets, after taking cash flows associated with both assets and liabilities into account. In addition to managing cash outflow, Group Treasury monitors its participation in the money market shortage, short- and long-term funding ratios, short-term contractual and behavioural maturity mismatch ratios, as well as its off-balance-sheet liquidity risk. Sources of liquidity are regularly reviewed to maintain a wide diversification by provider, product and term.

On the basis of stress testing and scenario analysis, Group Treasury estimates the stress funding requirement likely to manifest under various stress scenarios. The quantum of available stress funding sources, along a continuum of risk scenarios, is then estimated in terms of formulating and evaluating liquidity contingency plans. The objective of this analysis is to ensure that available sources of stress funding are adequate given the outcome of the stress testing analysis.

**Business resumption plans are formulated and encompass decision-making authorities, internal and external communication and, in the event of a systems failure, the restoration of liquidity management and payment systems.**

### *Basel II and liquidity risk*

Absa implemented Basel II liquidity risk management requirements on 1 January 2008 and has met SARB and industry timelines. During the past year, good progress has been made in respect of the following focus areas: further developing and refining contractual, behavioural and stress liquidity mismatch modelling capabilities, developing models designed to quantify and monitor available sources of stress funding, designing processes and formulating strategies that form part of liquidity contingency planning in terms of managing potential liquidity stress events.

### **Operational risk**

#### *Definition of operational risk*

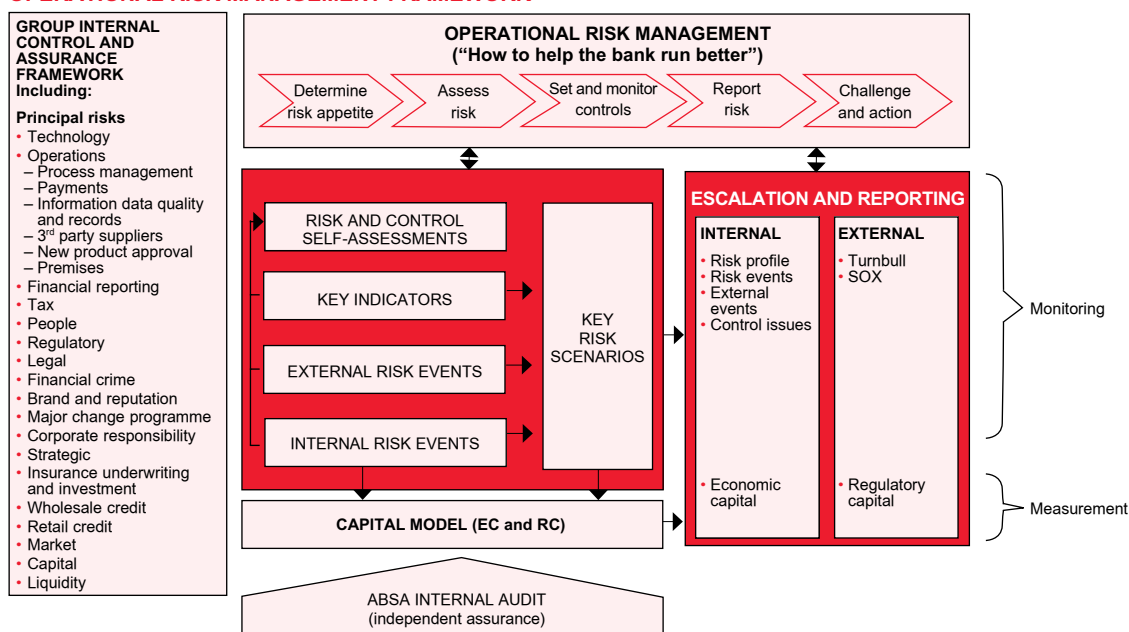
Operational risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes or systems, human factors, or from external events. Operational risk is thus the risk of failure, or near failure, of critical business processes and their underlying operational systems and data. Operational risk is typically not taken in return for expected reward, but exists in the natural course of corporate activity. Major sources of operational risk include fraud, regulatory compliance, recruitment, training and retention of talent, operational process reliability, information technology security, outsourcing of operations, dependence on key suppliers, implementation of strategic change, integration of acquisitions, human error, customer service quality, regulatory compliance, and social and environmental impacts.

### Absa's operational risk framework

Absa's current operational risk framework was implemented as early as 2003 to meet internal and regulatory requirements. There has been significant investment in the implementation of improved measurement and management approaches for operational risk to strengthen control, improve customer service and minimise operating losses. The SARB has granted Absa a waiver to apply AMA under Basel II, which commenced from the beginning of 2008. Absa works closely with the industry, both local and international, on operational risk methodologies and practices.

It is not cost-effective to attempt to eliminate all operational risks and in any event it would not be possible to do so. Events of small significance are expected to occur and are accepted as inevitable, however, events of material significance are rare and Absa seeks to reduce the risk from these in a framework consistent with its agreed risk appetite.

### OPERATIONAL RISK MANAGEMENT FRAMEWORK



The role of the Group's centralised operational risk department is to establish and implement the operational risk framework for the modelling and managing of Absa's operational risk, while reinforcing an enabling operational risk management culture throughout Absa. The aim is to integrate, based on international norms and best practices, all operational risk activities in Absa and to compile a reliable operational risk profile contributing to Absa's risk-reward profile.

The key advantage introduced by the current framework is the financial quantification and modelling of operational risk. This capability has significantly improved Absa's operational risk measurement and management capabilities.

### Responsibility for and control of operational risk

The primary responsibility for managing operational risk rests with the business unit. Operational risk management forms part of the day-to-day responsibilities of all business unit management. All staff share responsibility for the effective management of operational risk. They must report any known breakdowns in control and any risk events that may result in financial loss and/or reputation damage. The business unit head is responsible for ensuring that the operational risk framework has been embedded within the business unit. Operational risk management is monitored at the monthly ORC and at the quarterly DRG&CCs. The Absa operational risk profile is presented to the GRCMC quarterly. Control effectiveness is monitored at the divisional risk, governance and control committees and at the

# Risk management report

GGCC with a subsequent control issue report presented at the GACC. The Absa Internal Audit (AIA) function provides the board and senior management with an independent assurance process for operational risk control across the organisation.

## *Measuring and managing operational risk*

Absa recognises the significance of operational risk and is committed to enhancing the measurement and management thereof.

Within Absa's operational risk framework, qualitative and quantitative methodologies and tools are applied Group-wide to identify and assess operational risks and to provide management information for determining appropriate mitigating measures.

## *Risk event data collection and reporting*

A standard process is used Group-wide for the recognition, capture, assessment, analysis and reporting of risk events. This process is used to help identify where process and control requirements are needed to reduce the recurrence of risk events. Risk events are loaded onto a central database and reported monthly to the ORC.

Absa also uses a database of external public risk events and is part of a consortium of international banks that share loss data information anonymously to assist in risk identification, assessment and modelling.

## *Key risk scenarios*

Absa generates key risk scenarios (KRSs) quantifying the Group's operational risks. These KRSs are informed by internal data, including internal loss experience, risk and control assessments, key indicators and audit findings, by external loss data and by expert management judgement. In addition to serving as major input to the operational risk capital model, KRSs also inform management of Absa's operational risk landscape.

## *Reporting*

Business units are required to report on both a regular and an event-driven basis. The reports include a profile of the key risks to their business objectives, control issues, key indicator dashboards and operational risk events. Specific reports are regularly prepared for the DRG&CCs, the ORC, GRCCMC, GGCC and GACC. In particular, the operational risk profile report is provided quarterly to the GRCCMC.

## *Capital modelling*

The model applied to determine Absa's operational risk capital has passed rigorous review, validation and approval in accordance with Absa's model risk governance processes. Operational risk capital is allocated on a risk-sensitive basis to business units in the form of EC charges, providing an incentive to improve controls and to manage these risks within appetite levels.

## **Basel II**

Absa has been granted a waiver by the SARB to apply an AMA for Group-wide consolidated and bank solo regulatory capital reporting. The exceptions to the application of AMA are Barclays Bank Mozambique S.A. and the National Bank of Commerce Limited (Tanzania) where the AMA is currently being rolled out and the standardised approach is therefore applied. Other exceptions include joint ventures and associates where Absa may not be able to determine the operational risk framework implemented.

**Absa models its key operational risks across the Group by constructing and modelling KRSs. The KRSs are validated at business unit and at Group level to ensure that they appropriately reflect the level of operational risk.**

Absa does not currently use insurance or expected losses to offset its regulatory capital requirement for operational risk.

The following principal risks are included in the definition of operational risk:

**Financial crime risk** – Financial crime risk is the failure to monitor, report and act on financial crime and money laundering exposing Absa to losses, penalties and reputation damage. The Forensic Services function is dedicated to combating financial crime, and more specifically fraud, theft, corruption and related criminal activities which can collectively be referred to as “fraud”.

To ensure effective fraud risk management and to give effect to the Absa board’s expectations for fraud to be clearly assessed, directed, controlled, reported, managed and challenged, the Absa financial crime risk control framework and policies document was implemented in 2007.

This document sets out the framework adopted by Absa for the identification, assessment and management of fraud risk. It requires business areas throughout the Group to conduct fraud risk self-assessments twice a year, thereby enhancing awareness, highlighting fraud risks and assisting with the development of fraud reduction and prevention measures. This approach is in line with the principle that the primary responsibility for the management of risk resides with business. The first round of fraud risk assessments was performed in 2007.

The framework is supported by the Group’s forensic services, anti-corruption, ethics in the workplace and whistle-blowing policies.

Forensic Services continuously monitors fraudulent activities against Absa by way of its board membership and participation in industry bodies such as the South African Bank Risk Intelligence Centre (SABRIC) and the South African Fraud Prevention Services (SAFPS). Close relationships are also maintained with the commercial branch of the South African Police Service and other role players in the criminal justice system.

During 2007, Forensic Services was actively involved in assisting Absa’s African subsidiaries in Angola, Mozambique and Tanzania in aligning their fraud management policies and procedures to Absa’s fraud risk control frameworks (FRCF). In addition, Absa’s forensic service and anti-corruption policies are in the process of being embedded in these operations. Clear fraud-reporting procedures were introduced in these subsidiaries.

The management of fraud is achieved by actively investigating all incidents of fraud based on a zero-tolerance approach, risk identification and awareness initiatives and proactive fraud prevention strategies. Close working relationships are maintained with the business units to assist them with the identification and management of the fraud risk unique to their business.

Methodologies within the fraud management process are constantly being revised to ensure alignment with Barclays as well as international best practice.

## Risk management report

**Financial reporting risk** – Financial reporting risk is the risk that the Group's internal controls over financial reporting fail to detect a material misstatement or omission within the Group's external financial reporting. This risk is assessed as part of the Group's formal governance processes and the control frameworks are reviewed by the Group Finance Director, divisional control and compliance committees and the GACC. Key policies supporting the management of this risk include account ownership and reconciliation policy, intercompany accounting policy and the Absa Group accounting policies. Significant processes and key controls are also subjected to the Sarbanes-Oxley methodology. This risk is mitigated through the following:

- The Group employs high-quality finance professionals and provides ongoing technical training.
- Processes and controls are well documented and tested on a regular basis.
- The Group takes appropriate advice from reputable professional firms.
- Financial results as well as underlying controls are subjected to internal and external audit on an annual basis.
- Results are reviewed by the GACC and the Technical Disclosure Committee before being published.

**Tax risk** – Tax risk is the risk associated with changes in tax law or in the interpretation of tax law. It also includes the risk of changes in tax rates and the risk of failure to comply with procedures required by tax authorities. Failure to manage tax risks could lead to an additional tax charge. It could also lead to a financial penalty for failure to comply with the required tax procedures or other aspects of tax law. If, as a result of a particular tax risk materialising, the tax costs associated with particular transactions are greater than anticipated, it could affect the profitability of those transactions.

The Group is subject to the tax laws in all the countries in which it operates. The Group takes a responsible and transparent approach to the management and control of its tax affairs and related tax risk:

- The Group has a tax risk management framework in place with clearly defined governance processes.
- Tax risks are assessed as part of the Group's formal governance processes and are reviewed by the Group's Tax Committee, Group Finance Director, GRMC and GACC.
- The tax risks of proposed transactions or new areas of business are fully considered before proceeding.
- The Group takes appropriate advice from reputable professional firms.
- The Group employs high-quality tax professionals and provides ongoing technical training.
- The Group uses effective, well-documented and controlled processes to ensure compliance with tax disclosure and filing obligations.

### **Legal risk**

**Legal risk refers to the exposure of Absa arising from business not conducted in accordance with applicable laws. The responsibility to proactively manage legal risk in Absa rests with the General Counsel.**

Legal risk is managed through the application of a legal principal risk control framework and four legal principal risk policies namely:

- the documentation policy;
- the use of law firm policy;
- the litigation management and provisioning policy; and
- the intellectual property policy.

In terms of the documentation policy, all legal agreements, other than standard agreements to which Absa is a party, have to be approved by the General Counsel or a law firm on Absa's approved panel. All standard agreements have to be reviewed by the General Counsel every two years. A review of all Absa's standard agreements was conducted during 2007.

The use of the law firm policy provides that Absa must have an approved panel of law firms representing the Group. In addition, all instructions to panel law firms must be given through to the General Counsel. This requirement is, among other things, aimed at ensuring that law firms are instructed in the correct manner and only when required, as well as monitoring the quality of the service provided and the fees charged. Under exceptional circumstances non-panel firms may be instructed with the prior approval of the General Counsel.

The litigation management and provisioning policy requires that all litigation and legal disputes within Absa must be managed by the Absa Legal Litigation and Disputes team. The policy also prescribes the circumstances under which provisions must be raised in respect of litigation. The litigation management and provisioning policy is supported by other subordinated policies.

The intellectual property policy deals with the protection of Absa's intellectual property.

**Operations risk** – Operations risk is the risk associated with the execution and the day-to-day running of Absa's business processes. These include risks related to:

- inadequately designed or missing processes;
- inappropriate new product development;
- ineffective management of information, data quality and records;
- failure of operations in payment processes;
- failure of inadequacy of third-party suppliers; and
- the non-availability of premises.

Sound management of operations risk is key to the delivery of efficient and effective services. As the principal risk owner, the Chief Operating Officer (COO) sets the policies and measurement standards for operations and is responsible for ensuring that a consistent framework for operations risk management is applied across Absa. The COO also provides a semi-annual attestation on the effective discharge of responsibilities for operations risk. The COO team drives continuous improvement and process re-engineering.

### **People risk**

**People risk encompasses all of the risks Absa is exposed to by virtue of being an employer, in all of its businesses and fields of operation.**

People risk includes: the lack of an appropriate people resource; failure to manage performance and reward; failure to comply with health and safety requirements; failure to comply with equality and diversity requirements; failure to comply with employment legislation; and unauthorised/inappropriate activity.

It is the aim of Group Human Resources to have the best people working for Absa. To attract and retain talented individuals, the following has been successfully implemented:

- A competitive remuneration strategy.
- A cutting-edge recruitment technique to ensure the selection of the highest calibre individuals.
- A robust performance management system which creates both a clear line of sight for Absa as a whole, yet caters for the development of individuals.
- Leadership reviews that act as formal forums for the identification, management and retention of employees.
- A talent identification and management framework that links closely with risk management, succession and career path discussions of individuals.
- Various development interventions are in place to ensure continuous development.
- The management of skills development through a skills plan as dictated by the national and industry skills framework.

## Risk management report

**Regulatory risk** – Regulatory risk is the failure to comply with applicable financial services regulatory rules and regulations exposing Absa to penalties and reputation damage. Absa's board, through the GCE and Group Exco, delegates to the Absa compliance officer the authority to ensure that the compliance process is running effectively and to monitor adherence to the statutory, regulatory and supervisory requirements.

While management is responsible for managing regulatory risk, the Absa Compliance function assists management in discharging this duty within the respective business units. A new compliance organisational structure was implemented during 2007 to provide more effective support to all business units, including the Africa unit.

The compliance role and responsibilities as prescribed by the Banks Act are discharged by adhering to a compliance methodology that has been developed and benchmarked with industry and international best practice. Absa Compliance actively participates in the industry and is represented on the board of the Compliance Institute of South Africa.

Since incorporation with the Barclays Group, Absa Group Compliance has implemented 16 policies, the maintenance and management of these being the responsibility of the Compliance department. These policies not only implement best practice but ensure that Absa complies with legislation applicable to the Barclays Group. Relationships with Barclays counterparts were established and mutual understanding was improved during the financial year enabling Group Compliance to leverage off the collective expertise and know-how in the Barclays Group. Absa Compliance also continued with the roll-out of the compliance methodology and anti-money-laundering best practice in the Africa subsidiaries.

With the increasingly demanding regulatory environment applicable to the financial services sector, banks are under pressure to comply with various new and amended regulatory requirements. In order to understand and assess the impact of such new and amended regulations on the business of Absa, the New Regulatory Requirement Forum focuses on scanning and evaluating these for Absa and its business areas. The legal and regulatory process in the Absa subsidiaries also achieve this objective.

During 2007, Absa's Compliance department was involved in various initiatives, ranging from supporting the Absa Group in the development of training material for Absa employees and providing input in various projects. The successful implementation of the NCA was one of the major achievements of 2007.

Other initiatives include the enhancement of the protected disclosures process, the development of Competition Act training, and the implementation of the contact with regulator policy, reinforcing the importance of ensuring a transparent and well-managed relationship with regulators.

The Absa board requires that the regulatory risk associated with Absa's business activities be clearly directed, assessed, controlled, reported and managed/challenged. To give effect to this, the Absa regulatory risk control framework and policy was implemented, the objective of which is to ensure an adequate level of risk control regarding regulatory risk.

Various anti-money-laundering-terrorist-financing (AMLTF) initiatives took place to ensure compliance with international regulatory requirements. The anti-money-laundering, terrorist financing and sanctions risk control framework and policies were implemented, which set out the framework adopted by Absa for the identification, assessment and management of money-laundering, terrorist financing and sanctions risk.



**Technology risk** – Technology risk is the risk of catastrophic failure of technology to deliver secure IT services which provide critical business services. It refers to the risk associated with running and changing the IT infrastructure in support of business operations and ongoing strategy. Subrisks included are:

- the non-availability of IT systems – the risk associated with the unavailability of IT systems that support business processes;
- inadequate design and testing of new and changed IT solutions – the risk that the implementation of a new IT system or change to an existing IT system fails, impacting business operation; and
- inadequate system security – the risk of unauthorised access to IT systems, resulting from inadequate IT systems security controls being in place.

Absa's Chief Information Officer manages Absa's information technology and enables business growth and change through its project and service delivery capability. During the past year, the following was achieved: well-managed audit and risk processes, Sarbanes-Oxley compliance and attestation as per the Absa Group directive, and alignment with Barclays technology risk management, and reporting requirements. From a technology risk perspective, Absa is well positioned to face challenges such as the national electricity supply, shortage of specific skills in the South African market and supplier management within an unfavourable economic environment.

**Brand and reputation risk** – Brand and reputation risk refers to the failure to understand, identify or subsequently manage things that could negatively impact the Absa brand and reputation. A strong corporate reputation is an invaluable asset to a financial services institution. Absa recognises the benefit of maintaining and improving its corporate reputation at all times, and the Brand and Reputation Risk Committee closely monitors any potential threat to Absa's reputation.

By managing and controlling the risks incurred in the course of business, Absa protects its reputation. This entails avoiding large concentrations of exposures of all kinds, as well as transactions that are sensitive for tax, legal, regulatory, social environmental or accounting reasons. All new products and investments therefore undergo a rigorous approval process incorporating the assessments of these types of risks in addition to the financial risks.

Absa aspires to the highest standards in protecting the confidentiality and integrity of customer information, and aims to maintain the highest ethical standards in all business dealings. Protecting Absa's reputation is an overriding concern of each employee, particularly those involved in risk decisions.

**Major change programme risk** – Businesses operate in an ever-changing environment and it is essential to deliver up-to-date products and services. A dedicated support function, Group Change and Support Services, enables Absa to respond rapidly to changing business demands through an enhanced, integrated change management and project delivery capability. The definition of the ineffective management of change includes, inter alia, failure of project outputs owing to ineffective project management, reporting and non-adherence to project management principles; failure to inform or calculate/measure and report on the benefits of the change initiative; late delivery not according to documented milestones and requirements; and project costs overrunning.

**During 2007, Absa has successfully implemented major change programmes, including Basel II, and the NCA.**

**Corporate responsibility risk** – Failure to consider corporate and social responsibility issues in both strategic and operational decision-making, could result in the Group suffering reputation damage, financial penalties and loss of credibility in the eyes of stakeholders. Corporate responsibility risk includes the risk of failure to treat customers fairly

## Risk management report

and of failure to identify and manage/reduce the environmental impact of the Group's activities. Corporate responsibility risk is managed through the application of several policies, including the:

- Absa environmental management policy;
- environment, health and safety risk assessment process;
- waste management policy;
- corporate social investment policies;
- FSC reporting governance and policy;
- democracy support policy; and
- political party and government contact policy to include protocols of engagement.

Absa's strategy and objectives in terms of the environment are based on its promise of ensuring a sustainable environment for Absa and its stakeholders and, by so doing, ensuring that Absa's activities do not have a detrimental effect on the environment. Accordingly, Absa follows global standards and its environmental strategy is aligned with that of Barclays.

During the past year, Absa has again demonstrated that it is a responsible and caring organisation committed to ensuring the ongoing conservation of natural resources and the reduction of pollution.

**Absa's environmental management system was implemented in accordance with the ISO 14001 standards and this certification was maintained during 2007 by those business units that are key environmental players. In addition, Absa participated in external environmental endeavours and initiated several successful environmental projects and activities during 2007.**

### Strategic risk

Strategic risk is defined as the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, lack of responsiveness to industry changes and defective strategic planning. This risk is a function of the compatibility of an organisation's strategic goals, the business strategies developed to achieve these goals, the resources deployed against these goals, and the quality of implementation. The Absa Group board and GCE are ultimately responsible for strategic risk. The Head: Group Strategy and Planning is responsible for strategy formulation, implementation, the strategic principal risk framework and governance.

Strategic risks for the Group are such that Absa:

- may not have an enterprise-wide corporate strategy with clear goals, priorities and actions that is viable, implementable and sustainable over the long term and is not rooted in robust fact-based research that adequately test assumptions on which alternative plausible future scenarios are based;
- may not have a corporate strategy that is properly aligned with and supported by business unit level strategies;
- may be unable to implement the defined strategies; and
- may not have a robust and structured process to monitor the execution of the defined strategy that enables the Group to take appropriate and timely corrective actions.

At an Absa business unit level, the strategic risk for Absa Group is that the business unit:

- may not have business strategies with clear goals, priorities and actions that are viable, implementable and sustainable and are not rooted in robust fact-based research that adequately test assumptions;

- may not have strategies that are properly aligned to and support the corporate level strategy;
- may be unable to implement the defined strategies; and
- may not have robust and structured processes to monitor the execution of the defined strategies that enable the business unit to take appropriate and timely corrective action.

The strategic risk control framework policy defines the framework to implement, monitor and manage strategic risk across the Absa Group in a structured manner.

The key responsibilities of the Head: Group Strategy and Planning are to:

- oversee the governance and operational effectiveness of the strategic principal risk framework;
- approve proposed changes to the strategic principal risk framework;
- review strategic risks that could impact across more than one Group business unit;
- oversee the reporting and assurance framework of strategic risk;
- review reporting of Group-wide strategic risk metrics with a focus on where Risk Advisory Group (RAG) thresholds have been breached, why this has happened and what action plans need to be created in order to rectify the situation; and
- manage and report on business unit PRO attestations.

## **Underwriting risk**

### ***Insurance underwriting and investment risk***

In Absa, insurance underwriting activities are predominantly undertaken by Absa Life Limited and Absa Insurance Company Limited. Additional but limited insurance underwriting activities are undertaken by Global Insurance Company Limited, Absa Insurance Risk Management Services Limited, Absa Syndicate Investments Holdings Limited and Absa Manx Insurance Company Limited.

The nature of the operations gives rise to a natural distinction between three types of risk: short-term insurance underwriting risk, long-term insurance underwriting risk and investment risk.

**The boards of directors of Absa Life Limited and Absa Insurance Company Limited, together with the management of the respective companies, take primary responsibility for the management of short-term insurance underwriting risk, long-term insurance underwriting risk and investment risk.**

Management must identify, assess, control, manage and report on all risks related to insurance underwriting.

The GGCC, GRMC and the Absa Financial Services Divisional Risk, Governance and Control Committee are responsible for monitoring risk management and control effectiveness.

### ***Short-term insurance underwriting risk***

Short-term insurance underwriting risk is the risk associated with the underwriting by Absa Insurance Company Limited of fixed and/or moveable assets, accidents, guarantees and liabilities.

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

## Risk management report

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

Warranty insurance contracts protect Absa's customers against breakdown of vehicles. Miscellaneous insurance contracts mainly protect the customers against the risk of legal action and accidental death and medical costs.

The following unique risks, inherent in a short-term insurance company, which contribute to short-term insurance underwriting risk, are considered in the risk management processes:

- Individual risk, which is the risk inherent in a property (movable or unmovable).
- Concentration risk, including geographical risk.
- The difference in rating the risk, compared with the rest of the market.
- Catastrophe risk.
- Specialised risks.
- Fraudulent claims.

Short-term insurance underwriting risk is managed during the underwriting process in the following manner:

- Regular consideration and evaluation of underwriting criteria and limits.
- Regular consideration and evaluation of pricing criteria.
- Reinsurance programme that incorporates the following:
  - Regular evaluation of programme.
  - Retention and treaty limits.
  - Interaction of different agreements to ensure no gaps in cover.
- Catastrophe reinsurance programme.
- Facultative reinsurance arrangements for large and specialised risks.
- Scientific pricing and compilation of an underwriting manual.
- Application of control cycle.

Risks monitored within Absa Insurance Company Limited include the following:

- Monitoring of the claims experience:
  - Loss ratio.
  - Claims frequency.
  - Average claim.
- Monitoring of policy movements:
  - Premium growth.
  - Quality of new business.
- Monitoring of concentration of exposure and changes in environment:
  - Profile analysis.
  - Evaluation of capacity.
  - Monitoring trends in experience.

### *Long-term insurance underwriting risk*

Long-term insurance underwriting risk is the risk associated with Absa Life Limited insuring the life and/or health of individuals or groups of individuals.

The following unique risks inherent in a life insurance company which contribute to long-term insurance underwriting risk are considered in the risk management process:

- Individual risk is the risk inherent in a specific individual or population group; this can also be referred to as concentration risk.
- Group risk is the risk an insurance company is exposed to in respect of a concentration of employer groups, such as mining companies.
- Selection criteria of the company can expose the insurer to risk if it varies from the rest of the market, for example the waiver of HIV tests.
- Skewed exposure to individual risk is the risk that an individual may have a higher risk profile than that of the average individual insured.
- Specialised risk is the risk that the company takes on specific risks in respect of which it does not have the expertise required to evaluate the risk, eg an individual with asthma, or a special type of occupation.

Long-term insurance underwriting risk is managed during the underwriting process in the following manner:

- Annual reporting by the Statutory Actuary on the actuarial soundness of the premium rates in use and the profitability of the business, taking into consideration the reasonable benefit expectation of policyholders; all new rate tables are approved and authorised by the Statutory Actuary prior to being issued. (An independent actuary appointed by the board of the life insurance company and approved by the Financial Services Board performs an evaluation of the financial soundness of the life insurance company at least once a year. The actuary, as part of his statutory duties, needs to report to the Registrar on the soundness of product design, pricing, and underwriting criteria and practices.)
- Regular investigations into mortality and morbidity experience.
- Evaluation of all applications for risk cover in excess of specified limits by experienced underwriters against established standards.
- Defining of treaty limits where all exposures above a certain amount are reassured.
- Considering catastrophe insurance to protect the company against any catastrophe events.
- Setting guidelines and limits which must be adhered to by individual underwriters.
- Having skilled and experienced underwriting employees.
- Conducting facultative reinsurance where individual risks are in excess of the set guidelines or the specific risk falls outside the expertise of the company.
- Conducting HIV tests in excess of certain exposures.
- Conducting medical tests in excess of certain exposures.
- Utilising reinsurance manuals.
- Reviewing requirements and criteria to ensure alignment with the market.
- Ensuring that reinsurance treaties cover the same risks which the company bears, and does not exclude specific events, eg terrorism.
- Analysing underwriting results.

## Risk management report

Risk is monitored in Absa Life Limited with reference to the actual claims experience, exposure analyses done during annual actuarial valuation, managing the underwriting costs per policy to ensure the right balance between the actual risk exposure and the cost of underwriting and the results of the underwriting process.

### *Investment risk*

Investment risk is the risk that earnings for Absa Life Limited and Absa Insurance Company Limited may be adversely impacted by changes in the value of their investments and that the profile of investments may be inappropriate to match the profile of liabilities.

Investment risk for both Absa Life Limited and Absa Insurance Company Limited is managed by selecting and approving asset managers, determining and setting appropriate investment strategies, determining and approving investment mandates with reference to categories of assets and percentage investment, determining appropriate performance measurements, setting risk management limits and determining appropriate hedging strategies.

Investment risk is monitored by performing an annual asset liability matching exercise, monitoring market volatility, comparing actual performance with benchmark performance, and monitoring mandated assets allocation and tracking errors.

Investment risk is further monitored by measuring and comparing the actual EC through the approved limit, based on a value-at-risk calculation.

# Compliance report

## Introduction

As a result of the amendment to the Banks Act, No 94 of 1990 (the Banks Act), all banks were required to establish a compliance function in 2000. This requirement was further entrenched with the promulgation of the Financial Intelligence Centre Act, No 38 of 2001 (FICA), and the Financial Advisory and Intermediary Services (FAIS) Act, No 37 of 2002. A compliance function is also considered to be a valuable contributor to good corporate governance and is supported by the King Code on Corporate Governance (King II).

The increasing more-stringent regulatory environment impacting the financial services sector constantly challenges banks to comply with regulatory requirements. Furthermore, the Absa Group has to comply with not only the South African regulatory framework, but also with that governing the Barclays Group.

Failure to comply can result in reputational risk, financial penalties (personal and corporate) and, in extreme cases, the loss of the Group's licence to perform financial services-related activities.

### THE YEAR UNDER REVIEW

The National Credit Act, No 34 of 2005 (NCA), which had a major impact on compliance management in the Group, was implemented in 2007. In addition to this, emphasis was placed on aligning policies with certain Barclays policies. These policies not only incorporate international best practice, but also ensure that the Absa Group complies with the international regulatory requirements governing the Barclays Group. Various anti-money-laundering-and-terrorist-financing (AMLTF) initiatives took place to ensure compliance with international regulatory requirements.

### COMPLIANCE GOVERNANCE

Although management is responsible for managing compliance risk, Absa Group Compliance assists management to discharge this duty and to manage the compliance risk in business units. Absa's Group Compliance function has, since its inception in 2000, developed into an industry-leading function by applying recognised risk management principles and international best practices. The function's structure and approach enables it to support management at all levels by leveraging off specialised technical skills as well as sound business knowledge. Absa Group Compliance is therefore structured into centralised and decentralised sections. The former is responsible for standard-setting and Group-wide monitoring and forms the centre of expertise regarding legislation and policies impacting the Absa Group. The latter consists of business unit compliance officers, who are deployed into the various business units and are responsible for business-specific monitoring, training and advice, especially with regard to the implementation of the various regulatory requirements.

The compliance role and responsibilities, as prescribed in the Banks Act, are discharged by following methodologies that have been developed and benchmarked with industry and international best practice.

As business unit activities are not static, all compliance risk profiles are updated quarterly to ensure that the risk of non-compliance with regulatory requirements is addressed in all applicable business units. Ongoing monitoring takes place in these areas to ensure that controls are adequate and effective. Any non-compliance identified is reported using the normal governance processes.

Absa Group Compliance is actively involved in imbedding an effective compliance risk management methodology in the African entities in which the Group has a shareholding. Several policies have been implemented and substantial training has been provided. The compliance deliverables are continuously quality assured.

### KEY COMPLIANCE FOCUS AREAS

The Absa Group's key compliance focus areas in 2007 were:

- the NCA;
- international sanctions implementation;

# Compliance report

- the identification of new regulatory requirements;
- enhanced employee awareness relating to regulatory requirements; and
- combating unethical behaviour.

## The National Credit Act (NCA)

The NCA became effective on 1 June 2007 and protects consumers of credit by enhancing consumer rights and introducing minimum disclosure requirements. It attempts to curb over-indebtedness by prohibiting reckless lending and provides for the registration of credit providers with the National Credit Regulator. A Group-wide project resulted in the successful implementation of the Act.

The project resulted in:

- the registration of Absa and its associated persons as credit providers;
- all affected employees being trained in the matters to which the NCA applies;
- revising and/or introducing of a large number of forms and letters to ensure compliance with the NCA;
- updating systems and programmes and converting affected customer records; and
- launching a credit education programme relating to budgeting, the purpose of credit, insurance and credit application and use, and the process of dealing with credit distress. This programme is targeted at LSM 1 to LSM 5 individuals and is run from community halls around the country in languages appropriate to each region.

The Absa Group has also taken an active role in developing products that will assist customers in distress. Emphasis has been placed on rehabilitating customers through counselling, advice and debt consolidation, rather than taking immediate punitive measures against them. The Group also plays an active role in industry forums with other credit providers to arrive at a set of agreed standards and processes in dealing with customers who voluntarily seek counselling and rehabilitation when in credit distress. In addition, the Group supports the industry-wide establishment of the Code of Credit Conduct, which aims to combat consumers' over-indebtedness.

Relating to the approach to languages under the NCA, Absa provides, as far as possible, documentation in plain and understandable language.

Absa has identified over 100 opportunities emanating from the NCA, which will benefit the consumer in terms of issues such as product offerings, pricing and accessibility to credit.

## Anti-money-laundering (AML) and sanctions environment

During 2007, the emphasis was on three primary areas:

- Implementing sanctions and AML controls in the Absa African subsidiaries.
- Embedding the sanctions systems and processes in South Africa.
- Implementing controls in Africa and South Africa to meet the Politically Exposed Persons (PEPs) policy requirements.

Highlights included implementing AML and sanctions processes and systems in the Angolan, Tanzanian and Mozambican subsidiaries, integrating the Absa African operations' customer and screening applications, meeting the requirements of the revised PEPs policy and embedding the Absa South Africa sanctions processes for customer and payments screening.

The focus for 2008 will be on finalising the customer screening and information gathering exercises to ensure that the AML and sanctions risk associated with customer relationships is adequately addressed in Absa, in South Africa, and in its African subsidiaries.



### **New regulatory requirements**

The regulatory landscape in the financial services industry is characterised by constant change – amendments to existing regulatory and policy-related requirements and the introduction of new requirements. To understand and assess the impact of these changes and amendments on the business and the way the Absa Group conducts business, the Group has a New Regulatory Requirement Forum, which focuses on scanning and evaluating the entire regulatory landscape per business area, as well as for the Group as a whole. A defined and value-adding process is followed. Changes, amendments and new additions are assessed, based on all the identified risk components, and remediation-related controls are developed and implemented to mitigate the assessed risk.

### **Enhanced employee awareness through the Employee Compliance Conduct Guide (ECCG)**

Through the ECCG and the associated Group-wide attestation process, Absa Group employees are made aware of the most pertinent compliance-related policies and behaviours expected of all employees.

The ECCG contains references to all the most pertinent compliance-related policies (including those pertaining to combating corruption) and is revised annually and distributed to all Absa Group employees.

### **Combating unethical behaviour**

As part of the Absa Group's compliance risk management process, control measures have been put in place to mitigate the risk of corrupt activities taking place, in contravention of the Prevention and Combating of Corrupt Activities Act. The Group's ethics policy was implemented as a control to address this specific risk. The Absa Group also adopted an anti-corruption policy applicable to all employees and aligned with this Act.

Through the Tip-Offs Anonymous hotline, employees (and other stakeholders) may report instances of unlawful or unethical behaviour, which are investigated by the relevant specialist areas. These investigations are monitored by Absa Group Compliance. Identified issues and trends are reported to the appropriate forums in the Absa Group governance structures.

This process seeks to support procedures in terms of which employees who disclose information about impropriety or unlawful or corrupt conduct by their employer or fellow employees are protected from occupational detriment, such as being subjected to any disciplinary action or being dismissed, suspended, demoted, harassed or intimidated, as defined in the Protected Disclosures Act, No 26 of 2000.

### **ALIGNMENT WITH BARCLAYS PROCESSES AND POLICIES**

Absa has aligned a number of its policies with those of Barclays. These policies not only facilitate conformance with international best practice but also ensure that Absa complies with the international regulatory requirements governing the Barclays Group.

### **COMMUNICATION WITH REGULATORS**

The Contact with Regulators policy provides a framework that guides ad hoc contact with any financial services regulatory authority relevant to the Absa Group, ensuring that communication with regulators is handled promptly and professionally.

In terms of the policy, Absa Group Compliance is responsible for providing guidance to business before and during meetings with regulators, for maintaining a log of all commitments made to regulators and for monitoring the progress of commitments.

# Compliance report

## REGULATORY DEVELOPMENTS

### Banks Act/Basel II Capital Accord (Basel II)

Basel II, and hence the amended Banks Act, became effective on 1 January 2008. The Basel II framework sets out the details for adopting more risk-sensitive minimum capital requirements for banking organisations. The new framework reinforces these risk-sensitive requirements by laying out principles according to which banks must assess the adequacy of their capital and supervisors must review such assessments to ensure that banks have adequate capital to support their risks. It also seeks to strengthen market discipline by enhancing transparency in banks' financial reporting. Basel II has necessitated significant amendments to the legal framework in South Africa, specifically affecting the scope and complexity of statutory returns and directives.

### Anti-competitive, anti-trust and monopoly behaviour

In August 2006, the South African Competition Commission (the Competition Commission) launched an enquiry in respect of the South African retail banking sector. In particular, the enquiry focused on the transparency and level of fees and charges imposed on consumers, as well as the need for interchange fees for ATM transactions and the level of interchange fees for payment card transactions.

The Competition Commission is expected to publish its final report in the first half of 2008.

## LOOKING FORWARD

A few new developments that will impact on the Absa Group are in the process of being finalised. The most important of these are those relating to consumer protection and the new Companies Act.

### Consumer protection

The Consumer Protection Bill's stated objectives are the promotion of a fair, accessible and sustainable marketplace for consumer products and services. National norms and standards relating to consumer protection will be established and improved standards of consumer information will be provided for. Certain unfair marketing and business practices will be prohibited and responsible consumer behaviour will be promoted. This law will harmonise existing laws relating to the protection of consumers and promote a consistent enforcement framework relating to consumer transactions and agreements.

A revised draft of the Bill is currently awaited from the Department of Trade and Industry.

### New Companies Act and Corporate Law Amendments Act, No 24 of 2006 (CLA)

The proposed new Companies Act is expected to be promulgated in 2010. The new Act is expected to include provisions pertaining to the types of companies to be formed, the expanded roles and responsibilities of auditors and directors and legislating the role of the audit committee. The CLA has been promulgated with effect from 1 January 2008 as an interim measure to address urgent shortcomings of the current Companies Act.

### Financial Advisory and Intermediary Services (FAIS) Act

The fit and proper deadline date by which all representatives and key individuals must have obtained the required qualifications as prescribed by the FAIS Act, to continue in their roles, is 31 December 2008, although some exceptions apply. This date was extended by the Advisory Committee on FAIS from 30 September 2007 to the date mentioned above, based on the presumption that the new fit and proper guidelines will be published during the course of 2008.

The Financial Services Board (FSB) has established a forum representing all industries affected by FAIS to provide input into the drafting of the new fit and proper requirements that will be applicable to all representatives and key individuals from 1 January 2010. Absa is represented as a member of the FAIS committee of the Banking Association, providing input and attempting to influence the proposed legislation to ensure that the Group will be able to abide by the proposed requirements. Other licensed providers in the Absa Group are also represented by their respective industry bodies at the forum. This amendment is expected to be published during the last quarter of 2008 so that financial services providers can prepare for its implementation.

The FAIS Amendment Bill is expected to be published during the first half of 2008. Among the amendments expected are some altering the enforcement powers of the regulator, the FSB.

# FINANCIAL STATEMENTS

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# Directors' approval

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

The following statement, which should be read in conjunction with the auditors' statement on their responsibilities set out in their report on page 196, is made with a view to distinguish for shareholders the respective responsibilities of the directors and auditors in relation to the financial statements.

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

To enable the directors to meet these responsibilities:

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

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

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

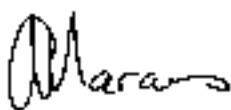
The financial statements of the Group and the Company have been prepared in accordance with the provisions of the Companies Act, No 61 of 1973 (as amended), of South Africa, and the Banks Act, No 94 of 1990 (as amended), and comply with International Financial Reporting Standards (IFRS).

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

It is the responsibility of the independent auditors to report on the consolidated financial statements. Their report to the members of the Group and Company is set out on page 196 of this report.

## APPROVAL OF FINANCIAL STATEMENTS

The directors' report and the financial statements of the Group and the Company, which appear on pages 197 to 394, were approved by the board of directors on 19 February 2008 and are signed by:

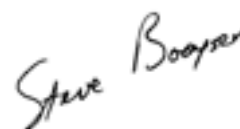


**G Marcus**

*Chairperson*

Johannesburg

19 February 2008



**S F Booysen**

*Group Chief Executive*

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

In accordance with the provisions of the Companies Act, No 61 of 1973 (as amended), of South Africa, I certify that, in respect of the year ended 31 December 2007, the Company has lodged with the Registrar of Companies, all returns prescribed by the Act and that all such returns are true, correct and up to date.



**S Martin**

*Company Secretary*

Johannesburg

19 February 2008

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

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the annual financial statements of the Company and the Group of Absa Group Limited, which comprise the directors' report, the balance sheet and the consolidated balance sheet as at 31 December 2007, the income statement and the consolidated income statement, the statement of changes in equity and the consolidated statement of changes in equity, the cash flow statement and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 197 to 382 and pages 385 to 394.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

### AUDITORS' RESPONSIBILITY

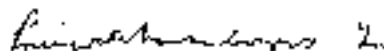
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether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

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

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

### OPINION

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

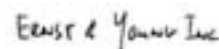


**PricewaterhouseCoopers Inc.**

*Director: T Winterboer*  
*Registered Auditor*

Johannesburg

19 February 2008



**Ernst & Young Inc.**

*Director: E Pera*  
*Registered Auditor*

# Directors' report

## GENERAL AND NATURE OF ACTIVITIES

Absa Group Limited and its subsidiaries (the Group), which has a primary listing on the JSE Limited, is incorporated and domiciled in South Africa and provides retail, commercial, corporate and investment banking services. The Group operates primarily in South Africa and employs over 36 000 people. The address of the Group's registered office is 170 Main Street, Johannesburg, 2001.

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

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

The Group also provides products and services to selected markets in the United Kingdom, Angola, Mozambique and Tanzania.

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

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

## GROUP RESULTS

### Main business and operations

Headline earnings for the year amounted to R9 413 million (2006: R7 872 million) and headline earnings per share of 1 401,9 cents (2006: 1 181,8 cents). Earnings (net income attributable to ordinary shareholders) for the year amounted to R9 595 million (2006: R8 105 million) and earnings per share of 1 428,9 cents (2006: 1 216,8 cents).

Headline earnings were derived from the following activities:

	Year ended 31 December	
	2007 Rm	2006 Rm
<b>Banking operations</b>		
Retail banking	5 071	4 222
• Absa Private Bank	237	178
• Retail Bank	2 070	1 479
• Absa Home Loans and Repossessed Properties	1 288	1 086
• Absa Card	706	700
• Absa Vehicle and Asset Finance	770	779
Absa Corporate and Business Bank	1 922	1 384
Absa Capital	1 733	1 115
African operations	103	77
Corporate centre	(3)	203
Capital and funding centre	59	131
<b>Total banking</b>	<b>8 885</b>	<b>7 132</b>
Bancassurance	1 502	1 500
<b>Total earnings from business areas</b>	<b>10 387</b>	<b>8 632</b>
Synergy costs (after tax) <sup>1</sup>	(479)	(454)
Profit attributable to preference equity holders	(313)	(73)
<b>Profit attributable to ordinary equity holders</b>	<b>9 595</b>	<b>8 105</b>
Headline earnings adjustment	(182)	(233)
<b>Total headline earnings</b>	<b>9 413</b>	<b>7 872</b>

<sup>1</sup>One-off costs incurred relating to the integration of Absa with Barclays.

# Directors' report

A general review of the business and operations of major subsidiaries is given in the section titled operational highlights of this report. Comparative years have been reclassified as follows:

- AllPay Consolidated Investments Holdings (Proprietary) Limited was moved from "Other" Group activities to retail banking during the year under review; and
- Absa Development Company Holdings (Proprietary) Limited was moved from "Other" Group activities to corporate commercial banking during the year under review.

## SUBSIDIARIES, ASSOCIATED UNDERTAKINGS AND JOINT VENTURE COMPANIES

The interests in subsidiaries, associated undertakings and joint venture companies are set out in note 48 to the financial statements.

## DIRECTORS

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

G Marcus (Chairperson) (appointed as Chairperson on 1 July 2007)

D C Cronjé<sup>5</sup> (Retired Chairperson) (retired on 30 June 2007 as Chairman and as director on 31 July 2007)

D C Brink<sup>5</sup> (Deputy Chairperson)

S F Booysen<sup>1</sup> (Group Chief Executive)

L N Angel

D C Arnold

D E Baloyi (directorship terminated on 20 March 2007)

D Bruynseels<sup>1,2</sup> (resigned on 21 August 2007)

B P Connellan<sup>5</sup>

Y Z Cuba

A S du Plessis<sup>5</sup> (resigned on 31 December 2007)

G Griffin

S A Fakie (appointed on 1 January 2008)

M W Hlahla

L N Jonker<sup>5</sup>

R A Jenkins<sup>2</sup> (appointed on 4 June 2007)

N Kheraj<sup>2</sup> (resigned on 30 April 2007)

P du P Kruger<sup>5</sup> (retired on 23 April 2007)

R Le Blanc<sup>2</sup> (appointed on 4 June 2007)

N P Mageza<sup>1</sup> (appointed on 10 September 2007)

E C Mondlane, Jr<sup>4</sup> (appointed on 26 September 2007)

T S Munday (appointed on 16 April 2007)

J H Schindehütte<sup>1</sup>

F F Seegers<sup>3</sup>

T M G Sexwale (resigned on 9 January 2008)

F A Sonn

P E I Swartz<sup>5</sup> (resigned on 11 March 2008)

B J Willemse (appointed on 1 January 2008)

L L von Zeuner<sup>1</sup>

<sup>1</sup>Executive director.

<sup>2</sup>British.

<sup>3</sup>Dutch.

<sup>4</sup>Mozambican.

<sup>5</sup>Has been on the board for more than nine years.



### Re-election of retiring directors (resolution number 3 – ordinary resolutions)

In terms of the Company's articles of association, one third of the directors are required to retire at each annual general meeting and may offer themselves for re-election.

The directors who retire in terms of the above arrangement at the 2008 annual general meeting are D C Arnold, J H Schindehütte, F A Sonn, L L von Zeuner and L N Angel. L N Angel has not sought re-election. The Absa Group board recommends the re-election of the other directors.

In line with international best practice, the Absa Group has introduced a requirement in terms of which all directors on the board for longer than nine years are subject to annual re-election by shareholders at the annual general meeting. The directors who retire in terms of the above arrangement at the 2008 annual general meeting are D C Brink, B P Connellan and L N Jonker. L N Jonker has not sought re-election. The Absa Group board recommends the re-election of the other directors.

L N Jonker and L N Angel are standing down and retire from the board at the conclusion of the 2008 annual general meeting.

### DIRECTORS' INTEREST IN ABSA GROUP LIMITED ORDINARY SHARES

As at the balance sheet date, the directors' interests in the issued shares of the Company were as follows:

	Direct number of shares			
	Beneficial		Non-beneficial	
	2007	2006	2007	2006
<b>Present directors</b>				
G Marcus <sup>7</sup> (Chairperson)	1 000	n/a	—	n/a
S F Booysen <sup>1</sup> (Group Chief Executive)	131 667	131 667	—	—
L N Angel	1 000	1 000	—	—
D C Arnold	2 000	1 400	—	—
B P Connellan	1 000	1 000	—	—
Y Z Cuba	1 000	—	—	—
G Griffin	4 000	2 000	—	—
M W Hlahla	1 000	1 000	—	—
R A Jenkins <sup>2, 6</sup>	1 000	n/a	—	n/a
L N Jonker	1 000	1 000	—	—
R Le Blanc <sup>2, 6</sup>	1 000	n/a	—	n/a
T S Munday <sup>8</sup>	1 000	n/a	—	—
J H Schindehütte <sup>1</sup>	240 485	144 666	—	—
F F Seegers <sup>3</sup>	1 000	1 000	—	—
T M G Sexwale	1 000	1 000	—	—
F A Sonn	95	95	—	—
L L von Zeuner <sup>1</sup>	116 727	87 493	—	—
<b>Past directors</b>				
D C Cronjé <sup>4</sup> (Retired Chairperson)	n/a	101 577	n/a	—
N Kheraj <sup>2, 5</sup>	n/a	1 200	n/a	—
	<b>505 974</b>	<b>476 098</b>	<b>—</b>	<b>—</b>

<sup>1</sup>Executive director.

<sup>2</sup>British.

<sup>3</sup>Dutch.

<sup>4</sup>Retired as a director on 31 July 2007.

<sup>5</sup>Resigned as a director on 30 April 2007.

<sup>6</sup>Appointed as a director on 4 June 2007.

<sup>7</sup>Appointed as Chairperson on 1 July 2007.

<sup>8</sup>Appointed as a director on 16 April 2007.

## Directors' report

	Indirect number of shares			
	Beneficial		Non-beneficial	
	2007	2006	2007	2006
<b>Present directors</b>				
D C Brink (Deputy Chairperson)	25 000	17 257	10 000	—
S F Booyesen <sup>1</sup> (Group Chief Executive)	610 000	610 000	—	—
B P Connellan	—	—	—	—
A S du Plessis	—	—	5 000	5 000
L N Jonker	—	—	3 500	3 500
N P Mageza <sup>3</sup>	182 502	n/a	—	n/a
J H Schindehütte <sup>1</sup>	164 571	260 190	13 600	13 400
F A Sonn	—	—	1 200	1 200
P E I Swartz	—	—	2 520	2 520
L L von Zeuner <sup>1</sup>	271 334	344 668	—	—
<b>Past directors</b>				
P du P Kruger <sup>2</sup>	n/a	1 000	n/a	—
	<b>1 253 407</b>	<b>1 233 115</b>	<b>35 820</b>	<b>25 620</b>

<sup>1</sup> Executive director.

<sup>2</sup> Retired as a director on 23 April 2007.

<sup>3</sup> Appointed as a Group executive director on 10 September 2007.

	Total direct and indirect number of shares			
	Beneficial		Non-beneficial	
	2007	2006	2007	2006
<b>Present directors</b>				
G Marcus <sup>7</sup> (Chairperson)	1 000	n/a	—	—
D C Brink (Deputy Chairman)	25 000	17 257	10 000	—
S F Booyesen <sup>1</sup> (Group Chief Executive)	741 667	741 667	—	—
L N Angel	1 000	1 000	—	—
D C Arnold	2 000	1 400	—	—
Y Z Cuba	1 000	—	—	—
B P Connellan	1 000	1 000	—	—
A S du Plessis	—	—	5 000	5 000
G Griffin	4 000	2 000	—	—
M W Hlahla	1 000	1 000	—	—
R A Jenkins <sup>2, 8</sup>	1 000	n/a	—	—
L N Jonker	1 000	1 000	3 500	3 500
R Le Blanc <sup>2</sup>	1 000	n/a	—	—
N P Mageza <sup>1, 9</sup>	182 502	n/a	—	n/a
T S Munday <sup>10</sup>	1 000	n/a	—	—
J H Schindehütte <sup>1</sup>	405 056	404 856	13 600	13 400
F F Seegers <sup>3</sup>	1 000	1 000	—	—
T M G Sexwale	1 000	1 000	—	—
F A Sonn	95	95	1 200	1 200
P E I Swartz	—	—	2 520	2 520
L L von Zeuner <sup>1</sup>	388 061	432 161	—	—
<b>Past directors</b>				
D C Cronjé <sup>4</sup> (Retired Chairperson)	n/a	101 577	n/a	—
N Kheraj <sup>2, 5</sup>	n/a	1 200	n/a	—
P du P Kruger <sup>6</sup>	n/a	1 000	n/a	—
	<b>1 759 381</b>	<b>1 709 213</b>	<b>35 820</b>	<b>25 620</b>

<sup>1</sup> Executive director.

<sup>2</sup> British.

<sup>3</sup> Dutch.

<sup>4</sup> Retired as a director on 31 July 2007.

<sup>5</sup> Resigned as a director on 30 April 2007.

<sup>6</sup> Retired as a director on 23 April 2007.

<sup>7</sup> Appointed as Chairperson on 1 July 2007.

<sup>8</sup> Appointed as a director on 4 June 2007.

<sup>9</sup> Appointed as a director on 10 September 2007.

<sup>10</sup> Appointed as a director on 16 April 2007.

## DIRECTORS' INTEREST IN BATHO BONKE CAPITAL (PROPRIETARY) LIMITED PREFERENCE SHARES

As at the balance sheet date, the following Absa directors held Absa redeemable cumulative option-holding preference shares indirectly through their direct or indirect holdings of ordinary shares in Batho Bonke Capital (Proprietary) Limited:

	Number of shares	
	2007	2006
<b>Present directors</b>		
L N Angel	1 280 165	1 280 165
Y Z Cuba	91 600	91 600
M W Hlahla	50 000	50 000
N P Mageza <sup>1</sup>	500 000	n/a
T M G Sexwale	4 183 090	4 183 090
F A Sonn	500 000	500 000
P E I Swartz	500 000	500 000
<b>Past directors</b>		
D E Baloyi <sup>2</sup>	n/a	150 000
	<b>7 104 855</b>	<b>6 754 855</b>

<sup>1</sup>Appointed as a Group executive director on 10 September 2007.

<sup>2</sup>Terminated as a director on 20 March 2007.

## DIRECTORS' INTEREST IN ABSA BANK LIMITED PREFERENCE SHARES

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

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

<sup>1</sup>Executive director.

<sup>2</sup>Retired as a director on 31 July 2007.

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

## ACQUISITIONS

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

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

# Directors' report

## DISPOSALS

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

- Conbros Limited was wound down and is in the process of deregistration.
- UBS Investments (1993) Limited (formerly UBS Insurance Company Limited) was deregistered on 21 September 2007.
- Absa Bank (Asia) Limited was liquidated.

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

## SPECIAL RESOLUTIONS

The following special resolution was passed by Absa Group Limited:

- Authority for a share buy-back: Each year the Group passes a resolution at the annual general meeting to repurchase shares in terms of section 85 of the Companies Act and when suitable situations arise.

## SECRETARY

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

### Business address

3rd Floor, Absa Towers East

170 Main Street

Johannesburg, 2001

Telephone: 011 350 4828

Telefax: 011 350 4009

e-mail: sarita.martin@absa.co.za

## DIRECTORS' AND OFFICERS' INTEREST IN CONTRACTS

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

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

## AUTHORISED AND ISSUED SHARE CAPITAL

### Authorised

The authorised share capital of the Company of R1 760 935 000 is divided into:

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

### **Issued**

- On 1 June 2007, 3 000 000 ordinary shares were issued at R36,21 per share in favour of the Absa Group Limited Share Incentive Trust.
- On 3 September 2007, 3 241 000 ordinary shares were issued at R69,00 per share in favour of the Absa Group Limited Employee Share Ownership Administration Trust.
- On 13 December 2007, 377 000 ordinary shares were issued at R69,00 per share in favour of the Absa Group Limited Employee Share Ownership Administration Trust.

Following the issue of ordinary shares and redemption of preference shares, the total issued capital as at the balance sheet date, were made up as follows:

- 678 573 074 ordinary shares of R2,00 per share; and
- 75 619 500 redeemable cumulative option-holding shares of R2,00 each.

### **DIRECTORS' EMOLUMENTS**

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

### **DIVIDENDS**

- On 20 February 2007, a dividend of 265,0 cents per ordinary share was declared to ordinary shareholders registered on 16 March 2007.
- On 2 August 2007, a dividend of 240,0 cents per ordinary share was declared to ordinary shareholders registered on 31 August 2007.
- On 19 February 2008, a dividend of 320,0 cents per ordinary share was declared to ordinary shareholders registered on 14 March 2008.

### **EVENTS SUBSEQUENT TO BALANCE SHEET DATE**

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

### **AUDITORS**

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

### **CODE OF CORPORATE PRACTICES AND CONDUCT**

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

# Consolidated balance sheet

As at 31 December

		GROUP	
	Note	2007 Rm	2006 Rm
<b>Assets</b>			
Cash, cash balances and balances with central banks	2	20 629	16 461
Statutory liquid asset portfolio	3	22 957	20 829
Loans and advances to banks	4	54 025	21 800
Trading assets	5	25 824	18 014
Hedging assets	5	725	645
Other assets	6	24 303	12 175
Current tax assets	7	185	24
Loans and advances to customers	8	455 958	373 825
Reinsurance assets	10	485	390
Deferred tax assets	11	111	129
Investments	12	29 327	26 147
Investments in associated undertakings and joint venture companies	13	1 469	693
Intangible assets	14	301	230
Property and equipment	15	4 610	3 750
<b>Total assets</b>		<b>640 909</b>	<b>495 112</b>
<b>Liabilities</b>			
Deposits from banks	16	58 033	24 817
Trading liabilities	17	34 919	24 125
Hedging liabilities	17	2 226	1 261
Other liabilities and sundry provisions	18	12 301	10 220
Current tax liabilities	7	183	1 181
Deposits due to customers	19	310 512	279 848
Debt securities in issue	20	156 424	98 940
Deferred tax liabilities	11	2 576	2 537
Liabilities under investment contracts	21	7 908	5 655
Policyholder liabilities under insurance contracts	22	3 318	3 187
Borrowed funds	23	9 949	8 420
<b>Total liabilities</b>		<b>598 349</b>	<b>460 191</b>
<b>Equity</b>			
<b>Capital and reserves</b>			
Attributable to ordinary equity holders of the Group:			
Share capital	25	1 350	1 338
Share premium	25	2 292	2 067
Other reserves	27	406	412
Retained earnings		33 527	27 876
		<b>37 575</b>	<b>31 693</b>
Minority interest – ordinary shares		341	236
Minority interest – preference shares	26	4 644	2 992
<b>Total equity</b>		<b>42 560</b>	<b>34 921</b>
<b>Total equity and liabilities</b>		<b>640 909</b>	<b>495 112</b>

# Consolidated income statement

Year ended 31 December

		GROUP	
		2007	2006
		Rm	Rm
	Note		
Net interest income		18 890	14 887
Interest and similar income	28	55 123	37 569
Interest expense and similar charges	29	(36 233)	(22 682)
Impairment losses on loans and advances	9	(2 433)	(1 573)
<b>Net interest income after impairment losses on loans and advances</b>		<b>16 457</b>	<b>13 314</b>
Net fee and commission income		11 600	10 153
Fee and commission income	30	12 873	11 247
Fee and commission expense	30	(1 273)	(1 094)
Net insurance premium income	31	3 192	2 994
Net insurance claims and benefits paid	32	(1 603)	(1 319)
Change in insurance and investment liabilities	33	(489)	(748)
Gains and losses from banking and trading activities	34	1 622	1 376
Gains and losses from investment activities	35	1 561	1 891
Other operating income	36	845	672
<b>Operating income before operating expenses</b>		<b>33 185</b>	<b>28 333</b>
Operating expenditure		(19 209)	(17 029)
Operating expenses	37	(18 442)	(16 089)
Non-credit related impairments	39	(58)	(75)
Indirect taxation	40	(709)	(865)
Share of retained earnings from associated undertakings and joint venture companies	13	91	113
<b>Operating profit before income tax</b>		<b>14 067</b>	<b>11 417</b>
Taxation expense	41	(4 042)	(3 151)
<b>Profit for the year</b>		<b>10 025</b>	<b>8 266</b>
<b>Attributable to:</b>			
Ordinary equity holders of the Group		9 595	8 105
Minority interest – ordinary shares		117	88
Minority interest – preference shares		313	73
		<b>10 025</b>	<b>8 266</b>
• basic earnings per share (cents)	42	<b>1 428,9</b>	1 216,8
• diluted earnings per share (cents)	42	<b>1 341,4</b>	1 154,4

# Consolidated statement of changes in equity

Year ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Regulatory general credit risk reserve Rm
Balance at 1 January 2006	663 393	1 327	1 875	—
Shares issued	5 100	10	170	—
Less: Costs incurred		—	—	—
Share buy-back in respect of Absa Group Limited Share Incentive Trust		(0)	(17)	—
Elimination of treasury shares held by Absa Group Limited Share Incentive Trust	419	1	4	—
Shares issued to the trust		(10)	(170)	—
Options exercised by employees		11	174	—
Elimination of treasury shares held by Absa Life Limited and Fund Managers	210	0	12	—
Movement in regulatory general credit risk reserve		—	—	46
Movement in available-for-sale reserve and/or cash flow hedges reserve		—	—	—
Fair value gains and losses		—	—	—
Amount removed from equity and recognised in the income statement		—	—	—
Movement in share-based payment reserve		0	23	—
Value of employee services		—	—	—
Transfer from share-based payment reserve		0	23	—
Net (disposals)/acquisitions		—	—	—
Share of net income attributable to minorities		—	—	—
Dividends declared – ordinary shares		—	—	—
Dividends declared – minorities		—	—	—
Foreign currency translation effects		—	—	—
Movement in insurance contingency reserve		—	—	—
Subsidiary step-up acquisitions		—	—	—
Share of associated undertakings and joint venture companies' retained earnings		—	—	—
Profit attributable to ordinary equity holders		—	—	—
Profit attributable to preference equity holders		—	—	—
Balance at 31 December 2006	669 122	1 338	2 067	46
Note	25	25	25	27

Note: All movements are reflected net of taxation.



GROUP  
2006

Available- for-sale reserve Rm	Cash flow hedges reserve Rm	Foreign currency translation reserve Rm	Insurance contingency reserve Rm	Share- based payment reserve Rm	Associated undertakings and joint venture companies Rm	Retained earnings Rm	Minority interest – ordinary shares Rm	Minority interest – preference shares Rm	Total Rm
(65)	136	(178)	145	120	464	21 931	246	—	26 001
—	—	—	—	—	—	—	—	3 000	3 180
—	—	—	—	—	—	—	—	(8)	(8)
—	—	—	—	—	—	—	—	—	(17)
—	—	—	—	—	—	—	—	—	5
—	—	—	—	—	—	—	—	—	(180)
—	—	—	—	—	—	—	—	—	185
—	—	—	—	—	—	—	—	—	12
—	—	—	—	—	—	(46)	—	—	—
58	(485)	—	—	—	—	—	—	—	(427)
34	(559)	—	—	—	—	—	—	—	(525)
24	74	—	—	—	—	—	—	—	98
—	—	—	—	62	—	—	—	—	85
—	—	—	—	85	—	—	—	—	85
—	—	—	—	(23)	—	—	—	—	—
—	—	—	—	—	(374)	374	(40)	—	(40)
—	—	—	—	—	—	—	88	—	88
—	—	—	—	—	—	(2 294)	—	—	(2 294)
—	—	—	—	—	—	—	(29)	(73)	(102)
—	—	332	—	—	—	—	(29)	—	303
—	—	—	38	—	—	(38)	—	—	—
—	—	—	—	—	—	(43)	—	—	(43)
—	—	—	—	—	113	(113)	—	—	—
—	—	—	—	—	—	8 105	—	—	8 105
—	—	—	—	—	—	—	—	73	73
(7)	(349)	154	183	182	203	27 876	236	2 992	34 921
27	27	27	27	27	27			26	

# Consolidated statement of changes in equity

Year ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Regulatory general credit risk reserve Rm
<b>Balance at 1 January 2007</b>	<b>669 122</b>	<b>1 338</b>	<b>2 067</b>	<b>46</b>
Shares issued	6 618	13	345	—
Less: Costs incurred		—	—	—
Share buy-back in respect of Absa Group Limited Share Incentive Trust		—	(130)	—
Elimination of shares held by Absa Group Limited Share Incentive Trust	(23)	(0)	(5)	—
Shares issued to the trust		(6)	(103)	—
Options exercised by employees		6	98	—
Elimination of treasury shares held by Absa Life Limited and Fund Managers	(540)	(1)	(73)	—
Elimination of the Absa Group Employee Share Ownership Trust	(69)	(0)	(5)	—
Shares issued to the trust		(7)	(242)	—
Options exercised by employees		7	237	—
Movement in regulatory general credit risk reserve		—	—	435
Movement in available-for-sale reserve and/or cash flow hedges reserve		—	—	—
Fair value gains and losses		—	—	—
Amount removed from equity and recognised in the income statement		—	—	—
Movement in share-based payment reserve		—	93	—
Value of employee services		—	—	—
Transfer from share-based payments reserve		—	93	—
Share of net income attributable to minorities		—	—	—
Dividends declared – ordinary shares		—	—	—
Dividends declared – minorities		—	—	—
Foreign currency translation effects		—	—	—
Movement in insurance contingency reserve		—	—	—
Subsidiary step-up acquisitions		—	—	—
Share of associated undertakings and joint ventures retained earnings		—	—	—
Profit attributable to ordinary equity holders		—	—	—
Profit attributable to preference equity holders		—	—	—
<b>Balance at 31 December 2007</b>	<b>675 108</b>	<b>1 350</b>	<b>2 292</b>	<b>481</b>
<b>Note</b>	<b>25</b>	<b>25</b>	<b>25</b>	<b>27</b>

Note: All movements are reflected net of taxation.

GROUP

2007										
Available-for-sale reserve	Cash flow hedges reserve	Foreign currency translation reserve	Insurance contingency reserve	Share-based payment reserve	Associated companies and joint ventures	Retained earnings	Minority interest – ordinary shares	Minority interest – preference shares	Total	
Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
(7)	(349)	154	183	182	203	27 876	236	2 992	34 921	
—	—	—	—	—	—	—	—	1 658	2 016	
—	—	—	—	—	—	—	—	(6)	(6)	
—	—	—	—	—	—	—	—	—	(130)	
—	—	—	—	—	—	—	—	—	(5)	
—	—	—	—	—	—	—	—	—	(109)	
—	—	—	—	—	—	—	—	—	104	
—	—	—	—	—	—	—	—	—	(74)	
—	—	—	—	—	—	—	—	—	(5)	
—	—	—	—	—	—	—	—	—	(249)	
—	—	—	—	—	—	—	—	—	244	
—	—	—	—	—	—	(435)	—	—	—	
60	(540)	—	—	—	—	—	—	—	(480)	
17	(1 295)	—	—	—	—	—	—	—	(1 278)	
43	755	—	—	—	—	—	—	—	798	
—	—	—	—	(12)	—	1	—	—	82	
—	—	—	—	82	—	—	—	—	82	
—	—	—	—	(94)	—	1	—	—	—	
—	—	—	—	—	—	—	117	—	117	
—	—	—	—	—	—	(3 401)	—	—	(3 401)	
—	—	—	—	—	—	—	(19)	(313)	(332)	
—	—	(60)	—	—	—	—	7	—	(53)	
—	—	—	20	—	—	(20)	—	—	—	
—	—	—	—	—	—	2	—	—	2	
—	—	—	—	—	91	(91)	—	—	—	
—	—	—	—	—	—	9 595	—	—	9 595	
—	—	—	—	—	—	—	—	313	313	
53	(889)	94	203	170	294	33 527	341	4 644	42 560	
27	27	27	27	27	27	—	—	26	—	

# Consolidated cash flow statement

Year ended 31 December

		<b>GROUP</b>	
	Note	<b>2007 Rm</b>	2006 Rm
<b>Cash flow from operating activities</b>			
Net interest and commission received		30 227	25 156
Insurance premiums and claims		3 247	1 675
Net trading and other income		2 382	1 827
Cash payments to employees and suppliers		(17 701)	(15 581)
Income taxes paid		(4 921)	(3 333)
<b>Cash flow from operating profit before changes in operating assets and liabilities</b>			
		<b>13 234</b>	9 744
Net (increase)/decrease in trading securities		(8 145)	5 187
Net increase in loans and advances to customers		(84 616)	(80 891)
Net increase in other assets		(46 299)	(16 464)
Net (decrease)/increase in insurance and investment contracts		(2 515)	1 373
Net increase in trading liabilities		11 759	3 985
Net increase in amounts due to customers and banks		121 405	73 915
Net increase/(decrease) in other liabilities		2 172	(865)
<b>Net cash generated/(utilised) from operating activities</b>			
		<b>6 995</b>	(4 016)
<b>Cash flow from investing activities</b>			
Purchase of property and equipment	15	(1 833)	(1 150)
Proceeds from sale of property and equipment		112	120
Purchase of other intangible assets	14	(177)	(149)
Proceeds from disposal of intangible assets		—	7
Acquisition of subsidiaries, net of cash	55.1, 55.3	17	(44)
Disposal of subsidiaries, net of cash	55.2, 55.3	36	(133)
Disposal of associates, net of cash	13.6	—	745
Acquisition of associates, net of cash	13.5	(380)	(174)
Net increase in loans to associates		(13)	—
Net increase in securities		(2 757)	(1 564)
<b>Net cash utilised from investing activities</b>			
		<b>(4 995)</b>	(2 342)
<b>Cash flow from financing activities</b>			
Issue of ordinary shares		274	197
Issue of preference shares		1 652	2 992
Share buy-back		(130)	(17)
Proceeds from borrowed funds		1 725	2 000
Repayment of borrowed funds		—	(6)
Dividends paid		(3 714)	(2 367)
<b>Net cash (utilised)/generated from financing activities</b>			
		<b>(193)</b>	2 799
<b>Net increase/(decrease) in cash and cash equivalents</b>			
		<b>1 807</b>	(3 559)
Cash and cash equivalents at the beginning of the year		4 787	8 343
Effect of exchange rate movement on cash and cash equivalents		2	3
<b>Cash and cash equivalents at the end of the year</b>			
	53	<b>6 596</b>	4 787

# Accounting policies

Year ended 31 December 2007

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

#### **IFRIC 8 – Scope of IFRS 2**

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

#### **IFRIC 9 – Reassessment of embedded derivatives**

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

#### **IFRIC 10 – Interim reporting and impairment**

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

#### **AC 503 – Accounting for BEE transactions**

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

# Accounting policies

Year ended 31 December 2007

## 1.1 Basis of presentation

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

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

## 1.2 Use of estimates and assumptions

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

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

## 1.3 Consolidation

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

### 1.3.1 Subsidiaries

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

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

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

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

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

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

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

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

At an entity level, investments in associated undertakings and joint venture companies are held at cost less any accumulated impairment.

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

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

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

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

### **1.3.3 Transactions with minority interests**

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

# Accounting policies

Year ended 31 December 2007

## 1.3.4 Special purpose entities

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

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

## 1.4 Segment reporting

### 1.4.1 Business segments

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

The Group is organised into the following business units:

- Retail Bank: Offers a comprehensive range of banking products and services to individuals and small business customers.
- Absa Corporate and Business Bank (ACBB): Provides a comprehensive range of commercial banking products and services to corporates and medium and large business customers.
- Absa Capital: Provides investment banking services to the corporate, government and institutional investor segments.
- African operations: Provides retail and limited corporate services from a network of branches, agencies and ATMs within each jurisdiction.
- Bancassurance: Comprises various insurance products, financial advisory services, drafting and safe custody of wills, comprehensive administration, actuarial and consulting services and a variety of investment products.
- Other: Consists of various head office and non-banking activities.

### 1.4.2 Geographical segments

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

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

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

## 1.5 Foreign currencies

### 1.5.1 Functional and presentation currency

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

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



### 1.5.2 Foreign currency translations

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

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

### 1.5.3 Foreign currency transactions

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

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

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

## 1.6 Earnings per share

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

## 1.7 Financial instruments

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

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

# Accounting policies

Year ended 31 December 2007

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

## 1.7.1 Held-to-maturity

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

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

## 1.7.2 Trading assets and trading liabilities

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

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

## 1.7.3 Financial instruments designated at fair value

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

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

class of financial instruments so designated. The Group has documented risk management and investment strategies designed to manage such assets at fair value, taking into consideration the relationship of assets to liabilities in a way that mitigates market risks; and

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

The fair value designation, once made, is irrevocable. Measurement is initially at fair value, with transaction costs taken directly to the income statement. Subsequently, the fair value is remeasured, and gains and losses from changes therein is recognised in "Gains and losses from banking and trading activities" and "Gains and losses from investment activities", depending on its nature, unless disclosing such fair value movements in another income statement line would eliminate an accounting mismatch.

#### **1.7.4 Available-for-sale assets**

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

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

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

#### **1.7.5 Loans and receivables**

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

Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses. Any loss is charged to the income statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of identified or unidentified impairment.

#### **1.7.6 Impairment of assets at amortised cost**

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

# Accounting policies

Year ended 31 December 2007

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

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

Advances are stated net of identified and unidentified impairments.

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

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

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

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually-assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

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

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

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

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

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

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

#### ***Identified impairment***

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

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

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

#### ***Unidentified impairment***

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

# Accounting policies

Year ended 31 December 2007

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

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

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

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

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

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

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

## 1.7.7 Renegotiated loans

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

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

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

## 1.7.8 Derecognition of financial assets

A financial asset (or where applicable a part of a financial asset or a part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed as obligation to pay them in full without material delay to a third party under a pass-through arrangement; and

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

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

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

#### **1.7.9 Derecognition of financial liabilities**

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

#### **1.7.10 Fair value**

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

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

#### **1.7.11 Scrip lending**

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

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

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

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

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## 1.7.12 Derivative financial instruments and hedge accounting

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

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

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

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

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

### **Net investment hedge**

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

### **Fair value hedges**

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

Any ineffectiveness is recognised immediately in "Gains and losses from banking and trading activities" in the income statement. If the derivative expires or is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point, to a hedged item for which the effective interest rate method is used, is amortised to the income statement as part of the recalculated effective interest rate of the items over the remaining life.



### ***Cash flow hedges***

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

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

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

### ***Derivatives that do not qualify for hedge accounting***

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

### ***Embedded derivatives***

Certain financial instruments contain both a derivative and non-derivative component. In such cases the derivative component is termed an embedded derivative.

An embedded derivative is bifurcated and reported at fair value with gains and losses being recognised in the income statement when the following requirements are met:

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

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

#### **1.7.13 Offsetting**

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

#### **1.7.14 Repurchase agreements**

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

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

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

## 1.7.15 Compound financial instruments

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

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

## 1.8 Share capital

### Ordinary shares

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

### Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity.

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

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

## 1.9 Revenue recognition

### 1.9.1 Net interest income

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value (other than financial instruments used to economically hedge the Group's interest rate risk), are recognised in "Net interest income" in the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate.

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

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

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

#### **1.9.2 Net income from financial instruments designated at fair value**

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

#### **1.9.3 Instalment credit agreements**

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

#### **1.9.4 Net fee and commission income**

##### ***Fee and commission income***

The Group earns fee income from a diverse range of services to its customers. Fee income is accounted for as follows:

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

##### ***Fee and commission expense***

Fee and commission expense relates to expenses that are directly linked to a group of financial assets or liabilities that produces fee income or expenses that are directly linked to the production of a fee income, similar to cost of sales.

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

## *Trust and other fiduciary activities*

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

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

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

### **1.9.6 Dividends on equity instruments**

Dividends are recognised in the period in which the right to receipt is established. Dividends are disclosed under "Gains and losses from banking and trading activities" if they relate to trading assets or banking activities. Dividends related to investment activities are disclosed under "Gains and losses from investment activities".

### **1.9.7 Net insurance premium income**

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

### **1.9.8 Fee income and expenses from investment contracts**

#### *Service fees*

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

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

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

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

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

#### **Commissions paid**

The incremental cost directly related to the acquisition of new investment contracts or renewing existing investment contracts are deferred and amortised over the period during which the investment management services are provided.

#### **1.9.9 Sale of assets under construction**

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

#### **1.10 Deferred revenue liability**

A deferred revenue liability (DRL) is recognised in respect of fees paid at the inception of an investment contract by the policyholder, which are directly attributable to a contract. The DRL is then released to revenue as the investment management services are provided over the expected duration of the contract, as a constant percentage of expected gross margins (including investment income) arising from the contract.

The pattern of expected future profit margins is based on historical and expected future experience and is updated at the end of each accounting period. The resulting change to the carrying value of the DRL is recognised in revenue.

#### **1.11 Classification of insurance and investment contracts**

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

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

##### **1.11.1 Insurance contracts**

###### **Short-term insurance contracts**

###### **Revenue recognition and measurement**

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

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## ***Claims and loss adjustment***

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

## ***Liability adequacy test***

At each reporting date, the Group reviews its unexpired risks and undertakes a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums, using the current estimates of future cash flows under its contracts after taking into account the investment return expected to arise on assets relating to the relevant general business provisions. If these estimates show that the carrying amount of its insurance liabilities (less related deferred acquisition costs) is insufficient in light of the estimated future cash flows, the deficiency is recognised in the income statement by setting up a provision in the balance sheet.

## ***Life insurance contracts***

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

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

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

In respect of outstanding claims, provision is made for the costs of intimated and unintimated claims.

Claims on investment contracts are excluded from the income statement.

Intimated claims represent claims where the incident giving rise to a claim has occurred and has been reported to the insurer for settlement but has not yet been finalised and paid by the insurer. The reserve is measured at the value assessed for the claim. Unintimated claims represent claims incurred but not yet reported or paid.

The reserve is estimated by assuming that future trends in reporting of claims will be similar to the past. The profile of claims run-off (over time) is modelled by using historic data of the Group and chain-ladder techniques. The profile is then applied to actual claims data of recent periods for which the run-off is believed not to be complete.

### ***Valuation methodology***

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

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

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

### ***Liability adequacy test***

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

### ***Deferred policy acquisition costs***

Acquisition costs comprise commissions and other variable costs directly connected with the acquisition or renewal of short-term insurance contracts and investment contracts. The deferred acquisition costs and deferred reinsurance commission revenue represent the portion of acquisition costs incurred and revenue received which corresponds to the unearned premium reserve.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

### ***Reinsurance contracts held***

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

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

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

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

## ***Receivables and payables related to insurance and investment contracts***

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

## ***Salvage and subrogation reimbursements***

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

The Group does not allow for salvage recoveries or subrogation reimbursements in the measurement of insurance liabilities for claims. Salvage and subrogation reimbursements are recognised when the money is received.

## ***Philosophy on release of profits in the valuation basis***

PGN 104 allows for additional margins if the statutory actuary believes that the compulsory margins are insufficient for prudent reserving and/or to defer the release of profits in line with policy design and Group practice.

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

The following additional (discretionary) margins were incorporated in the liability calculations:

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



### 1.11.2 Investment contracts

Policyholder contracts that do not transfer significant insurance risk are classified as investment contracts and are valued at fair value. The Group designates these investment contracts to be measured at fair value through profit and loss because it eliminates or significantly reduces a measurement or recognition inconsistency (ie, an accounting mismatch) that would otherwise arise from measuring assets or liabilities or recognising gains and losses on different basis. Acquisition costs directly attributable to investment management contracts are capitalised to a deferred acquisition cost asset and amortised to the income statement over the term of the contract. Only costs that are incremental and directly attributable to securing or renewing the contract are considered in the recognition of deferred acquisition costs. All other costs are recognised as expenses when incurred.

The Group issues investment contracts with fixed and guaranteed terms. Investment contracts with fixed and guaranteed terms are financial liabilities of which the fair value is dependent on the fair value of the financial assets backing the liabilities. These contracts and the corresponding policyholder liabilities are designated to be held at fair value at inception. Subsequent changes to fair value are taken to the income statement.

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

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

### 1.12 Cell arrangements

In respect of third party cells, where insurance contracts are issued to third parties, directly in the name of Absa Life Limited, the cell captive is considered to be the reinsurer, as there is insurance risk transfer. The policyholder liabilities and reinsurance assets in respect of these insurance contracts are recognised in the balance sheet of the Group, in terms of the reinsurance arrangement with the cell captive. Excess assets over policyholder liabilities, in the cell captive, belong to the cell owner and are not recognised in the Group.

The financial position and performance of first party cells are not included in the financial statements of the Group as no transfer of insurance risks takes place per the cell agreements.

### 1.13 Intangible assets

#### 1.13.1 Goodwill

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

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

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

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

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

## 1.13.2 Computer software

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

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

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

## 1.14 Property and equipment

### 1.14.1 Property not subject to lease agreements

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

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

The Group uses the following annual rates in calculating depreciation:

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

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

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

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

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

#### **1.14.2 Property subject to lease agreements**

##### ***Finance leases***

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

##### ***Operating leases***

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

#### **1.15 Repossessed properties**

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

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

#### **1.16 Constructed assets held for resale**

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

#### **1.17 Non-current assets held for sale**

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter, generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first

# Accounting policies

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

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

## 1.18 Impairment of property, equipment and intangible assets

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

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

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

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

## 1.19 Cash and cash equivalents

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

## 1.20 Provisions

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

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

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

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

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

## **1.21 Employee benefits**

### **1.21.1 Post-retirement benefits**

The Group has different pension plans with defined benefits and defined contribution structures.

#### ***Defined benefit structures***

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

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

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

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

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

#### ***Defined contribution structure***

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

Contributions to any defined contribution plan are expensed as incurred.

#### ***Short-term benefits***

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

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

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

## 1.21.2 Share-based compensation

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

### *Employee services settled in equity instruments*

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

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

### *Employee services settled in cash*

The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as a personnel expense in the income statement. No amount is recognised for services received if the options granted do not vest because of a failure to satisfy a vesting condition.

### *Determination of fair values*

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

## 1.22 Taxation

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

### 1.22.1 Current taxation

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

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

### 1.22.2 Deferred taxation

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

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

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

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

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

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

### 1.22.3 Secondary tax on companies

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

### 1.23 Treasury shares

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

Treasury shares are deducted from the issued and weighted average number of shares on consolidation.

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Year ended 31 December 2007

Dividends received on treasury shares are eliminated on consolidation.

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

## 1.24 Managed funds and trust activities

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

## 1.25 Reclassifications

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

## 1.26 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007 and have not been applied in preparing these consolidated financial statements:

### **IFRS 8 – Operating segments (new)**

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

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

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

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

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

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

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

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

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



**IFRIC 12 – Service concession arrangements**

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

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

**IFRIC 13 – Customer loyalty programmes**

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

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

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

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

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

# Notes to the consolidated financial statements

Year ended 31 December

	GROUP	
	2007 Rm	2006 Rm
<b>2. Cash, cash balances and balances with central banks</b>		
Balances with the South African Reserve Bank (SARB)	10 396	8 402
Balances with other central banks	500	650
Coins and bank notes	5 091	3 936
Money market assets	4 642	3 473
	<b>20 629</b>	<b>16 461</b>
<i>Portfolio analysis</i>		
Available-for-sale		
Money market assets	737	463
Designated at fair value		
Money market assets	3 644	2 377
Held-to-maturity		
Money market assets	261	633
Loans and receivables	15 987	12 988
Balances with the SARB	10 396	8 402
Balances with other central banks	500	650
Coins and bank notes	5 091	3 936
	<b>20 629</b>	<b>16 461</b>
Included above are money market assets which are linked to investment contracts (refer to note 21).		
<b>3. Statutory liquid asset portfolio</b>		
Land Bank bills	492	492
Republic of South Africa (RSA) government bonds	13 024	13 166
Treasury bills	9 441	7 171
	<b>22 957</b>	<b>20 829</b>
<i>Portfolio analysis</i>		
Available-for-sale	9 933	7 663
Land Bank bills	492	492
Treasury bills	9 441	7 171
Designated at fair value		
RSA government bonds	2 683	3 744
Hedged item in fair value hedging relationship		
RSA government bonds <sup>1</sup>	10 341	9 422
	<b>22 957</b>	<b>20 829</b>
Included above are the following assets pledged with the SARB	<b>2 829</b>	<b>3 513</b>

<sup>1</sup>Previously designated as available-for-sale instruments.

The related liability for the pledged assets, which is disclosed in "Deposits from banks", bears interest at the SARB repurchase rate.

	<b>GROUP</b>	
	<b>2007</b>	2006
	<b>Rm</b>	Rm
<b>4. Loans and advances to banks</b>		
Loans and advances to banks	<b>52 817</b>	20 995
Remittances in transit	<b>1 208</b>	805
	<b>54 025</b>	21 800
<i>Portfolio analysis</i>		
Designated at fair value	<b>10 992</b>	—
Loans and receivables	<b>43 033</b>	21 800
	<b>54 025</b>	21 800
Loans with variable rates are R51 295 million (2006: R20 581 million) and fixed rates are R1 522 million (2006: R414 million). Included above are loans and advances with the Group's parent company of R13 326 million (2006: R3 353 million). Refer to note 48 for the full disclosure of related party transactions. Included above are loans and advances to banks with a carrying value of R68 million (2006: Rnil) that have been pledged as security. Included above are reverse repurchase agreements of R29 307 million (2006: R8 867 million). Refer to note 46 for further information.		
<b>5. Trading assets and hedging assets</b>		
Debt instruments	<b>2 206</b>	176
Derivative assets (refer to note 64)	<b>21 704</b>	15 065
Commodity derivatives	<b>2 172</b>	1 497
Credit derivatives	<b>41</b>	27
Equity derivatives	<b>2 487</b>	3 610
Foreign exchange derivatives	<b>7 245</b>	6 431
Interest rate derivatives	<b>9 759</b>	3 500
Equity instruments	<b>574</b>	2 068
Money market assets	<b>1 340</b>	705
Total trading assets	<b>25 824</b>	18 014
Hedging assets (refer to note 64)	<b>725</b>	645
	<b>26 549</b>	18 659
<i>Portfolio analysis</i>		
Derivatives designated as cash flow hedging instruments	<b>5</b>	94
Derivatives designated as fair value hedging instruments	<b>720</b>	551
Held for trading	<b>25 824</b>	18 014
Debt instruments	<b>2 206</b>	176
Derivative assets	<b>21 704</b>	15 065
Equity instruments	<b>574</b>	2 068
Money market assets	<b>1 340</b>	705
	<b>26 549</b>	18 659

Included above are derivative positions with the Group's parent company of R4 707 million (2006: R187 million). Refer to note 48 for the full disclosure of related party transactions.

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

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

# Notes to the consolidated financial statements

Year ended 31 December

	GROUP	
	2007 Rm	2006 Rm
<b>6. Other assets</b>		
Accounts receivable and prepayments	5 466	4 045
Constructed assets held for resale	465	298
Deferred costs	90	143
Deferred acquisition costs (refer to note 6.1)	65	123
Other deferred costs	25	20
Settlement accounts and collateral received	18 282	7 689
	<b>24 303</b>	<b>12 175</b>
<i>Portfolio analysis</i>		
Loans and receivables	22 917	11 564
Accounts receivable	4 635	3 875
Settlement balances and collateral received	18 282	7 689
Non-financial assets	1 386	611
	<b>24 303</b>	<b>12 175</b>
Included above are settlement accounts with the Group's parent company for R257 million (2006: Rnil). Refer to note 48 for the full disclosure of related party transactions. Included in accounts receivable and prepayments are assets with a carrying value of R400 million (2006: Rnil), that have been pledged as security.		
<b>6.1 Deferred acquisition costs (refer to note 6)</b>		
Cost	609	434
Accumulated amortisation	(544)	(311)
	65	123
<b>Balance at the beginning of the year</b>	<b>123</b>	<b>100</b>
Additions	175	220
Amortisation charge	(233)	(197)
<b>Balance at the end of the year</b>	<b>65</b>	<b>123</b>
<i>Comprising</i>		
Investment management contracts	53	35
Short-term insurance contracts	12	88
	65	123
<b>7. Current tax</b>		
<b>Current tax assets</b>		
Amount due from revenue authorities	185	24
<b>Current tax liabilities</b>		
Amount due to revenue authorities	183	1 181

	<b>GROUP</b>	
	<b>2007</b>	2006
	<b>Rm</b>	Rm
<b>8. Loans and advances to customers</b>		
Cheque accounts	<b>20 819</b>	16 200
Client liabilities under acceptances	<b>108</b>	20
Corporate overdrafts and specialised finance loans	<b>5 907</b>	5 618
Credit cards	<b>13 841</b>	11 256
Foreign currency loans	<b>11 875</b>	5 208
Instalment credit agreements (refer to note 8.1)	<b>63 878</b>	56 936
Gross advances	<b>81 913</b>	71 040
Unearned finance charges	<b>(18 035)</b>	(14 104)
Loans granted under resale agreements (Carries) (refer to note 46)	<b>8 233</b>	8 561
Loans to associated undertakings and joint venture companies (refer to note 13)	<b>9 277</b>	7 645
Microloans	<b>2 645</b>	1 444
Mortgages	<b>264 596</b>	215 173
Other advances	<b>2 471</b>	1 096
Overnight finance	<b>12 636</b>	7 370
Personal loans	<b>16 969</b>	16 354
Preference shares	<b>9 877</b>	9 301
Term loans	<b>1 204</b>	982
Wholesale overdrafts	<b>17 086</b>	15 023
Fair value adjustments	<b>202</b>	377
Mortgages	<b>83</b>	258
Other advances	<b>45</b>	46
Wholesale overdrafts	<b>74</b>	73
	<b>461 624</b>	378 564
Impairment losses on loans and advances (refer to note 9)	<b>(5 666)</b>	(4 739)
	<b>455 958</b>	373 825
<i>Portfolio analysis</i>		
Designated at fair value	<b>14 311</b>	13 084
Loans granted under resale agreements (Carries)	<b>3 040</b>	—
Mortgages	<b>6 706</b>	7 440
Other advances	<b>763</b>	453
Wholesale overdrafts	<b>3 802</b>	5 191
Loans and receivables	<b>447 313</b>	365 480
	<b>461 624</b>	378 564

Included above are securitised assets of R7 320 million (2006: R3 145 million). Refer to note 47 for further details.

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

# Notes to the consolidated financial statements

Year ended 31 December

	GROUP	
	2007 Rm	2006 Rm
<b>8. Loans and advances to customers</b> <i>(continued)</i>		
<b>8.1 Instalment credit agreements</b>		
<i>Maturity analysis</i>		
<b>Gross investment in finance leases</b>		
Less than one year	23 568	21 436
Between one and five years	57 357	49 603
More than five years	988	1
	<b>81 913</b>	<b>71 040</b>
<b>Unearned finance charges</b>		
Less than one year	(4 763)	(3 947)
Between one and five years	(13 047)	(10 157)
More than five years	(225)	—
	<b>(18 035)</b>	<b>(14 104)</b>
<b>Net investment in finance leases</b>		
Less than one year	18 805	17 489
Between one and five years	44 310	39 446
More than five years	763	1
	<b>63 878</b>	<b>56 936</b>
The Group enters into instalment credit agreements for motor vehicles, equipment and medical equipment.		
All leases are denominated in South African rand. The average term of finance leases entered into is five years.		
Under the terms of the lease agreements no contingent rentals are payable.		
Unguaranteed residual values of instalment credit agreements at the balance sheet date are estimated at R6 698 million (2006: R5 826 million).		
The accumulated allowance for uncollectable minimum lease payments receivable included in the allowance for impairments at the balance sheet date is R634 million (2006: R360 million).		
<b>9. Impairment losses on loans and advances</b>		
<b>Balance at the beginning of the year as previously reported</b>	4 752	5 923
Reclassification to investments	(13)	(13)
<b>Reclassified balance at the beginning of the year</b>	4 739	5 910
Exchange differences	4	(2)
Interest on impaired assets (refer to note 28)	(274)	(119)
Disposal of subsidiary	—	(92)
Identified impairments	—	(85)
Unidentified impairments	—	(7)
Amounts written off during the year	(1 654)	(2 910)
	<b>2 815</b>	<b>2 787</b>
Impairments raised during the year (refer to note 9.1)	2 851	1 952
<b>Balance at the end of the year (refer to note 8)</b>	<b>5 666</b>	<b>4 739</b>
<i>Comprising</i>		
Identified impairments	3 320	2 690
Identified impairments – net present value adjustment	336	345
Unidentified impairments	2 010	1 704
	<b>5 666</b>	<b>4 739</b>

	<b>GROUP</b>	
	<b>2007</b>	2006
	Rm	Rm
<b>9. Impairment losses on loans and advances</b> <i>(continued)</i>		
<b>9.1 Income statement charge for impairment losses on loans and advances</b>		
Impairments raised during the year	<b>2 851</b>	1 952
Identified impairments	<b>2 280</b>	1 028
Identified impairments – net present value adjustment	<b>265</b>	232
Unidentified impairments	<b>306</b>	692
Recoveries of advances previously written off	<b>(418)</b>	(379)
	<b>2 433</b>	1 573
<b>10. Reinsurance assets</b>		
Insurance contracts (refer to note 22.1)	<b>254</b>	159
Life insurance contracts	<b>68</b>	80
Short-term insurance contracts	<b>186</b>	79
Investment contracts (refer to note 21)	<b>231</b>	231
	<b>485</b>	390
Included in "Other assets" is R40 million (2006: R48 million) relating to amounts receivable from reinsurers for claims made against them.		
<b>11. Deferred tax</b>		
<b>11.1 Reconciliation of net deferred tax liability</b>		
<b>Balance at the beginning of the year</b>	<b>2 408</b>	2 476
Deferred tax asset released/(raised) on STC credits (refer to note 11.4)	<b>9</b>	(23)
Disposal of subsidiaries (refer to note 55.4)	<b>—</b>	(31)
Deferred tax on amounts charged directly to equity	<b>(189)</b>	(188)
Available-for-sale investments	<b>32</b>	10
Fair value measurement	<b>14</b>	—
Transfer to income statement	<b>18</b>	10
Cash flow hedges	<b>(221)</b>	(198)
Fair value measurement	<b>(530)</b>	(228)
Transfer to income statement	<b>309</b>	30
Income statement charge (refer to note 41)	<b>272</b>	154
Tax effect of translation and other differences	<b>(35)</b>	20
<b>Balance at the end of the year</b>	<b>2 465</b>	2 408

# Notes to the consolidated financial statements

Year ended 31 December

	GROUP	
	2007 Rm	2006 Rm
<b>11. Deferred tax</b> <i>(continued)</i>		
<b>11.2 Deferred tax liability/(asset)</b>		
Tax effects of temporary differences between tax and book value for:		
Accruals and provisions	2 603	2 800
Impairment of advances	(441)	(346)
Property allowances	60	70
Gains on investment	(161)	(202)
Lease and rental debtor allowances	505	254
Other differences	10	(39)
<b>Deferred tax liability</b>	<b>2 576</b>	<b>2 537</b>
Deferred tax asset – normal	(86)	(95)
Deferred tax asset – STC (refer to note 11.4)	(25)	(34)
<b>Deferred tax asset</b>	<b>(111)</b>	<b>(129)</b>
<b>Net deferred tax liability</b>	<b>2 465</b>	<b>2 408</b>
<b>11.3 Future tax relief</b>		
The Group has estimated tax losses of R742 million (2006: R618 million). The above figures exclude tax losses and reversing temporary differences of Rnil (2006: R132 million) for which deferred tax assets have been raised.		
<b>Balance at the beginning of the year</b>	<b>618</b>	531
Losses incurred	266	250
Disposal of subsidiary	—	(47)
Operating losses utilised	(274)	(135)
Movement in temporary differences	132	19
<b>Balance at the end of the year</b>	<b>742</b>	618
<b>11.4 Secondary taxation on companies (STC)</b>		
Accumulated STC credits	218	270
Deferred tax asset raised (refer to note 11.2)	25	34
Raised at 10,0%	9	—
Raised at 12,5%	16	34
<b>Movement in deferred tax asset for the year (refer to note 11.1)</b>	<b>(9)</b>	23

If the total reserves of R33 933 million as at the balance sheet date (2006: R28 288 million) were to be declared as dividends, the secondary tax impact at a rate of 10,0% (2006: 12,5%) would be R3 393 million (2006: R3 536 million).



	<b>GROUP</b>	
	<b>2007</b> Rm	2006 Rm
<b>12. Investments</b>		
Debt instruments	<b>14 872</b>	15 061
Investments linked to investment contracts (refer to note 21)	<b>5 647</b>	4 805
Debt instruments	<b>363</b>	—
Listed equity instruments	<b>1 692</b>	1 480
Unlisted equity instruments	<b>3 592</b>	3 325
Listed equity instruments	<b>3 881</b>	3 884
Unlisted equity and hybrid instruments	<b>4 927</b>	2 397
	<b>29 327</b>	26 147
<b>Directors' valuation and market value</b>		
Directors' valuation of unlisted equity and hybrid instruments	<b>8 519</b>	5 722
Market value of debt instruments	<b>15 235</b>	15 061
Market value of listed equity instruments	<b>5 573</b>	5 364
	<b>29 327</b>	26 147
<i>Portfolio analysis</i>		
Available-for-sale (refer to note 12.1)	<b>3 364</b>	251
Debt instruments	<b>2 928</b>	—
Listed equity instruments	<b>11</b>	1
Unlisted equity instruments	<b>425</b>	250
Designated at fair value	<b>24 945</b>	25 407
Debt instruments	<b>10 926</b>	14 572
Investments linked to investment contracts	<b>5 647</b>	4 805
Listed equity instruments	<b>3 870</b>	3 883
Unlisted equity and hybrid instruments	<b>4 502</b>	2 147
Held-to-maturity		
Debt instruments	<b>1 018</b>	489
	<b>29 327</b>	26 147
<b>12.1 Available-for-sale investments</b>		
Carrying value at the beginning of the year	<b>251</b>	246
Cost plus fair value movements	<b>294</b>	294
Less: Impairment <sup>1</sup>	<b>(43)</b>	(48)
Movement in investments	<b>3 113</b>	—
Movement in impairments (refer to note 39)	<b>—</b>	5
Carrying value at the end of the year	<b>3 364</b>	251
Cost plus fair value movements	<b>3 407</b>	294
Less: Impairment <sup>1</sup>	<b>(43)</b>	(43)

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

<sup>1</sup>All impairments relate to equity instruments.

# Notes to the consolidated financial statements

Year ended 31 December

	GROUP	
	2007 Rm	2006 Rm
<b>13. Investments in associated undertakings and joint venture companies</b>		
Listed investments	594	143
Unlisted investments	875	550
	<b>1 469</b>	<b>693</b>
<b>13.1 Movement in carrying amount</b>		
<b>Balance at the beginning of the year</b>	<b>693</b>	<b>895</b>
Share of current year retained income	91	113
Share of current year income before taxation	186	160
Less: Taxation on current income	(59)	(39)
Less: Dividends received	(36)	(8)
Net acquisition/(disposal) of associated undertakings and joint venture companies at cost (refer to note 13.4)	651	(316)
Change in loans to associated undertakings and joint venture companies	17	11
Impairment charge (refer to note 39)	—	(10)
Amount recognised in liabilities for the Group's share of losses	17	—
<b>Balance at the end of the year</b>	<b>1 469</b>	<b>693</b>
<b>13.2 Analysis of carrying amount</b>		
<i>Listed investments</i>		
Shares at book value	555	143
Shares at cost	555	178
Less: Impairment	—	(35)
Share of post-acquisition reserves	39	0
	<b>594</b>	<b>143</b>
The investment in CBZ Holdings Limited, which was fully impaired at December 2006, was sold during the current year.		
<i>Unlisted investments</i>		
Shares at book value	577	320
Shares at cost	588	331
Less: Impairment	(11)	(11)
Share of post-acquisition reserves	260	209
Share of non-distributable reserves	243	209
Less: Amount recognised in liabilities for the Group's share of losses	17	—
Loans to associated undertakings and joint venture companies	38	21
	<b>875</b>	<b>550</b>
Other commercial loans to associated undertakings and joint venture companies included in advances amounted to R9 277 million (2006: R7 645 million). Refer to note 8 for further details.		
<b>13.3 Valuation</b>		
Market value of listed investments	568	156
Directors' valuation of unlisted investments	875	551
	<b>1 443</b>	<b>707</b>

		GROUP	
		2007 Rm	2006 Rm
<b>13.</b>	<b>Investments in associated undertakings and joint venture companies</b> <i>(continued)</i>		
<b>13.4</b>	<b>Acquisitions and disposals</b>		
	<b>The following acquisitions were concluded during the current year, at cost:</b>		
	Somerset West Autopark (Proprietary) Limited	0	n/a
	On 3 January 2007, the Group acquired a 33,3% interest in Somerset West Autopark (Proprietary) Limited.		
	Ngwenya River Estate (Proprietary) Limited	38	n/a
	On 29 January 2007, the Group acquired a 50,0% interest in Ngwenya River Estate (Proprietary) Limited.		
	Ambit Properties Limited	412	n/a
	During the year, the Group acquired an additional 9,3% interest in Ambit Properties Limited. The Group's shareholding is now 30,6%.		
	African Trading Spirit 309 (Proprietary) Limited	11	n/a
	During the year, the Group made an additional contribution in African Trading Spirit 309 (Proprietary) Limited.		
	Maravedi Group (Proprietary) Limited	7	n/a
	On 20 November 2007, the Group acquired an additional interest in Maravedi Group (Proprietary) Limited.		
	Persistent Properties (Proprietary) Limited	8	n/a
	On 29 August 2007, the Group acquired a 50,0% interest in Persistent Properties (Proprietary) Limited. Thereafter, additional contributions were made to such interest.		
	Agrista (Proprietary) Limited	0	n/a
	On 1 February 2007, the Group acquired a 46,5% interest in Agrista (Proprietary) Limited.		
	Batho Bonke Investments (Proprietary) Limited	2	n/a
	During March 2007, the Group acquired a 49,8% interest in Batho Bonke Investments (Proprietary) Limited.		
	Northern Lights Trading 197 (Proprietary) Limited	70	n/a
	During the year, the Group acquired a 50,0% interest in Northern Lights Trading 197 (Proprietary) Limited.		
	RZT Zelpy 4809 (Proprietary) Limited	30	n/a
	On 1 November 2007, the Group acquired a 25,0% interest in RZT Zelpy 4809 (Proprietary) Limited.		
	Barrie Island Property Investments (Proprietary) Limited	3	n/a
	During December 2007, the Group acquired a 40,0% interest in Barrie Island Property Investments (Proprietary) Limited.		
	Blue Nightingale 608 (Proprietary) Limited	32	n/a
	During December 2007, the Group acquired a 30,0% interest in Blue Nightingale 608 (Proprietary) Limited.		
	Maxcity Properties (Proprietary) Limited	38	n/a
	On 13 December 2007, the Group acquired a 40,0% interest in Maxcity Properties (Proprietary) Limited.		
	Balance carried forward	651	n/a

# Notes to the consolidated financial statements

Year ended 31 December

	GROUP	
	2007 Rm	2006 Rm
<b>13. Investments in associated undertakings and joint venture companies</b> <i>(continued)</i>		
<b>13.4 Acquisitions and disposals</b> <i>(continued)</i>		
Balance brought forward	651	n/a
<b>The following acquisitions were concluded during the previous year, at cost:</b>		
Paramount Property Fund Limited	n/a	57
On 1 April 2006, the Group acquired a further interest in Paramount Property Fund Limited.		
Ballito Junction Development (Proprietary) Limited	n/a	35
The investment in Ballito Junction Development (Proprietary) Limited was recognised as an associate from 1 January 2006.		
Ambit Properties Limited	n/a	146
On 1 April 2006, the Group acquired an additional 3,6% interest in Ambit Properties Limited. This increased the Group's shareholding to 21,3%.		
Campus on Rigel (Proprietary) Limited	n/a	0
On 21 April 2006, the Group acquired a 33,3% interest in Campus on Rigel (Proprietary) Limited.		
Abseq Properties (Proprietary) Limited	n/a	133
On 1 April 2006, the Group acquired a 50,0% interest in Abseq Properties (Proprietary) Limited.		
African Trading Spirit (Proprietary) Limited	n/a	20
On 1 November 2006, the Group acquired a 50,0% interest in African Trading Spirit (Proprietary) Limited.		
Palm Hill Property Investments (Proprietary) Limited	n/a	0
On 1 November 2006, the Group acquired a 40,0% interest in Palm Hill Property Investments (Proprietary) Limited.		
<b>Total acquisitions</b>	<b>651</b>	<b>391</b>
<b>The following disposals were concluded during the year:</b>		
Axial Finance (Proprietary) Limited	(0)	n/a
On 16 February 2007, the Group sold its shares in Axial Finance (Proprietary) Limited to a third party.		
Ambit Properties Limited	(0)	n/a
On 16 July 2007, the Group sold a share in Ambit Properties Limited to a third party.		
CBZ Holdings Limited	(0)	n/a
On 4 September 2007, the Group sold its share in CBZ Holdings Limited to a third party. The Group's investment had been fully impaired.		
Ambit Management Services (Proprietary) Limited	(0)	n/a
Ambit Management Services (Proprietary) Limited is now recognised as a subsidiary.		
<b>The following disposals were concluded during the previous year:</b>		
Paramount Property Fund Limited	n/a	(335)
On 17 October 2006, the Group sold its share in Paramount Property Fund Limited to a third party.		
Conbros Limited	n/a	(37)
Conbros Limited was recognised as a subsidiary during 2006.		
Capricorn Investment Holdings Limited	n/a	(335)
On 9 November 2006, the Group sold its share in Capricorn Investment Holdings Limited to a third party.		
<b>Total disposals</b>	<b>(0)</b>	<b>(707)</b>
<b>Net acquisitions/(disposals) (refer to note 13.1)</b>	<b>651</b>	<b>(316)</b>

		GROUP	
		2007 Rm	2006 Rm
<b>13.</b>	<b>Investments in associated undertakings and joint venture companies</b> <i>(continued)</i>		
<b>13.5</b>	<b>Details of the net assets acquired on the aforementioned acquisitions are as follows:</b>		
	Purchase consideration		
	Cash paid	380	174
	Sale of property and equipment	303	—
	Transfer of investments to associates	—	217
	Elimination of profits to the extent of interest in Ambit Properties Limited	(32)	—
		<b>651</b>	<b>391</b>
<b>13.6</b>	<b>Details of the net assets disposed of on the aforementioned disposals are as follows:</b>		
	Consideration received		
	Cash received	—	745
	Consideration in shares	—	146
	Profit on disposal	—	(221)
	Transferred to subsidiaries	—	37
		<b>—</b>	<b>707</b>

For further information on the Group's associated undertakings and joint venture companies, refer to note 48.

**14. Intangible assets**

		GROUP					
		2007			2006		
		Cost	Accumulated amortisation and impairments	Carrying value	Cost	Accumulated amortisation and impairments	Carrying value
		Rm	Rm	Rm	Rm	Rm	Rm
	Computer software development costs	465	(318)	147	303	(212)	91
	Goodwill	239	(85)	154	224	(85)	139
		<b>704</b>	<b>(403)</b>	<b>301</b>	<b>527</b>	<b>(297)</b>	<b>230</b>

**Reconciliation of intangible assets**

		Opening balance	Additions	Disposals	Amortisation	Impairment charge	Total
		Rm	Rm	Rm	Rm	Rm	Rm
<b>2007</b>							
	Computer software development costs	91	162	—	(85)	(21)	147
	Goodwill	139	15	—	—	—	154
		<b>230</b>	<b>177</b>	<b>—</b>	<b>(85)</b>	<b>(21)</b>	<b>301</b>
<b>2006</b>							
	Computer software development costs	52	149	(7)	(37)	(66)	91
	Goodwill	139	—	—	—	—	139
		<b>191</b>	<b>149</b>	<b>(7)</b>	<b>(37)</b>	<b>(66)</b>	<b>230</b>

# Notes to the consolidated financial statements

Year ended 31 December

		GROUP	
		2007 Rm	2006 Rm
<b>14. Intangible assets</b>	<i>(continued)</i>		
<b>Composition of goodwill</b>			
	Abvest Holdings (Proprietary) Limited	27	27
	Absa Vehicle Management (Proprietary) Limited	112	112
	Ambit Management Services (Proprietary) Limited	15	—
		<b>154</b>	<b>139</b>

## 15. Property and equipment

		GROUP					
		2007			2006		
		Cost Rm	Accumulated depreciation Rm	Carrying value Rm	Cost Rm	Accumulated depreciation Rm	Carrying value Rm
	Computer equipment	3 058	(1 603)	1 455	3 213	(1 980)	1 233
	Freehold property	1 857	(179)	1 678	1 392	(153)	1 239
	Furniture and other equipment	3 111	(1 792)	1 319	2 949	(1 848)	1 101
	Leasehold property	503	(355)	148	493	(326)	167
	Motor vehicles	50	(40)	10	45	(35)	10
		<b>8 579</b>	<b>(3 969)</b>	<b>4 610</b>	<b>8 092</b>	<b>(4 342)</b>	<b>3 750</b>

### Reconciliation of property and equipment

		Opening balance Rm	Additions Rm	Disposals Rm	Foreign exchange movements Rm	Depre- ciation Rm	Impair- ment charge Rm	Total Rm
<b>2007</b>								
	Computer equipment	1 233	745	(48)	2	(477)	—	1 455
	Freehold property	1 239	526	(58)	2	(31)	—	1 678
	Furniture and other equipment	1 101	548	(93)	2	(239)	—	1 319
	Leasehold property	167	9	—	—	(28)	—	148
	Motor vehicles	10	5	—	—	(5)	—	10
		<b>3 750</b>	<b>1 833</b>	<b>(199)</b>	<b>6</b>	<b>(780)</b>	<b>—</b>	<b>4 610</b>

		Opening balance Rm	Additions Rm	Disposals Rm	Foreign exchange movements Rm	Depre- ciation Rm	Impair- ment charge Rm	Total Rm
2006								
	Computer equipment	1 140	508	(24)	—	(391)	—	1 233
	Freehold property	1 107	172	(8)	1	(33)	—	1 239
	Furniture and other equipment	998	462	(76)	1	(284)	—	1 101
	Leasehold property	192	2	—	(1)	(26)	—	167
	Motor vehicles	14	6	(1)	—	(5)	(4)	10
		<b>3 451</b>	<b>1 150</b>	<b>(109)</b>	<b>1</b>	<b>(739)</b>	<b>(4)</b>	<b>3 750</b>

Leasehold property and computer equipment with a carrying value of R36 million (2006: R98 million) are encumbered under finance leases (refer to note 24).

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

	<b>GROUP</b>	
	<b>2007</b>	2006
	<b>Rm</b>	Rm
<b>16. Deposits from banks</b>		
Deposits from banks	<b>58 033</b>	24 817
<i>Portfolio analysis</i>		
Designated at fair value	<b>28 603</b>	—
Financial liabilities at amortised cost	<b>29 430</b>	24 817
	<b>58 033</b>	24 817
<p>All deposits from banks have variable interest rates.</p> <p>Included above are deposits with the Group's parent company of R16 254 million (2006: R8 420 million). Refer to note 48 for the full disclosure of related party transactions.</p> <p>Included in the above balance are repurchase agreements to the value of R28 603 million (2006: R9 423 million), refer to note 46 for further details.</p> <p><i>Certain comparatives have been reclassified in terms of Annexure A.</i></p>		
<b>17. Trading and hedging liabilities</b>		
Derivative liabilities (refer to note 64)	<b>21 968</b>	15 575
Commodity derivatives	<b>2 182</b>	1 429
Credit derivatives	<b>14</b>	5
Equity derivatives	<b>1 566</b>	1 302
Foreign exchange derivatives	<b>7 746</b>	7 425
Interest rate derivatives	<b>10 460</b>	5 414
Trading liabilities	<b>12 951</b>	8 550
Total trading liabilities	<b>34 919</b>	24 125
Hedging liabilities (refer to note 64)	<b>2 226</b>	1 261
	<b>37 145</b>	25 386
<i>Portfolio analysis</i>		
Derivatives designated as cash flow hedging instruments	<b>1 626</b>	661
Derivatives designated as fair value hedging instruments	<b>600</b>	600
Held for trading	<b>34 919</b>	24 125
Derivative liabilities	<b>21 968</b>	15 575
Trading liabilities	<b>12 951</b>	8 550
	<b>37 145</b>	25 386

Included in trading liabilities are derivative liabilities with the Group's parent company of R5 496 million (2006: R1 237 million). Refer to note 48 for the full disclosure of related party transactions.  
*Certain comparatives have been reclassified in terms of Annexure A.*

# Notes to the consolidated financial statements

Year ended 31 December

	GROUP	
	2007 Rm	2006 Rm
<b>18. Other liabilities and sundry provisions</b>		
Audit fee accrual	30	27
Creditors, other accruals and sundry provisions	7 311	6 061
Deferred income	101	169
Leave pay accrual	530	459
Liabilities under finance leases (refer to note 24)	892	919
Retirement benefit obligation (refer to note 44)	355	308
Settlement balances	1 285	886
Share-based payment liability (refer to note 54)	200	81
Staff bonus and incentive accrual	1 597	1 310
	<b>12 301</b>	<b>10 220</b>
<i>Portfolio analysis</i>		
Designated at fair value	234	—
Financial liabilities at amortised cost	10 647	9 016
Non-financial liabilities	1 420	1 204
	<b>12 301</b>	<b>10 220</b>
Included above are settlement accounts with the Group's parent company for R121 million (2006: Rnil). Refer to note 48 for the full disclosure of related party transactions. <i>Certain comparatives have been reclassified in terms of Annexure A.</i>		
<b>19. Deposits due to customers</b>		
Call deposits	45 754	42 595
Cheque account deposits	96 961	90 087
Credit card deposits	2 173	2 291
Fixed deposits	102 406	91 340
Foreign currency deposits	10 114	13 679
Liabilities to clients under acceptances	108	20
Notice deposits	6 863	6 879
Other deposits	8 155	6 373
Repurchase agreements with non-banks (refer to note 46)	1 115	—
Savings and transmission deposits	36 863	26 584
	<b>310 512</b>	<b>279 848</b>
<i>Portfolio analysis</i>		
Designated at fair value	11 465	265
Financial liabilities at amortised cost	296 525	275 583
Hedged items in fair value hedging relationship	2 522	4 000
	<b>310 512</b>	<b>279 848</b>

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



		<b>GROUP</b>	
		<b>2007</b>	2006
		Rm	Rm
<b>20. Debt securities in issue</b>			
Customers		<b>139 335</b>	88 600
Abacas – Commercial paper issued		<b>12 416</b>	11 523
Floating rate notes		<b>33 185</b>	13 962
Liabilities arising from securitised SPEs		<b>9 985</b>	3 494
Negotiable certificates of deposit		<b>62 509</b>	43 553
Other debt securities in issue		<b>14 939</b>	—
Promissory notes		<b>6 301</b>	16 068
Banks		<b>17 089</b>	10 340
Floating rate notes		<b>2 764</b>	—
Negotiable certificates of deposit		<b>13 416</b>	5 829
Promissory notes		<b>909</b>	4 511
		<b>156 424</b>	98 940
<i>Portfolio analysis</i>			
Designated at fair value		<b>3 764</b>	11 523
Abacas – Commercial paper issued		—	11 523
Other debt securities in issue		<b>3 764</b>	—
Financial liabilities at amortised cost		<b>146 697</b>	87 417
Abacas – Commercial paper issued		<b>12 416</b>	—
Floating rate notes		<b>35 949</b>	13 962
Liabilities arising from securitised SPEs		<b>9 985</b>	3 494
Negotiable certificates of deposit		<b>75 925</b>	49 382
Other debt securities in issue		<b>5 212</b>	—
Promissory notes		<b>7 210</b>	20 579
Hedged item in fair value hedging relationship			
Other debt securities in issue		<b>5 963</b>	—
		<b>156 424</b>	98 940
<i>Certain comparatives have been reclassified in terms of Annexure A.</i>			
<b>21. Liabilities under investment contracts</b>			
Balance at the beginning of the year as previously reported		<b>5 129</b>	3 459
Effect of reclassification <sup>1</sup>		<b>526</b>	414
Reclassified balance at the beginning of the year		<b>5 655</b>	3 873
Changes in investment contracts (refer to note 33)		<b>534</b>	508
Inflows on investment contracts		<b>2 640</b>	2 067
Policyholder benefits on investment contracts		<b>(1 013)</b>	(802)
Reinsurance assets and policies charge		<b>92</b>	9
<b>Balance at the end of the year</b>		<b>7 908</b>	5 655
<i>Portfolio analysis</i>			
Designated at fair value		<b>7 908</b>	5 655
<b>21.1 Liabilities under investment contracts</b>			
Total liabilities under investment contracts		<b>8 666</b>	6 354
Less: Absa Life interest in the General Fund		<b>(758)</b>	(699)
<b>Liabilities under investment contracts attributable to external policyholders</b>		<b>7 908</b>	5 655

<sup>1</sup>Certain comparatives have been reclassified in terms of Annexure A.

# Notes to the consolidated financial statements

Year ended 31 December

## 21. Liabilities under investment contracts (continued)

### 21.2 Assets linked to investment contracts

	GROUP		
	2007		
	Linked to investment contracts Rm	Intergroup assets and liabilities Rm	Attributable to external policy-holders Rm
Money market assets (refer to note 2)	2 808	(42)	2 766
Investments (refer to note 12)	5 647	—	5 647
Other assets	7	—	7
Other liabilities	(27)	—	(27)
Reinsurance assets (refer to note 10)	231	—	231
	<b>8 666</b>	<b>(42)</b>	<b>8 624</b>
	2006		
	Linked to investment contracts Rm	Intergroup assets and liabilities Rm	Attributable to external policy-holders Rm
Money market assets (refer to note 2)	1 368	—	1 368
Investments (refer to note 12)	4 805	—	4 805
Other assets	2	—	2
Other liabilities	(52)	—	(52)
Reinsurance assets (refer to note 10)	231	—	231
	<b>6 354</b>	<b>—</b>	<b>6 354</b>

	<b>GROUP</b>	
	<b>2007</b> Rm	2006 Rm
<b>22. Policyholder liabilities under insurance contracts</b>		
Short-term insurance contracts:		
Claims outstanding	<b>625</b>	536
Claims reported and loss adjustment expense (refer to note 22.3)	<b>477</b>	425
Claims incurred but not reported (refer to note 22.3)	<b>148</b>	111
Unearned premiums (refer to note 22.4)	<b>769</b>	661
	<b>1 394</b>	1 197
Long-term insurance contracts – without fixed terms (refer to note 22.5)	<b>1 856</b>	1 914
Maintenance contracts accounted for as insurance contracts	<b>68</b>	76
	<b>3 318</b>	3 187
<b>22.1 Reinsurances' share of insurance liabilities (refer to note 10)</b>		
Short-term insurance contracts:		
Claims outstanding	<b>(148)</b>	(58)
Claims reported and loss adjustment expense (refer to note 22.3)	<b>(144)</b>	(56)
Claims incurred but not reported (refer to note 22.3)	<b>(4)</b>	(2)
Unearned premiums (refer to note 22.4)	<b>(38)</b>	(21)
	<b>(186)</b>	(79)
Long-term insurance contracts	<b>(68)</b>	(80)
	<b>(254)</b>	(159)
<b>22.2 Net insurance liabilities</b>		
Short-term insurance contracts:		
Claims outstanding	<b>477</b>	478
Claims reported and loss adjustment expense (refer to note 22.3)	<b>333</b>	369
Claims incurred but not reported (refer to note 22.3)	<b>144</b>	109
Unearned premiums (refer to note 22.4)	<b>731</b>	640
	<b>1 208</b>	1 118
Long-term insurance contracts	<b>1 788</b>	1 834
Maintenance contracts accounted for as insurance contracts	<b>68</b>	76
	<b>3 064</b>	3 028
<i>Comprising</i>		
Linked insurance contracts		
Gross	<b>855</b>	725
Non-linked insurance contracts	<b>2 209</b>	2 303
Gross	<b>2 463</b>	2 462
Reinsurance	<b>(254)</b>	(159)
	<b>3 064</b>	3 028

# Notes to the consolidated financial statements

Year ended 31 December

## 22. Policyholder liabilities under insurance contracts (continued)

### 22.3 Reconciliation of claims outstanding, including claims incurred but not reported

	GROUP					
	2007			2006		
	Gross Rm	Re-insurance Rm	Net Rm	Gross Rm	Re-insurance Rm	Net Rm
<b>Balance at the beginning of the year</b>	536	(58)	478	442	(142)	300
Cash paid for claims settled in the year	(1 503)	167	(1 336)	(935)	46	(889)
Increase in liabilities – arising from current year claims	1 536	(206)	1 330	1 053	(51)	1 002
Increase/(decrease) in liabilities – arising from prior year claims	56	(51)	5	(24)	89	65
<b>Balance at the end of the year</b>	<b>625</b>	<b>(148)</b>	<b>477</b>	<b>536</b>	<b>(58)</b>	<b>478</b>
<i>Comprising</i>						
Claims reported and loss adjustment expense (refer to note 22)	477	(144)	333	425	(56)	369
Claims incurred but not reported (refer to note 22)	148	(4)	144	111	(2)	109
	<b>625</b>	<b>(148)</b>	<b>477</b>	<b>536</b>	<b>(58)</b>	<b>478</b>
<b>22.4 Reconciliation of provisions for unearned premiums</b>						
<b>Balance at the beginning of the year</b>	661	(21)	640	539	(19)	520
Increase in the year	2 064	(213)	1 851	1 725	(148)	1 577
Release during the year	(1 956)	196	(1 760)	(1 603)	146	(1 457)
<b>Balance at the end of the year (refer to note 22)</b>	<b>769</b>	<b>(38)</b>	<b>731</b>	<b>661</b>	<b>(21)</b>	<b>640</b>

	GROUP	
	2007 Rm	2006 Rm
<b>22.5 Reconciliation of the gross long-term insurance contracts – without fixed terms</b>		
<b>Balance at the beginning of the year</b>	<b>1 914</b>	1 673
Cash paid in respect of claims (refer to note 32)	(418)	(316)
Increase in units and market value	93	251
Liabilities released for payment on death, surrender and other termination benefits	(325)	(218)
Other movements <sup>1</sup>	(611)	(808)
Premiums received in the year (refer to note 31)	1 203	1 332
<b>Balance at the end of the year (refer to note 22)</b>	<b>1 856</b>	1 914

<sup>1</sup>Includes items such as the expected release of margins, cash paid in respect of expenses, changes in assumption and mismatch releases.

		GROUP	
		2007 Rm	2006 Rm
<b>23. Borrowed funds</b>			
<b>23.1 Subordinated callable notes</b>		<b>9 796</b>	8 268
The subordinated debt instruments listed below qualify as secondary capital in terms of the Banks Act, No 94 of 1990 (as amended).			
<b>Interest rate</b>	<b>Final maturity date</b>		
14,25%	22 March 2014	<b>3 100</b>	3 100
10,75%	26 March 2015	<b>1 100</b>	1 100
Three-month JIBAR + 0,75%	26 March 2015	<b>400</b>	400
8,75%	1 September 2017	<b>1 500</b>	1 500
8,10%	27 March 2020	<b>2 000</b>	2 000
8,80%	7 March 2019	<b>1 725</b>	—
Accrued interest		<b>297</b>	253
Fair value adjustment <sup>1</sup>		<b>(326)</b>	(85)

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

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

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

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

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

<sup>1</sup>The fair value adjustment relates to subordinated callable notes designated as hedged items in a hedging relationship.

# Notes to the consolidated financial statements

Year ended 31 December

			GROUP	
			2007 Rm	2006 Rm
<b>23.</b>	<b>Borrowed funds</b> <i>(continued)</i>			
<b>23.1</b>	<b>Subordinated callable notes</b> <i>(continued)</i>			
	<p>The 8,80% notes may be redeemed in full at the option of Absa Bank Limited on 7 March 2019. Interest is paid semi-annually in arrear on 7 March and 7 September of each year, provided that the last date for payment shall be 7 March 2019. If Absa Bank Limited does not exercise the redemption option, interest is payable thereafter at a floating rate of three-month JIBAR plus 0,92% quarterly in arrear on 7 March, 7 June, 7 September and 7 December. These notes were issued on 7 March 2007. These notes are listed on the Bond Exchange of South Africa. Preliminary expenses relating to the placement of notes were capitalised and are expensed on a systematic basis over the period of the notes.</p>			
<b>23.2</b>	<b>Redeemable cumulative option-holding preference shares</b>		<b>153</b>	152
	<b>Preference dividend rate</b>	<b>Option exercise dates</b>		
	72% of the prime overdraft rate	1 July 2007 to 1 July 2009 1 March, 1 June, 1 September or 1 December of each year	<b>158</b>	158
		<b>Number</b>		
		79 237 500		
	Less: Redemption of preference shares for the Absa Group Limited Employee Share Ownership Administrative Trust		<b>(7)</b>	—
		(3 618 000)		
	Accrued dividend		<b>7</b>	6
	Less: Shares held by the Absa Group Limited Employee Share Ownership Administrative Trust		<b>(5)</b>	(12)
		(2 467 200)		
	<p>The dividends are compounded and payable semi-annually in arrear on 30 September and 31 March of each year. The shares were issued by Absa Group Limited on 1 July 2004 and the redemption dates commence on the first business day after the third anniversary of the date of issue of the redeemable preference shares and ending on the fifth anniversary of the date of issue. Such exercise and notice will be deemed to be effective only on the option exercise dates, being 1 March, 1 June, 1 September or 1 December of each year. The shares are convertible into ordinary shares at the option of the preference shareholders on the redemption dates in lots of 100.</p>			
			<b>9 949</b>	8 420
	<i>Portfolio analysis</i>			
	Financial liabilities at amortised cost		<b>5 104</b>	6 052
	Redeemable cumulative option-holding preference shares		<b>153</b>	152
	Subordinated callable loans		<b>4 951</b>	5 900
	Subordinated callable loans in fair value hedging relationship		<b>4 845</b>	2 368
			<b>9 949</b>	8 420

	GROUP	
	2007 Rm	2006 Rm
<b>24. Liabilities under finance leases</b>		
<b>Minimum lease payments due</b>		
Less than one year	233	201
Between one and two years	255	224
Between two and three years	226	246
Between three and four years	231	225
Between four and five years	257	231
More than five years	240	497
	<b>1 442</b>	1 624
<b>Less interest</b>		
Less than one year	(148)	(157)
Between one and two years	(130)	(147)
Between two and three years	(109)	(130)
Between three and four years	(86)	(108)
Between four and five years	(55)	(86)
More than five years	(22)	(77)
	<b>(550)</b>	(705)
<b>Principal</b>		
Less than one year	85	44
Between one and two years	125	77
Between two and three years	117	116
Between three and four years	145	117
Between four and five years	202	145
More than five years	218	420
	<b>892</b>	919
<b>Present value of minimum lease payments (refer to note 18)</b>		
Under the terms of the lease, no contingent rentals are payable. Refer to note 15 for details of property and equipment subject to finance leases.		
<b>25. Share capital and premium</b>		
<b>25.1 Ordinary share capital</b>		
<b>Authorised</b>		
800 000 000 (2006: 800 000 000) ordinary shares of R2,00 each	<b>1 600</b>	1 600
<b>Issued</b>		
678 573 074 (2006: 671 955 074) ordinary shares of R2,00 each	<b>1 357</b>	1 344
Less: 2 678 159 (2006: 2 654 828) shares held by the Absa Group Limited Share Incentive Trust	<b>(6)</b>	(6)
Less: 718 202 (2006: 178 370) treasury shares held by Absa Life Limited and Absa Fund Managers	<b>(1)</b>	—
Less: 68 800 (2006: nil) treasury shares held by Absa Group Limited Employee Share Ownership Administrative Trust	<b>(0)</b>	—
	<b>1 350</b>	1 338
<b>Total issued capital</b>		
Share capital	<b>1 350</b>	1 338
Share premium	<b>2 292</b>	2 067
	<b>3 642</b>	3 405

# Notes to the consolidated financial statements

Year ended 31 December

	GROUP	
	2007 Rm	2006 Rm
<b>25. Share capital and premium</b> <i>(continued)</i>		
<b>25.1 Ordinary share capital</b> <i>(continued)</i>		
<i>Unissued shares</i>		
The unissued shares are under the control of the directors subject to a limit of 5% of issued ordinary share capital as at the balance sheet date, in terms of a general authority to allot and issue them on such terms and conditions and at such times as they deem fit. This authority expires at the forthcoming annual general meeting of the Company.		
The Group has a share incentive trust in terms of which shares are issued and options are granted. Details of the share incentive trust are set out in note 54. As required by the JSE Limited, the Share Incentive Trust has been consolidated into the Group's annual financial statements.		
As required by IFRS, the shares held by the life fund within Absa Life Limited were eliminated as treasury shares in the Group's annual financial statements.		
<i>Shares issued during the year</i>		
The following ordinary shares were issued during the year:		
<ul style="list-style-type: none"> <li>• On 1 June 2007, 3 000 000 shares at R36,21 per share, being R2,00 par value and R34,21 share premium;</li> <li>• On 3 September 2007, 3 241 000 shares at R69,00 per share, being R2,00 par value and R67,00 share premium;</li> <li>• On 13 December 2007, 377 000 shares at R69,00 per share, being R2,00 par value and R67,00 share premium.</li> </ul>		
<i>Shares issued during the previous year</i>		
The following ordinary shares were issued during the previous year to meet the obligation of the Absa Share Limited Share Incentive Trust:		
<ul style="list-style-type: none"> <li>• On 5 June 2006, 3 300 000 shares were issued at R36,17 per share, being R2,00 par value and R34,17 share premium;</li> <li>• On 1 December 2006, 1 800 000 shares were issued at R33,92 per share, being R2,00 par value and R31,92 share premium.</li> </ul>		
All shares issued by the Group are paid in full.		
<b>25.2 Preference share capital – unlisted</b>		
<b>Authorised</b>		
80 467 500 (2006: 80 467 500) redeemable cumulative option-holding preference shares of R2,00 each	<b>161</b>	161
<b>Issued</b>		
75 619 500 (2006: 79 237 500) redeemable cumulative option-holding preference shares of R2,00 each	<b>151</b>	158

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

The 73 152 300 (2006: 73 152 300) shares held by Batho Bonke Capital (Proprietary) Limited are entitled to voting rights equivalent to those of the listed ordinary shares. The remaining shares held by the Absa Group Limited Employee Share Ownership Administrative Trust are not entitled to voting rights.

*Shares redeemed during the year*

The following options held in the Absa Group Limited Employee Share Ownership Administrative Trust were exercised by employees:

- On 3 September 2007, 3 241 000 preference shares were redeemed and converted into ordinary share capital at R69,00 per share, being R2,00 par value and R67,00 share premium.
- On 13 December 2007, 377 000 ordinary shares were redeemed and converted into ordinary share capital at R69,00 per share, being R2,00 par value and R67,00 share premium.



	GROUP	
	2007 Rm	2006 Rm
<b>26. Minority interest – preference shares (listed)</b>		
<b>Authorised</b> 30 000 000 (2006: 30 000 000) non-cumulative non-redeemable preference shares of R0,01 each	1	1
<b>Issued</b> 4 944 839 (2006: 3 000 000) non-cumulative non-redeemable preference shares of R0,01 each	1	1
<b>Total issued capital</b>		
Share capital	1	1
Share premium	4 643	2 991
	<b>4 644</b>	<b>2 992</b>

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

*Shares issued during the year*

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

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

*Shares issued during the previous year*

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

**27. Other reserves**

**Foreign currency translation reserve**

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

**Available-for-sale reserve**

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

**Cash flow hedge reserve**

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

**Associated undertakings' and joint ventures' distributable reserves**

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

# Notes to the consolidated financial statements

Year ended 31 December

## 27. Other reserves (continued)

### Regulatory general credit risk reserve

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

### Share-based payment reserve

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

### Insurance contingency reserve

A contingency reserve is maintained at 10% of net written premiums as stipulated by the Short-term Insurance Act, 1988. The utilisation of this reserve, in case of catastrophe, is subjected to the approval of the Financial Services Board (FSB). Transfers to this reserve are reflected in the statement of changes in equity and are indicated in the balance sheet as part of "Other reserves" under equity.

	<b>GROUP</b>	
	<b>2007</b>	2006
	<b>Rm</b>	Rm
<b>28. Interest and similar income</b>		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	<b>613</b>	373
Fair value adjustments on hedging instruments	<b>(547)</b>	(31)
Investments	<b>1 295</b>	83
Loans and advances to banks (refer to note 28.1)	<b>2 323</b>	617
Loans and advances to customers (refer to note 28.2)	<b>49 783</b>	35 040
Statutory liquid asset portfolio	<b>1 656</b>	1 487
	<b>55 123</b>	37 569
<i>Portfolio analysis</i>		
Fair value adjustments on hedged items		
Statutory liquid asset portfolio (refer to note 64.2)	<b>(343)</b>	(39)
Fair value adjustments on hedging instruments	<b>(547)</b>	(31)
Fair value hedges (refer to note 64.2)	<b>457</b>	68
Cash flow hedges	<b>(1 004)</b>	(99)
Interest on financial assets held at amortised cost	<b>53 607</b>	35 930
Interest on financial assets designated at fair value	<b>2 406</b>	1 646
Investments	<b>894</b>	—
Loans and advances	<b>1 374</b>	1 277
Statutory liquid asset portfolio	<b>138</b>	369
Other fair value adjustments		
Loans and advances	<b>—</b>	63
	<b>55 123</b>	37 569

	<b>GROUP</b>	
	<b>2007</b>	2006
	<b>Rm</b>	Rm
<b>28. Interest and similar income</b> <i>(continued)</i>		
<b>28.1 Loans and advances to banks</b>		
Parent company (refer to note 48)	<b>94</b>	42
Other	<b>2 229</b>	575
	<b>2 323</b>	617
<b>28.2 Loans and advances to customers</b>		
Cheque accounts	<b>2 599</b>	1 880
Corporate overdrafts and specialised finance loans	<b>650</b>	533
Credit cards	<b>2 139</b>	1 344
Foreign currency loans	<b>695</b>	794
Instalment credit agreements	<b>7 988</b>	5 908
Interest on impaired assets (refer to note 9)	<b>274</b>	119
Microloans	<b>318</b>	261
Mortgages	<b>27 761</b>	18 430
Other advances <sup>1</sup>	<b>1 116</b>	1 259
Overnight finance	<b>1 147</b>	539
Personal loans	<b>2 660</b>	1 813
Preference shares	<b>1 097</b>	1 057
Term loans	<b>115</b>	80
Wholesale overdrafts	<b>1 224</b>	1 023
	<b>49 783</b>	35 040
<i>Certain comparatives have been reclassified in terms of Annexure A.</i>		
<b>29. Interest expense and similar charges</b>		
Interest expense and similar charges are paid on:		
Borrowed funds	<b>789</b>	762
Debt securities in issue	<b>11 960</b>	5 402
Deposits from banks (refer to note 29.1)	<b>1 231</b>	1 021
Deposits due to customers (refer to note 29.2)	<b>21 438</b>	15 142
Fair value adjustments on hedging instruments	<b>560</b>	150
Interest incurred on finance leases	<b>157</b>	163
Other interest	<b>98</b>	42
	<b>36 233</b>	22 682

<sup>1</sup>Includes items such as interest on factored debtors books and interest on loans to associates.

# Notes to the consolidated financial statements

Year ended 31 December

	GROUP	
	2007 Rm	2006 Rm
<b>29. Interest expense and similar charges</b> (continued)		
<i>Portfolio analysis</i>		
Fair value adjustments on hedged items (refer to note 64.2)	(417)	(121)
Borrowed funds	(241)	(97)
Debt securities in issue	(176)	(24)
Fair value adjustments on hedging instruments (refer to note 64.2)		
Fair value hedges	560	150
Interest paid on financial liabilities held at amortised cost	36 090	22 653
	<b>36 233</b>	<b>22 682</b>
<b>29.1 Deposits from banks</b>		
Parent company (refer to note 48)	250	143
Other	981	878
	<b>1 231</b>	<b>1 021</b>
<b>29.2 Deposits due to customers</b>		
Call deposits	4 083	3 350
Cheque account deposits	4 580	3 550
Credit card deposits	63	61
Fixed deposits	8 705	5 586
Foreign currency deposits	1 286	691
Notice deposits	470	337
Other deposits	1 105	1 031
Saving and transmission deposits	1 146	536
	<b>21 438</b>	<b>15 142</b>
<i>Certain comparatives have been reclassified in terms of Annexure A.</i>		
<b>30. Net fee and commission income</b>		
<b>Fee and commission income</b>		
Credit-related fees and commissions	10 208	9 054
Credit cards	1 551	1 390
Cheque accounts	2 575	2 405
Electronic banking	2 657	2 248
Other	1 624	1 499
Saving accounts	1 801	1 512
Corporate finance fees	289	136
External administration fees	217	157
Insurance commission received	877	771
Pension fund payment services	489	452
Portfolio and other management fees	255	209
Trust and estate income	228	201
Unit and property trust income	310	267
	<b>12 873</b>	<b>11 247</b>
<b>Fee and commission expense</b>		
Fees and commissions paid	(1 273)	(1 094)
	<b>11 600</b>	<b>10 153</b>

	GROUP	
	2007 Rm	2006 Rm
<b>30. Net fee and commission income</b> <i>(continued)</i>		
<b>30.1 Net fee and commission linked to financial instruments not at fair value</b>		
<b>Fee and commission income</b>		
Credit cards	740	703
Cheque accounts	2 575	2 405
Electronic banking	2 657	2 248
Other	587	974
Saving accounts	1 801	1 402
	<b>8 360</b>	7 732
<b>Fee and commission expense</b>		
Fees and commissions paid	(147)	(136)
	<b>8 213</b>	7 596
<b>30.2 Trust and other fiduciary activities</b>		
Corporate finance fees	289	136
Portfolio and other management fees	255	209
Trust and estate income	228	201
Unit and property trust income	310	267
	<b>1 082</b>	813
The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involves the Group making allocation, purchase and sale decisions in relation to a wide range of financial instruments. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care.		
<i>Certain comparatives have been reclassified in terms of Annexure A.</i>		
<b>31. Net insurance premium income</b>		
Gross insurance premiums	3 531	3 269
Life insurance contracts (refer to note 22.5)	1 203	1 332
Short-term insurance contracts	2 328	1 937
Premiums ceded to reinsurers	(339)	(275)
Reinsurance on life insurance contracts	(62)	(67)
Reinsurance on short-term insurance contracts	(277)	(208)
	<b>3 192</b>	2 994
<b>32. Net insurance claims and benefits paid</b>		
Gross claims and benefits paid on insurance contracts	1 847	1 376
Life insurance claims and benefits (refer to note 22.5)	418	316
Short-term insurance claims and benefits	1 429	1 060
Reinsurance recoveries	(244)	(57)
Reinsurance recoveries on life insurance contracts	(17)	(13)
Reinsurance recoveries on short-term insurance contracts	(227)	(44)
	<b>1 603</b>	1 319

# Notes to the consolidated financial statements

Year ended 31 December

	GROUP	
	2007 Rm	2006 Rm
<b>32. Net insurance claims and benefits paid</b> <i>(continued)</i>		
<i>Comprising</i>		
Life	401	303
Credit life	187	110
Funeral business	74	80
Home mortgage protection	133	97
Other	7	16
Short-term	1 202	1 016
Guarantees	111	126
Miscellaneous	35	48
Motor and personal	211	202
Property and engineering	845	640
	<b>1 603</b>	<b>1 319</b>
<b>33. Change in insurance and investment liabilities</b>		
Insurance liabilities	(45)	240
Investment contracts (refer to note 21)	534	508
	<b>489</b>	<b>748</b>
<b>34. Gains and losses from banking and trading activities</b>		
Designated at fair value	878	(147)
Debt instruments	(71)	(50)
Debt securities in issue	(112)	—
Equity instruments	854	439
Loans and advances and deposits to customers	261	(381)
Statutory liquid assets	(54)	(155)
Associated undertakings and joint venture companies	2	167
Dividends received	8	—
(Loss)/profit realised on disposal	(6)	167
Held for trading		
Derivatives and trading instruments	663	1 357
Ineffective hedges	79	(1)
Cash flow hedges (refer to note 64.2)	(60)	(5)
Fair value hedges	139	4
	<b>1 622</b>	<b>1 376</b>

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

	<b>GROUP</b>	
	<b>2007</b>	2006
	<b>Rm</b>	Rm
<b>35. Gains and losses from investment activities</b>		
Designated at fair value	<b>921</b>	1 527
Cash, cash balances and balances with central banks	<b>111</b>	95
Debt instruments	<b>99</b>	142
Equity instruments	<b>711</b>	1 290
Held for trading		
Derivatives and trading instruments	<b>(16)</b>	(280)
Subsidiaries		
Profit realised on disposal	<b>36</b>	50
Associated undertakings and joint venture companies	<b>41</b>	74
Dividends received	<b>4</b>	20
Profit realised on disposal	<b>37</b>	54
Investments linked to investment contracts	<b>579</b>	520
Cash, cash balances and balances with central banks	<b>100</b>	31
Investments	<b>479</b>	489
	<b>1 561</b>	1 891
<i>Certain comparatives have been reclassified in terms of Annexure A.</i>		
<b>36. Other operating income</b>		
Exchange differences on operational activities	<b>95</b>	81
Income from maintenance contracts	<b>34</b>	30
Profit on disposal of internally-generated intangibles	<b>68</b>	—
Profit on disposal of property and equipment	<b>80</b>	11
Property development profit (refer to note 36.1)	<b>191</b>	148
Property rental	<b>94</b>	92
Sundry income <sup>1</sup>	<b>283</b>	310
	<b>845</b>	672
<b>36.1 Property development profit</b>		
Gross sales	<b>308</b>	243
Cost of sales	<b>(117)</b>	(95)
	<b>191</b>	148

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

<sup>1</sup>Sundry income includes service fees levied on sundry non-core business activities.

# Notes to the consolidated financial statements

Year ended 31 December

	GROUP	
	2007 Rm	2006 Rm
<b>37. Operating expenses</b>		
Amortisation on intangible assets (refer to note 14)	85	37
Auditors' remuneration	67	67
Audit fees	63	58
Other fees	4	9
Cash transportation	347	298
Depreciation (refer to note 15)	780	739
Computer equipment	477	391
Furniture and other equipment	239	284
Freehold property	31	33
Leasehold property	28	26
Motor vehicles	5	5
Equipment rental and maintenance	295	245
Information technology	1 185	1 159
Marketing costs	931	746
Operating lease expense	817	757
Other operating costs	1 761	1 501
Other professional fees	1 260	1 128
Printing and stationery	312	259
Staff costs (refer to note 38)	9 944	8 577
Telephone and postage	658	576
	<b>18 442</b>	<b>16 089</b>
<i>Certain comparatives have been reclassified in terms of Annexure A.</i>		
<b>38. Staff costs (refer to note 37)</b>		
Bonuses	1 474	1 433
Employer contributions to post-retirement funds	529	433
Other staff costs	377	337
Salaries	7 196	6 070
Share-based payments (refer to note 54)	193	154
Training costs	175	150
	<b>9 944</b>	<b>8 577</b>
Average number of employees employed by the Group	<b>36 024</b>	<b>34 348</b>
Number of employees employed by the Group at year-end	<b>36 893</b>	<b>35 154</b>
<b>39. Non-credit related impairments</b>		
Financial instruments		
Available-for-sale instruments (refer to note 12.1)	—	(5)
Other	58	80
Computer software development costs (refer to note 14)	21	66
Equipment (refer to note 15)	—	4
Investments in associated undertakings and joint venture companies (refer to note 13.1)	—	10
Repossessed properties	37	—
	<b>58</b>	<b>75</b>

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



	<b>GROUP</b>	
	<b>2007</b> Rm	2006 Rm
<b>39. Non-credit related impairments</b> <i>(continued)</i>		
During the year under review an assessment was performed on the net realisable value of repossessed properties. It was concluded that the costs of the properties exceed their net realisable value and consequently these properties were impaired.		
The current year's impairment losses are reported in the following segments:		
<ul style="list-style-type: none"> <li>• Repossessed properties are reported in the retail banking segment.</li> <li>• Impairments on computer software development costs are reported in the other segment.</li> </ul>		
Impairment losses in the 2006 financial year were reported in the following segments:		
<ul style="list-style-type: none"> <li>• Property and equipment were reported in the Africa market segment.</li> <li>• Investments in associated undertakings and joint venture companies were reported in the ACBB segment.</li> <li>• Available-for-sale instruments and computer software development costs were reported in the other segment.</li> </ul>		
<b>40. Indirect taxation</b>		
Payments to third parties	37	86
Regional Services Council Levies <sup>1</sup>	3	57
Training levy	74	54
Value-added tax net of input credits	595	668
	<b>709</b>	<b>865</b>
<i>Certain comparatives have been reclassified in terms of Annexure A.</i>		
<b>41. Taxation expense</b>		
<b>Current</b>		
South African current taxation	3 160	2 654
South African current taxation – prior year	(16)	34
Secondary taxation on companies	346	199
Foreign taxation	280	110
	<b>3 770</b>	<b>2 997</b>
<b>Deferred</b>		
Deferred taxation (refer to notes 11.1 and 41.1)	272	154
	<b>4 042</b>	<b>3 151</b>
<b>Reconciliation between accounting profit and the tax expense is as follows:</b>		
Operating profit before income tax:	14 067	11 417
Less: Share of retained earnings of associated undertakings and joint venture companies	(91)	(113)
	<b>13 976</b>	<b>11 304</b>
Tax calculated at a tax rate of 29%	4 053	3 278
Effect of different tax rates in other countries	(42)	48
Income not subject to tax	(648)	(534)
Expenses not deductible for tax purposes	296	166
Secondary taxation on companies	346	199
Other	37	(6)
	<b>4 042</b>	<b>3 151</b>

<sup>1</sup>Regional Services Council Levies were abolished from 1 July 2006.

# Notes to the consolidated financial statements

Year ended 31 December

		GROUP	
		2007	2006
		Rm	Rm
<b>41.</b>	<b>Taxation expense</b> <i>(continued)</i>		
<b>41.1</b>	<b>The deferred tax charge in the income statement comprises the following temporary differences:</b>		
	Allowances for loan losses	(95)	(80)
	Accelerated tax depreciation	241	26
	Other provisions	25	(183)
	Other temporary differences	101	391
		<b>272</b>	<b>154</b>
<b>42.</b>	<b>Earnings per share</b>		
<b>42.1</b>	<b>Basic earnings per share</b>		
	Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year.		
	Profit attributable to ordinary equity holders of the Group	9 595	8 105
	Weighted average number of ordinary shares in issue (millions)	671,5	666,1
	Issued shares at the beginning of the year (millions)	672,0	666,9
	Effect of shares issued during the year (weighted millions)	2,8	2,1
	Less: Treasury shares held by Absa Life and Absa Fund Managers (weighted millions)	(0,7)	(0,2)
	Less: Shares held by the Absa Group Limited Share Incentive Trust (weighted millions)	(2,5)	(2,7)
	Less: Shares held by Absa Group Limited Employee Share Ownership Administrative Trust (weighted millions)	(0,1)	—
	<b>Basic earnings per share (cents)</b>	<b>1 428,9</b>	<b>1 216,8</b>

## 42.2 Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has two categories of dilutive potential ordinary shares; redeemable, cumulative option-holding preference shares and share options. The convertible debt is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual quoted market share price of the Group's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. The difference is shares that would be obtained for no value.

In calculating the diluted earnings per share on share options to employees and other share-based payment arrangements, the Group adjusts the exercise price, which impacts the weighted average shares issued at no value, of potential ordinary shares to include the fair value of services that will be recognised as an expense in a future period.

	GROUP	
	2007 Rm	2006 Rm
<b>42. Earnings per share (continued)</b>		
<b>42.2 Diluted earnings per share (continued)</b>		
Net profit attributable to ordinary equity holders of the Group	9 595	8 105
Interest expense on convertible debt (net of taxation)	15	13
<b>Diluted earnings</b>	<b>9 610</b>	<b>8 118</b>
Diluted weighted average number of ordinary shares in issue (millions)	<b>716,4</b>	703,2
Weighted average number of ordinary shares in issue (millions)	<b>671,5</b>	666,1
Adjustments for shares issued at no value		
Options linked to redeemable preference shares (weighted millions)	<b>36,8</b>	28,6
Share options (weighted millions)	<b>8,1</b>	8,5
<b>Diluted earnings per share (cents)</b>	<b>1 341,4</b>	1 154,4

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

#### 43. Headline earnings

	GROUP			
	2007		2006	
	Gross Rm	Net <sup>1</sup> Rm	Gross Rm	Net <sup>1</sup> Rm
<b>Headline earnings is determined as follows:</b>				
Net profit attributable to ordinary equity holders of the Group		9 595		8 105
<b>Adjustments for:</b>				
IAS 16 – Net profit on disposal of property and equipment (refer to note 36)	(80)	(57)	(11)	(8)
IAS 21 – Recycled foreign currency translation reserve, disposal of investments in foreign operations	(20)	(29)	—	—
IAS 27 – Net profit on disposal of subsidiaries (refer to note 35)	(36)	(26)	(50)	(36)
IAS 28 and 31 – Net profit on disposal of associated undertakings and joint venture companies (refer to note 34 and 35)	(31)	(31)	(221)	(167)
IAS 28 – Impairment of associated undertakings and joint venture companies (refer to note 39)	—	—	10	7
IAS 28 – Underlying associated undertakings and joint venture companies' earnings	(45)	(45)	(54)	(54)
IAS 36 – Impairment of assets (refer to note 39)	—	—	4	3
IAS 38 – Net profit on disposal and impairment of intangible assets (refer to note 36 and 39)	(47)	(43)	66	47
IAS 39 – Release of available-for-sale reserves	74	49	(30)	(21)
IAS 39 – Impairment of available-for-sale assets (refer to note 39)	—	—	(5)	(4)
<b>Headline earnings</b>		<b>9 413</b>		7 872
Interest expense on convertible debt	—	15	—	13
<b>Diluted headline earnings</b>		<b>9 428</b>		7 885
<b>Headline earnings per share (cents)</b>		<b>1 401,9</b>		1 181,8
<b>Diluted headline earnings per share (cents)</b>		<b>1 316,1</b>		1 121,3

<sup>1</sup>The net amount is reflected after taxation and minority interest.

# Notes to the consolidated financial statements

Year ended 31 December

	GROUP	
	2007 Rm	2006 Rm
<b>44. Retirement benefit obligations</b>		
<b>Balance sheet obligation disclosed in other liabilities (refer to note 18)</b>		
Pension benefits – subsidiaries' defined benefit plan (refer to note 44.1)	354	307
Other post-retirement benefits	1	1
	<b>355</b>	<b>308</b>
<b>Income statement charge included in staff costs</b>		
Pension benefits – subsidiaries' defined benefit plan (refer to note 44.1)	50	38
Pension benefits – Absa Group Pension Fund (refer to note 44.2)	1	1
<b>Total included under staff costs</b>	<b>51</b>	<b>39</b>
<b>44.1 Subsidiaries' defined benefit plan</b>		
<b>Funded obligation</b>		
Present value of funded obligation	372	296
Unrecognised actuarial (losses)/gains	(18)	11
	<b>354</b>	<b>307</b>
<b>Reconciliation of movement in obligation</b>		
Balance at the beginning of the year	296	284
Current service costs	5	6
Interest expense	45	32
Net unrecognised actuarial losses/(gains)	29	(11)
Exchange differences	20	5
Benefits paid	(23)	(20)
<b>Balance at the end of the year</b>	<b>372</b>	<b>296</b>
<b>Total expense recognised in the income statement</b>		
Current service costs	5	6
Interest expense	45	32
	<b>50</b>	<b>38</b>
The principal actuarial assumptions used relating to African subsidiaries were as follows:		
Discount rate	13,50%	14,50%
Expected rate on plan assets	12,00%	13,00%
Future pension increases	4,40%	4,80%
Future salary increases	11,00%	12,00%
Assumptions regarding future mortality experience are set based on advice from published statistics and experience.		
The average life expectancy in years of a pensioner retiring at the age of 65 is as follows:		
Male	11,50	12,60
Female	13,50	14,50
<b>Pension fund assets</b>		
<i>Investments</i>		
Government bonds	97	115
Treasury bills	139	12
<i>Current assets</i>		
Interest owing by government	3	6
Bank balance with Barclays Bank, Mozambique S.A.	146	204
	<b>385</b>	<b>337</b>

The assets have been ringfenced to the retirement benefits, but do not qualify as plan assets in terms of IAS 19 – Employee benefits as they are not in a separate entity and therefore are carried on the Group's balance sheet. The major constraint in this regard is the lack of enabling legislation in certain African countries.

	<b>GROUP</b>	
	<b>2007</b>	2006
	<b>Rm</b>	Rm
<b>44. Retirement benefit obligations</b> <i>(continued)</i>		
<b>44.2 The Absa Group Pension Fund</b>		
<b>44.2.1 Defined benefit plan</b>		
<b>Funded status</b>		
Present value of funded obligations	<b>(4 497)</b>	(3 928)
Fair value of plan assets	<b>5 765</b>	5 511
Net assets before contingency and investment reserves	<b>1 268</b>	1 583
Less: Contingency reserves as per the rules of the fund	<b>(234)</b>	(100)
Less: Investment reserve account	<b>(864)</b>	(1 377)
Net unrecognised surplus	<b>170</b>	106
The Absa Group Pension Fund's assets belong to the fund's members. Absa has no intention to utilise the surplus fund assets to reduce future contributions. Consequently, these assets are not recognised in the Group's financial statements.		
<b>Reconciliation of movement in obligation</b>		
Balance at the beginning of the year	<b>3 928</b>	3 641
Current service costs	<b>1</b>	1
Interest expense	<b>293</b>	349
Actuarial losses	<b>630</b>	239
Benefits paid	<b>(355)</b>	(302)
<b>Balance at the end of the year</b>	<b>4 497</b>	3 928
<b>Reconciliation of movement in plan assets</b>		
Balance at the beginning of the year	<b>5 511</b>	4 618
Expected return on plan assets	<b>429</b>	447
Actuarial gains	<b>179</b>	747
Employer contributions	<b>1</b>	1
Benefits paid	<b>(355)</b>	(302)
<b>Balance at the end of the year</b>	<b>5 765</b>	5 511
<b>Pension fund plan assets</b>		
Debt instruments	<b>2 294</b>	2 270
Equity instruments	<b>3 257</b>	2 331
Other assets	<b>214</b>	910
	<b>5 765</b>	5 511
Pension fund assets include ordinary shares and interest bearing instruments issued by the Group with a fair value of R251 million (2006: R220 million). Refer to note 48 for the full disclosure of related party transactions.		
The actual return earned on assets was R1 458 million (2006: R955 million). The expected return on assets is determined by calculating a total return estimate based on weighted average returns for each class. Asset class returns are estimated using current and projected economic and market factors such as inflation, credit spreads and equity risk premiums.		
<b>Total cost comprise:</b>		
Current service costs	<b>1</b>	1
Interest expense	<b>293</b>	349
Expected return on plan assets	<b>(429)</b>	(447)
<b>Total (income)/costs</b>	<b>(135)</b>	(97)

# Notes to the consolidated financial statements

Year ended 31 December

	GROUP		
	2007 Rm	2006 Rm	2005 Rm
<b>44. Retirement benefit obligations</b> <i>(continued)</i>			
<b>44.2 The Absa Group Pension Fund</b> <i>(continued)</i>			
<b>Historical information as at the balance sheet date</b>			
Present value of defined benefit obligation	(4 497)	(3 928)	(3 641)
Fair value of plan assets	5 765	5 511	4 618
Surplus in the plan	1 268	1 583	977
Less: Contingency reserves as per rules of fund	(234)	(100)	(119)
Less: Investment reserve account	(864)	(1 377)	(831)
	170	106	27
Experience adjustments on plan assets	179	747	319
Experience adjustments on plan liabilities	630	239	131

	GROUP	
	2007	2006
<b>Principal actuarial assumption used for defined benefit plan</b>		
Discount rate	8,50%	7,75%
Expected return on plan assets	8,00%	8,00%
Future salary increases	6% + merit	6% + merit
Assumptions regarding future mortality experience are set based on advice from published statistics and experience.		
The average life expectancy in years of a pensioner retiring at the age of 60 is as follows:		
Male	20,40	20,30
Female	25,30	25,20

#### *Expected rate of future pension increases*

Depending on the member's choice with regard to threshold rates, pension increases are granted each year to the extent that the investment return exceeds the post-retirement valuation rates of 4,5%, 6,0% or 7,0% per annum (threshold rates). If in any year the investment return is less than the threshold rates, the difference is recouped at the next date of pension increase.

#### **44.2.2 Post-retirement benefits**

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

Of the employees belonging to the fund, 99,9% (2006: 99,8%) were members of the defined contribution structure, while 0,1% (2006: 0,2%) were members of the defined benefit structure. As at the balance sheet date, the defined benefit structure had 53 (2006: 58) contributing members.

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

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

#### 44. Retirement benefit obligations (continued)

##### 44.2 The Absa Group Pension Fund (continued)

###### 44.2.2 Post-retirement benefits (continued)

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

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

###### 44.2.3 Post-retirement medical aid contributions

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

	GROUP	
	2007 Rm	2006 Rm
<b>45. Dividends per share</b>		
<b>Dividends paid to ordinary equity holders during the year</b>		
February 2007 final dividend number 41 of 265 cents per ordinary share (February 2006: 135 cents)	1 781	900
September 2007 interim dividend number 42 of 240 cents per ordinary share (September 2006: 208 cents)	1 620	1 394
	<b>3 401</b>	<b>2 294</b>
<b>Dividends paid to ordinary equity holders relating to income for the year</b>		
September 2007 interim dividend number 42 of 240 cents per ordinary share (September 2006: 208 cents)	1 620	1 394
February 2008 final dividend number 43 of 320 cents per ordinary share (February 2007: 265 cents)	2 171	1 781
	<b>3 791</b>	<b>3 175</b>
A final dividend of 320 cents per ordinary share was approved by the board on 19 February 2008. The total dividend amounts to R2 171 million and the STC payable by the Group in respect of the dividend approved and declared subsequent to the balance sheet date, amounts to R217 million. No provision has been made for this dividend and the related STC in the financial statements for the year ended 31 December 2007.		
<b>Dividends paid to minority preference equity holders during the year</b>		
February 2007 final dividend number 2 of 3 784,3 cents per preference share (February 2006: nil)	114	—
September 2007 interim dividend number 3 of 4 056,0 cents per preference share (September 2006: 2 435,42 cents)	199	73
	<b>313</b>	<b>73</b>

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

# Notes to the consolidated financial statements

Year ended 31 December

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

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

Reverse repurchase agreements are accounted for as collateralised loans under loans and advances while cash collateral is shown under other assets.

	GROUP			
	Cash collateral on securities borrowed	Reverse repurchase agreements	Cash collateral on securities borrowed	Reverse repurchase agreements
	2007	2007	2006	2006
	Rm	Rm	Rm	Rm
<b>Assets</b>				
Banks	—	29 307	—	8 867
Other	15 664	8 233	5 864	8 561
	<b>15 664</b>	<b>37 540</b>	<b>5 864</b>	<b>17 428</b>

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

### Repurchase agreements

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

	GROUP	
	Repurchase agreements 2007	Repurchase agreements 2006
	Rm	Rm
<b>Liabilities</b>		
Banks (refer to note 16)	28 603	9 423
Other (refer to note 19)	1 115	—
	<b>29 718</b>	<b>9 423</b>

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



	<b>GROUP</b>	
	<b>2007</b> Rm	2006 Rm
<b>47. Securitisations</b>		
In the ordinary course of business, the Group enters into transactions that result in the transfer of assets to third parties or special purpose entities. The information below sets out the extent of such transfers.		
<b>Transferred assets</b>		
Cars securitisation	<b>5 754</b>	3 145
Homes securitisation	<b>1 566</b>	—
	<b>7 320</b>	3 145

#### **Cars securitisation**

The Group has transferred instalment credit agreements to Collateralised Auto Receivables Securitisation 1 (Proprietary) Limited and Collateralised Auto Receivables Securitisation Series (Proprietary) Limited, which are, in substance, controlled by the Group. Accordingly, the entities are consolidated and the loans are included in the balance sheet under "Loans and advances to customers".

Refer to note 20 for further details on the related liabilities.

#### **Homes securitisation**

The Group has transferred retail mortgages to Homes Obligors Mortgage Enhance Securities SPV Series 1 (Proprietary) Limited, which are, in substance, controlled by the Group. Accordingly, the entities are consolidated and the loans are included in the balance sheet under "Loans and advances to customers".

Refer to note 20 for further details on the related liabilities.

#### **48. Related parties**

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

The following are defined as related parties of the Group:

- Key management personnel (refer to notes 48.1 and 48.2).
- The parent, Barclays Bank PLC (refer to note 48.3).
- Subsidiaries (refer to note 48.4).
- Associated undertakings and joint venture companies (refer to note 48.5).
- Post-retirement benefit funds (refer to note 48.5).

# Notes to the consolidated financial statements

Year ended 31 December

## 48. Related parties (continued)

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

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

### 48.1 Transactions with key management personnel

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

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

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

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

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

**48. Related parties** (continued)

**48.1 Transactions with key management personnel** (continued)

**Other investments**

At the balance sheet date, the Group managed on behalf of key management personnel certain investments. These management agreements are entered into in the normal course of business under terms no more favourable than those arranged with third parties.

**Insurance premiums paid and claims received**

Key management personnel paid insurance premiums of R0,3 million (2006: R0,3 million). Key management personnel received claims which in total were R6 million (2006: R0,3 million). These transactions are entered into in the normal course of business, under terms that are no more favourable than those arranged with third parties.

	<b>GROUP</b>	
	<b>2007</b>	2006
	<b>Rm</b>	Rm
<b>48.2 Key management personnel compensation</b>		
<b>Directors</b>		
Salaries and other short-term benefits	<b>57</b>	47
Post-employment benefits	<b>1</b>	1
Share-based payments	<b>18</b>	18
	<b>76</b>	66
<b>Other key management personnel</b>		
Salaries and other short-term benefits	<b>34</b>	49
Post-employment benefits	<b>1</b>	1
Share-based payments	<b>6</b>	17
	<b>41</b>	67
<b>48.3 Transactions with parent company</b>		
The following are balances with, and transactions entered into with, the parent company:		
<b>Balances</b>		
Loans and advances	<b>13 326</b>	3 353
Derivative assets	<b>4 707</b>	187
Nominal value of derivative assets	<b>361 881</b>	161 331
Other assets	<b>257</b>	—
Deposits	<b>(16 254)</b>	(8 420)
Derivative liabilities	<b>(5 496)</b>	(1 237)
Nominal value of derivative liabilities	<b>(204 120)</b>	(52 458)
Other liabilities	<b>(121)</b>	—
<b>Transactions</b>		
Dividends paid	<b>1 949</b>	1 289
Interest paid	<b>250</b>	143
Interest received	<b>94</b>	42
Non-interest income received	<b>3</b>	25

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

# Notes to the consolidated financial statements

Year ended 31 December

## 48. Related parties (continued)

### 48.4 Subsidiaries

Details of the principal subsidiaries are as follows:

Name	Nature of business
Absa Manx Holdings Limited	Captive insurance company for the Group and responsible for investments in the insurance markets.
Absa Trading and Investment Solutions Holdings Limited	Investment bank holding company.
AllPay Consolidated Investment Holdings (Proprietary) Limited	Distributes social security grants and other payments to beneficiaries on behalf of third parties, mainly provincial government departments.
Barclays Bank Mozambique S.A. (previously known as Banco Austral, Sarl)	Commercial bank that provides retail and limited corporate services from a network of branches, ATMs and savings posts.
Conbros Limited	Used to provide offshore loan facilities (wound down in 2007).
National Bank of Commerce Limited	Commercial bank that provides retail and limited corporate services from a national network of branches, agencies and ATMs.
UniFer Holdings Limited	Micro lending holding company.
Woodbook Finance Limited (previously MLS Bank Limited)	Markets and delivers a range of banking and insurance products to medical and dental practitioners and private hospitals.
<b>Absa Bank Limited and subsidiaries</b>	
Absa Bank Limited	Offers a comprehensive range of retail, commercial, corporate and investment banking to a wide range of customer bases.
Absa Bank London (offshore branch)	Offers a range of niche corporate and London merchant banking and treasury products and services to selected customer bases.
Absa Debtor Finance Company (Proprietary) Limited	Provides debtor financing to business customers.
Absa Development Company Holdings (Proprietary) Limited	Specialises in township development and sale of residential, commercial and industrial land.
Ambit Management Services (Proprietary) Limited	Property management company.
<b>Absa Financial Services and subsidiaries</b>	
Absa Financial Services Limited	Holding company of financial service related entities.
Absa Brokers (Proprietary) Limited	Provides a full spectrum of financial advisory services ranging from risk management to wealth creation, and preservation and estate planning.
Absa Consultants and Actuaries (Proprietary) Limited	Offers comprehensive administrative, actuarial and consulting services, including asset consulting services in respect of pension funds, provident funds and other employee benefit group schemes.
Absa Fund Managers Limited	Offers a variety of unit trust investment products, ranging from low-risk fixed-interest funds, such as the Absa Money Market Fund, to higher-risk specialist equity funds investing both domestically and internationally.
Absa Insurance Company Limited	Short-term insurance provider to house and vehicle owners.
Absa Investment Management Services (Proprietary) Limited	Approved investment manager and linked investment service provider. It offers off-the-shelf local and international linked investment products, as well as investment solutions to suit specific needs.
Absa Life Limited	Provides life insurance products focusing on risk and investment products that complement the Group's offerings to various market segments.
Absa Mortgage Fund Managers (Proprietary) Limited	Provides loans to small and large companies, close corporations, trusts, property investors and developers for the development, acquisition or refinancing of income-producing commercial and industrial properties.

**GROUP**

Country of incorporation	Issued capital	Direct/ indirect holding	Issued capital	Direct/ indirect holding	Shares at book value	
	2007 Rm	2007 %	2006 Rm	2006 %	2007 Rm	2006 Rm
Isle of Man	0	100	0	100	5	5
South Africa	8	100	8	100	857	857
South Africa	0	100	0	100	0	0
Mozambique	165	80	165	80	131	131
Isle of Man	n/a	n/a	2	100	n/a	21
Tanzania	81	55	81	55	86	86
South Africa	13	100	13	100	0	0
South Africa	0	100	0	100	75	75
South Africa	303	100	303	100	7 297	7 297
United Kingdom	n/a	n/a	n/a	n/a	n/a	n/a
South Africa	1	100	1	100	0	0
South Africa	0	100	0	100	14	14
South Africa	0	0	n/a	n/a	15	n/a
South Africa	0	100	0	100	118	118
South Africa	0	100	0	100	2	2
South Africa	0	100	0	100	33	33
South Africa	3	100	3	100	3	3
South Africa	31	100	31	100	31	31
South Africa	0	100	0	100	0	0
South Africa	24	100	24	100	24	24
South Africa	2	100	2	100	2	2

# Notes to the consolidated financial statements

Year ended 31 December

## 48. Related parties (continued)

### 48.4 Subsidiaries (continued)

Details of the principal subsidiaries are as follows:

Name	Nature of business	
Absa Stockbrokers (Proprietary) Limited	Enables customers to trade online or by telephone in shares, warrants and exchange traded funds.	
Absa Syndicate Investments Holdings Limited	A corporate member of Lloyd's based in London. It underwrote on 10 syndicates (currently winding down).	
Absa Trust Limited	Main activities include the drafting and safe custody of wills, the administration of deceased estates and trusts, portfolio management and estate and financial planning.	
<b>Abvest Holdings and subsidiaries</b>		
Abvest Holdings Limited	Holding company of asset management related entities.	
Absa Asset Management (Proprietary) Limited	An institutional asset management company that offers fixed income, equity, structured products and alternative investment solutions to customers through various pooled and segregated investment mandates.	
<b>Share trusts</b>		
Absa Group Limited Employee Share Ownership Administrative Trust	Share purchase and option scheme to all staff.	
Absa Group Limited Share Incentive Trust	Share purchase and option scheme to senior staff.	
Batho Bonke Absa Historical Disadvantaged South Africans (HDSA) Employee Trust	Black economic empowerment (BEE) trust.	
<b>Special purpose entities</b>		
Absa Benefit Fund	Cell captive	
Absa Foundation Trust	Funds community upliftment. Receives a percentage of the Group's dividends which it distributes to identified community-related projects.	
Absa General Fund	Fund used to invest in unit trusts.	
Alpha Trust	Provides preference share funding.	
Asset Backed Collateralised Securities (Proprietary) Limited (Abacas)	Special purpose vehicle for Absa Capital division.	
Collateralised Auto Receivables Securitisation 1 (Proprietary) Limited	Securitisation vehicle for Absa Vehicle and Asset Finance.	
Collateralised Auto Receivables Securitisation Programme (Proprietary) Limited	Securitisation vehicle for Absa Vehicle and Asset Finance.	
Collateralised Auto Receivables Securitisation Programme Series 1 Guarantor SPV (Proprietary) Limited	Securitisation vehicle for Absa Vehicle and Asset Finance.	
Home Obligors Mortgage Enhance Securities SPV Series 1 (Proprietary) Limited	Securitisation vehicle for Absa Home Loans.	
Absa Property Equity Fund	Unit Trust	
<i>Subsidiaries' aggregate profits and losses after taxation</i>		
	<b>2007</b>	2006
	<b>Rm</b>	Rm
Aggregate profits after taxation	<b>9 856</b>	7 822
Aggregate losses after taxation	<b>(137)</b>	—

**GROUP**

Country of incorporation	Issued capital	Direct/ indirect holding	Issued capital	Direct/ indirect holding	Shares at book value	
	2007 Rm	2007 %	2006 Rm	2006 %	2007 Rm	2006 Rm
South Africa	0	100	0	100	0	0
United Kingdom	8	100	8	100	8	8
South Africa	0	100	0	100	11	11
South Africa	0	97	0	97	76	76
South Africa	0	100	0	100	36	36
South Africa	n/a	n/a	n/a	n/a	n/a	n/a
South Africa	n/a	n/a	n/a	n/a	n/a	n/a
South Africa	n/a	n/a	n/a	n/a	n/a	n/a
South Africa	n/a	n/a	n/a	n/a	n/a	n/a
South Africa	n/a	n/a	n/a	n/a	n/a	n/a
South Africa	n/a	n/a	n/a	n/a	n/a	n/a
South Africa	n/a	n/a	n/a	n/a	n/a	n/a
South Africa	n/a	n/a	n/a	n/a	n/a	n/a
South Africa	n/a	n/a	n/a	n/a	n/a	n/a
South Africa	n/a	n/a	n/a	n/a	n/a	n/a
South Africa	n/a	n/a	n/a	n/a	n/a	n/a
South Africa	n/a	n/a	n/a	n/a	n/a	n/a

# Notes to the consolidated financial statements

Year ended 31 December

## 48. Related parties (continued)

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

At the balance sheet date, the Absa Group Pension Fund held shares to the value of R238 million (2006: R39 million) and other securities to the value of R13 million (2006: R181 million) in the Group. The Group provides certain banking and financial services to associated undertakings and joint venture companies. The Group also provides a number of current and interest-bearing cash accounts to the Group pension fund. These transactions are conducted on similar terms to third-party transactions and are not individually material.

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

#### For the year ended 31 December 2007

	<b>GROUP</b>		
	<b>Associated undertakings and joint venture companies</b>	<b>Retirement benefit funds</b>	<b>Total</b>
	Rm	Rm	Rm
Deposits	(499)	(41)	(540)
Interest and similar income	(825)	—	(825)
Interest expense and similar charges	30	3	33
Fees received	(143)	(14)	(157)
Fees paid	60	525	585
Loans and advances	9 277	—	9 277
Other assets	27	—	27
Other liabilities	(92)	—	(92)
Value of investments managed by Absa	—	4 029	4 029

#### For the year ended 31 December 2006

	Associated undertakings and joint ventures	Retirement benefit funds	Total
	Rm	Rm	Rm
	Deposits	—	(63)
Interest and similar income	(561)	—	(561)
Interest expense and similar charges	7	—	7
Fees received	(137)	(12)	(149)
Fees paid	137	419	556
Impairment loss for the year	3	—	3
Loans and advances	7 645	—	7 645
Other liabilities	(150)	—	(150)
Value of investments managed by Absa	—	4 483	4 483



**48. Related parties** *(continued)***48.5 Associated undertakings, joint venture companies and retirement benefit funds** *(continued)*

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

<b>Name</b>	<b>Nature of business</b>
Absa Corob Trust Joint Venture	Acquires immovable property for investment.
Abseq Properties (Proprietary) Limited	Property development and investment company.
African Trading Spirit 309 (Proprietary) Limited	Property development.
Agrista (Proprietary) Limited	Agricultural consultants.
Alamo Trading Company (Proprietary) Limited	Property development.
Ambit Management Services (Proprietary) Limited	Property management company (became a subsidiary in 2006).
Ambit Properties Limited	Property loan stock company.
Axial Finance (Proprietary) Limited	Provides vehicle financing (sold during the year).
Ballito Junction Development (Proprietary) Limited	Retail property development of shopping centre complex in Ballito Bay.
Banco Comercial Angolano	A commercial bank that provides retail and commercial banking services from a network of branches in Angola.
Barrie Island Property Investments (Proprietary) Limited	Investment in mixed use property.
Blakes and Associates Holdings (Proprietary) Limited	Provides debt recovery management and operates an international call centre.
Batho Bonke Investments (Proprietary) Limited	To invest in a diverse portfolio of companies where valuable BEE contributions can be made.
Blue Nightingale 608 (Proprietary) Limited	Investment in commercial property.
Campus on Rigel (Proprietary) Limited	Property investment company.
CBZ Holdings Limited	A commercial bank that provides primarily retail and commercial banking services from a network of branches, subbranches and agencies operating in Zimbabwe (sold during the year).
FFS Finance South Africa (Proprietary) Limited	Provides financing solutions to Ford Motor Company customers.
MAN Financial Services (S.A.) (Proprietary) Limited	Joint venture between Absa Bank Limited and MAN Financial Services GmbH for financing of trucks and buses.
Maravedi Group (Proprietary) Limited	Provides debtor management.
Maxcity Properties (Proprietary) Limited	Investment in mixed use property.
Meeg Bank Limited	Provides a comprehensive range of banking and financial services to the personal market, small- to medium-sized corporates and the public sector in the Eastern Cape.
Ngwenya River Estate (Proprietary) Limited	Investment in residential property.
Northern Lights Trading 197 (Proprietary) Limited	Investment in commercial property.
Palm Hill Property Investments (Proprietary) Limited	Property development.
Persistent Properties (Proprietary) Limited	Investment in residential property.
RZT Zelpy 4809 (Proprietary) Limited	Investment in residential property.
Sanlam Home Loans (Proprietary) Limited	Manages and administers the granting of loans as well as secure funding for these loans.
Somerset West Auto Park (Proprietary) Limited	Investment in auto dealers and fitment centres.
The Racing Investment Trust	Property development.
Unitrans Finance (Proprietary) Limited	Strategic alliance between Absa Bank Limited and Unitrans Motors (Proprietary) Limited.
Virgin Money South Africa (Proprietary) Limited	Joint venture between Absa Bank Limited and Virgin Money Group Limited to provide retail financial services products under the Virgin brand.

# Notes to the consolidated financial statements

Year ended 31 December

## 48. Related parties (continued)

### 48.5 Associated undertakings, joint venture companies and retirement benefit funds (continued)

Name	Country of incorporation
Absa Corob Trust Joint Venture <sup>1</sup>	South Africa
Abseq Properties (Proprietary) Limited <sup>1</sup>	South Africa
African Trading Spirit 309 (Proprietary) Limited <sup>1</sup>	South Africa
Alamo Trading Company (Proprietary) Limited <sup>1</sup>	South Africa
Ambit Properties Limited <sup>1</sup>	South Africa
Ballito Junction Development (Proprietary) Limited <sup>1</sup>	South Africa
Banco Comercial Angolano	Angola
Blake and Associates Holdings (Proprietary) Limited <sup>1</sup>	South Africa
Campus on Rigel (Proprietary) Limited <sup>1</sup>	South Africa
FFS Finance South Africa (Proprietary) Limited	South Africa
MAN Financial Services (S.A.) (Proprietary) Limited	South Africa
Maravedi Group (Proprietary) Limited <sup>1</sup>	South Africa
Meeg Bank Limited <sup>1</sup>	South Africa
Palm Hill Property Investments (Proprietary) Limited <sup>1</sup>	South Africa
Sanlam Home Loans (Proprietary) Limited	South Africa
The Racing Investment Trust <sup>2</sup>	South Africa
Unitrans Finance (Proprietary) Limited <sup>1</sup>	South Africa
Virgin Money South Africa (Proprietary) Limited	South Africa
<b>New acquisitions</b>	
Agrista (Proprietary) Limited <sup>1</sup>	South Africa
Barrie Island Property Investments (Proprietary) Limited <sup>1</sup>	South Africa
Batho Bonke Investments (Proprietary) Limited <sup>1</sup>	South Africa
Blue Nightingale 608 (Proprietary) Limited <sup>1</sup>	South Africa
Maxcity Properties (Proprietary) Limited <sup>1</sup>	South Africa
Ngwenya River Estate (Proprietary) Limited <sup>1</sup>	South Africa
Northern Lights Trading 197 (Proprietary) Limited	South Africa
Persistent Properties (Proprietary) Limited <sup>1</sup>	South Africa
RZT Zelply 4809 (Proprietary) Limited <sup>1</sup>	South Africa
Somerset West Auto Park (Proprietary) Limited <sup>1</sup>	South Africa
<b>Disposals</b>	
Axial Finance (Proprietary) Limited <sup>1</sup>	South Africa
CBZ Holdings Limited	Zimbabwe

<sup>1</sup>The financial statements have different reporting dates to that of the Group, as these were the financial reporting dates established when the entities were incorporated. The impact is not considered to be material.

<sup>2</sup>The Racing Investment Trust was previously known as Lynmor Trading Company (Proprietary) Limited.

<sup>3</sup>The summary financial information includes 100% of the equity accounted investees' total assets and total liabilities.

**GROUP**

2007

Carrying value Rm	Total assets <sup>3</sup> Rm	Total liabilities <sup>3</sup> Rm	Equity accounted earnings Rm	Loans (from)/to entities Rm	Ownership %
2	44	24	1	18	50
150	813	545	18	387	50
30	62	2	0	—	50
0	0	0	0	—	50
594	1 386	1 013	38	152	31
25	178	106	(1)	102	50
49	1 626	1 431	3	—	50
11	95	54	2	—	28
0	0	1	(0)	—	33
261	9 755	9 233	49	4 676	50
46	2 180	2 089	11	1 272	50
4	233	220	(11)	—	45
37	1 095	1 016	1	10	50
17	54	37	0	52	40
0	5 887	5 555	0	2 301	50
11	0	0	0	—	20
0	0	0	(3)	—	35
0	14	48	(17)	—	50
0	3	1	(0)	—	47
3	0	0	0	—	40
2	0	0	0	—	50
32	0	0	0	—	30
38	0	0	0	200	40
49	62	62	(0)	33	50
70	0	0	0	—	50
8	26	18	0	18	50
30	0	0	0	94	25
0	0	0	0	—	33
0	0	0	0	—	—
—	—	—	—	—	—
<b>1 469</b>	<b>23 513</b>	<b>21 455</b>	<b>91</b>	<b>9 315</b>	

# Notes to the consolidated financial statements

Year ended 31 December

## 48. Related parties (continued)

### 48.5 Associated undertakings, joint venture companies and retirement benefit funds (continued)

Name	Country of incorporation
Absa Corob Trust Joint Venture <sup>1</sup>	South Africa
Alamo Trading Company (Proprietary) Limited <sup>1</sup>	South Africa
Ambit Properties Limited <sup>1</sup>	South Africa
Axial Finance (Proprietary) Limited <sup>1</sup>	South Africa
Banco Comercial Angolano	Angola
Blakes and Associates Holdings (Proprietary) Limited <sup>1</sup>	South Africa
CBZ Holdings Limited <sup>2</sup>	Zimbabwe
FFS Finance South Africa (Proprietary) Limited	South Africa
Lynmor Trading Company (Proprietary) Limited	South Africa
MAN Financial Services (S.A.) (Proprietary) Limited	South Africa
Maravedi Group (Proprietary) Limited <sup>1</sup>	South Africa
Meeg Bank Limited <sup>1</sup>	South Africa
Paramount Management Services (Proprietary) Limited <sup>1</sup>	South Africa
Sanlam Home Loans (Proprietary) Limited	South Africa
Unitrans Finance (Proprietary) Limited <sup>1</sup>	South Africa
Virgin Money South Africa (Proprietary) Limited	South Africa
<b>New acquisitions</b>	
Abseq Properties (Proprietary) Limited <sup>1</sup>	South Africa
African Trading Spirit 309 (Proprietary) Limited <sup>1</sup>	South Africa
Ballito Junction Development (Proprietary) Limited <sup>1</sup>	South Africa
Campus on Rigel (Proprietary) Limited <sup>1</sup>	South Africa
Palm Hill Property Investments (Proprietary) Limited <sup>1</sup>	South Africa
<b>Disposals</b>	
Ambit Management Services (Proprietary) Limited <sup>1,5</sup>	South Africa
Capricorn Investment Holdings Limited <sup>1,3</sup>	Namibia
Conbros Limited <sup>1,5</sup>	Isle of Man
Paramount Property Fund Limited <sup>1</sup>	South Africa

<sup>1</sup>The financial statements have different reporting dates to that of the Group, as these were the financial reporting dates established when the entities were incorporated. The impact is not considered to be material.

<sup>2</sup>The figures for the December 2005 financial year were adjusted for inflation. The ability of CBZ Holdings Limited to transfer funds to the Group is restricted by the exchange control laws of Zimbabwe which provide that except, with the permission of the Exchange Control Authority, no person shall make any payment to or for the credit of, a person resident outside Zimbabwe.

<sup>3</sup>Capricorn Investment Holdings was previously known as Bank Windhoek Holdings Limited. Capricorn Investment Holdings was sold in 2006.

<sup>4</sup>The summary financial information includes 100% of the equity-accounted investees' total assets and total liabilities.

<sup>5</sup>Became a subsidiary.

GROUP  
2006

Carrying value Rm	Total assets <sup>4</sup> Rm	Total liabilities <sup>4</sup> Rm	Equity accounted earnings Rm	Loans (from)/to entities Rm	Ownership %
1	0	0	1	20	50
0	0	0	0	—	50
143	997	355	(3)	143	21
0	0	0	0	—	25
46	1 889	1 700	1	—	50
10	61	37	3	—	28
—	935	728	—	—	24
211	9 153	8 625	13	4 426	50
11	0	0	(0)	27	20
35	1 785	1 714	5	1 195	50
8	66	63	1	—	45
36	848	796	10	10	50
—	0	0	0	—	—
0	2 851	2 855	(3)	1 065	50
3	9	0	(0)	(8)	35
0	5	16	0	—	50
132	676	383	(1)	384	50
20	0	0	0	—	50
26	156	83	1	84	50
0	0	1	(0)	—	33
11	16	1	(0)	11	40
0	1	0	0	—	50
—	—	—	50	—	—
—	0	0	0	—	100
—	2 906	1 421	35	309	—
693	22 354	18 778	113	7 666	—

# Notes to the consolidated financial statements

Year ended 31 December

		GROUP	
		2007	2006
		Rm	Rm
<b>49. Managed funds</b>			
	Estates	2 850	2 223
	Other	14 800	10 900
	Participation bond schemes	1 675	1 582
	Portfolio management	5 571	6 082
	Trusts	5 719	4 980
	Unit trusts	90 935	76 493
		<b>121 550</b>	<b>102 260</b>
<b>50. Financial guarantee contracts</b>			
	Financial guarantee contracts	824	560
Financial guarantee contracts represent contracts where the Group undertakes to make specified payments to a counterparty, should the counterparty suffer a loss as a result of a specified debtor failing to make payment when due in accordance with the terms of a debt instrument.			
<b>51. Commitments</b>			
	<b>Authorised capital expenditure</b>		
	Contracted but not provided for	135	171
The Group has capital commitments in respect of computer equipment and property purchases. Management is confident that future net revenues and funding will be sufficient to cover these commitments.			
<b>52. Contingent liabilities</b>			
	Guarantees	9 037	9 056
	Irrevocable facilities	40 040	37 265
	Letters of credit	3 273	2 139
	Other contingencies	23	16
		<b>52 373</b>	<b>48 476</b>

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

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

	<b>GROUP</b>	
	<b>2007</b>	2006
	<b>Rm</b>	Rm
<b>52. Contingent liabilities (continued)</b>		
<b>Operating lease payments due</b>		
No later than one year	<b>873</b>	661
Later than one year and no later than five years	<b>1 820</b>	1 423
Later than five years	<b>274</b>	506
	<b>2 967</b>	2 590
Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years.		
<b>53. Cash and cash equivalents</b>		
Cash, cash balances and balances with central banks	<b>5 091</b>	3 936
Loans and advances to banks	<b>1 505</b>	851
	<b>6 596</b>	4 787
<b>54. Share-based payments</b>		
During 2007, R81 million (2006: R95 million) and R112 million (2006: R59 million) were charged to the income statement in respect of equity-settled and cash-settled share-based payment transactions respectively.		
<b>Staff costs</b>		
The income statement charge for share-based payments is as follows (refer to note 38):		
Equity-settled arrangements:		
Absa Group Limited Share Incentive Trust	<b>63</b>	78
Absa Group Limited Employee Share Ownership Administrative Trust	<b>17</b>	16
Absa Group Limited Executive Share Award Scheme – Voluntary (Restricted) Method	<b>1</b>	1
Cash-settled arrangements:		
Absa Group Limited Phantom Performance Share Plan	<b>91</b>	58
Absa Group Limited Phantom Joiners Share Award Plan	<b>18</b>	1
Absa Group Limited Phantom Executive Share Award Scheme	<b>3</b>	—
	<b>193</b>	154
Total carrying amount of liabilities for cash-settled arrangements (refer to note 18)	<b>200</b>	81

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

# Notes to the consolidated financial statements

Year ended 31 December

## 54. Share-based payments (continued)

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

In terms of the rules of the Share Incentive Trust, the maximum number of shares of the Group that may be issued or transferred and/or in respect of which options may be granted to the participants, shall be limited to shares representing 10% of the total number of issued shares from time to time. This scheme is an equity-settled share-based payment arrangement and options are allocated to Group employees according to the normal human resources talent management processes. The options issued up to August 2005 (issue 192) had no performance criteria linked to them and vested in equal tranches after three, four and five years respectively. No dividends accrue to the option holder over the vesting period. The options expire after a period of ten years from the issuing date. Options issued since August 2005 (issue 193) have performance criteria associated with them, which require headline earnings per share to exceed an agreed benchmark over a three-year period from July 2005 for the options to vest. Participants need to be in the employment of the Group at the vesting date in order to be entitled to the options.

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

	GROUP	
	Number of options '000	Weighted exercise price R
<b>2007</b>		
<b>Outstanding at the beginning of the year</b>	<b>18 778</b>	<b>53,01</b>
Granted during the year	260	107,47
Exercised during the year	(4 668)	(50,72)
Forfeited during the year	(752)	(73,65)
<b>Outstanding at the end of the year</b>	<b>13 618</b>	<b>67,90</b>
<b>Of which are exercisable</b>	<b>5 603</b>	<b>45,88</b>
<b>2006</b>		
Outstanding at the beginning of the year	25 126	47,76
Granted during the year	586	81,90
Exercised during the year	(6 137)	(35,72)
Forfeited during the year	(797)	(51,37)
Outstanding at the end of the year	18 778	53,01
Of which are exercisable	5 305	33,91

Options exercised during the year resulted in 4 668 453 shares (2006: 6 136 613 shares) being allocated at an average exercise price of R50,72 (2006: R35,72) each. The related weighted average share price at the time of exercise was R134,25 (2006: R109,85).



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

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

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

Exercise price ranges (R)	GROUP			
	Average option exercise price R	Weighted average contractual remaining life Years	Weighted <sup>1</sup> average fair value R	Number of options outstanding
<b>2007</b>				
17,85 – 43,92	17,85	1,64	n/a	273 761
21,16 – 36,19	26,57	2,56	n/a	347 964
24,74 – 39,27	37,30	3,74	n/a	852 465
27,05 – 35,97	33,67	4,54	n/a	1 387 442
32,00 – 46,05	35,01	5,63	12,18	1 699 473
44,39 – 73,35	48,09	6,75	20,30	4 723 458
74,97 – 94,63	91,70	7,79	29,91	3 542 751
89,57 – 113,95	105,53	8,38	34,27	531 000
82,97 – 112,92	105,02	9,04	44,91	260 000
<b>2006</b>				
27,75 – 38,05	30,47	0,66	n/a	153 415
17,85 – 43,92	23,60	2,17	n/a	372 540
21,16 – 36,19	26,70	3,36	n/a	472 273
24,74 – 39,27	36,72	4,63	n/a	1 447 785
27,05 – 35,97	33,59	5,55	n/a	2 862 281
32,00 – 46,05	35,16	6,73	n/a	2 978 797
44,39 – 73,35	49,86	7,72	19,40	5 918 112
74,97 – 94,63	91,47	8,77	28,59	4 007 270
89,57 – 113,95	106,92	9,37	31,83	566 000

The following shares and options are available for allocation:

	GROUP	
	% of total issued shares	Number of shares '000
<b>2007</b>		
Maximum shares and options available	10,0	67 857
Shares and options subject to the trust	(2,0)	(13 618)
<b>Balance of shares and options available</b>	<b>8,0</b>	<b>54 239</b>
<b>2006</b>		
Maximum shares and options available	10,0	67 196
Shares and options subject to the trust	(2,8)	(18 778)
<b>Balance of options and shares available</b>	<b>7,2</b>	<b>48 418</b>

<sup>1</sup>There was no requirement under IFRS to value the options prior to 31 March 2005.

# Notes to the consolidated financial statements

Year ended 31 December

	GROUP	
	2007	2006
<b>54. Share-based payments (continued)</b>		
<b>54.1 Absa Group Limited Share Incentive Trust (Share Incentive Trust)</b>		
<i>(continued)</i>		
<i>Fair value and assumptions of share options granted during the year</i>		
Fair values for the Share Incentive Trust options are calculated at the date of grant using a modified Black-Scholes model.		
The significant weighted average assumptions used to estimate the fair value of the options granted are as follows:		
Weighted average fair value of options at grant date (R)	<b>44,91</b>	33,69
Weighted average share price at grant date (R)	<b>129,47</b>	111,22
Exercise price (R)	<b>107,47</b>	81,90
Expected volatility (%) <sup>1</sup>	<b>30</b>	29
Expected option life (years)	<b>5</b>	5
Expected lapse ratio for Group executives (%)	<b>8,46</b>	6,70
Expected lapse ratio for business unit heads (%)	<b>5,07</b>	5,83
Expected lapse ratio for senior management (%)	<b>16,27</b>	16,51
Expected lapse ratio for middle and junior management (%)	<b>22,16</b>	22,44
Dividend yield (%)	<b>3,5</b>	3,3
Risk-free rate of return on South African government zero coupon bonds (%)	<b>8,0</b>	8,5

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

## 54.2 Batho Bonke Capital (Proprietary) Limited

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

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

	Weighted average exercise price R	GROUP	
		2007 '000	2006 '000
<b>Outstanding at the beginning of the year</b>	48 – 69	<b>73 152</b>	73 152
Forfeited during the year	48 – 69	—	—
<b>Outstanding at the end of the year</b>	48 – 69	<b>73 152</b>	73 152
<b>Of which are exercisable</b>	48 – 69	<b>73 152</b>	—

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

<sup>1</sup>Volatility assumptions vary according to the bipolar distribution observed over five-year rolling periods (and five years for Group executives) up to the end of the financial period in which the grant occurs.

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

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

As of the implementation date (1 July 2004), all employees of South African wholly owned subsidiaries (excluding executive directors of Absa Group Limited and Absa Bank Limited), were eligible to participate in this one-off equity-settled share-based payment scheme. Each employee who elected to participate was issued and allotted 200 compulsory redeemable cumulative option-holding preference shares against a receipt of the R400,00 subscription price. A maximum of 7 315 200 preference shares were available for allocation to the trust.

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

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

	Weighted average exercise price	GROUP	
		Number of options	
	R	2007 '000	2006 '000
<b>Outstanding at the beginning of the year</b>	48 – 69	<b>4 847</b>	5 359
Forfeited during the year	(48 – 69)	<b>(283)</b>	(512)
Exercised during the year (refer to note 23.2)	(69)	<b>(3 618)</b>	—
<b>Outstanding at the end of the year</b>	48 – 69	<b>946</b>	4 847
<b>Of which are exercisable</b>	48 – 69	<b>946</b>	—

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

*Fair value of share options and assumptions*

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

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

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

<sup>1</sup>The risk-free rate of return represents the yield, recorded on the date of option grant, on a South African government zero coupon bond of term equal to the expected life of the option.

# Notes to the consolidated financial statements

Year ended 31 December

## 54. Share-based payments (continued)

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

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

	<b>GROUP</b>	
	Number of options	
	2007 '000	2006 '000
<b>Outstanding at the beginning of the year</b>	<b>1 118</b>	—
Granted during the year	<b>1 382</b>	1 118
Forfeited during the year	<b>(177)</b>	—
<b>Outstanding at the end of the year</b>	<b>2 323</b>	1 118

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

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

#### *Fair value of share options and assumptions*

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

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

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

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

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

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

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

	<b>GROUP</b>	
	Number of options	
	<b>2007</b>	2006
	<b>'000</b>	<b>'000</b>
<b>Outstanding at the beginning of the year</b>	<b>37</b>	—
Granted during the period	—	37
<b>Outstanding at the end of the year</b>	<b>37</b>	37

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

*Fair value of share options and assumptions*

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

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

**54.6 Absa Group Limited Phantom Joiners Share Award Plan (JSAP)**

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

	<b>GROUP</b>	
	Number of options	
	<b>2007</b>	2006
	<b>'000</b>	<b>'000</b>
<b>Outstanding at the beginning of the year</b>	<b>90</b>	—
Granted during the year	<b>284</b>	90
Exercised during the year	<b>(45)</b>	—
Forfeited during the period	<b>(17)</b>	—
<b>Outstanding at the end of the year</b>	<b>312</b>	90

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

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

*Fair value of share options and assumptions*

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

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

# Notes to the consolidated financial statements

Year ended 31 December

## 54. Share-based payments (continued)

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

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

	<b>GROUP</b>
	Number of options
	<b>2007</b>
	<b>'000</b>
<b>Outstanding at the beginning of the year</b>	<b>—</b>
Granted during the year	<b>487</b>
Forfeited during the year	<b>(31)</b>
<b>Outstanding at the end of the year</b>	<b>456</b>

The options outstanding have no exercise price and a weighted average contractual life of 3,5 years.

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

#### *Fair value of share options and assumptions*

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

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

## 55. Acquisitions and disposals of subsidiaries

### 55.1 Acquisitions of subsidiaries during the current year

On 14 August 2006, Absa Bank Limited set up the Absa Property Equity Fund, a traded unit trust. The Group has an 86,48% interest in the Fund. The Group is deemed to have control over the investment and the investment has been consolidated.

	<b>GROUP</b>
	<b>2007</b>
	<b>Rm</b>
Cash, cash balances and balances with central banks	15
Investments	169
Other liabilities and sundry provisions	(26)
<b>Net assets acquired</b>	<b>158</b>
<i>Satisfied by:</i>	
Transfer from investments	143
Cash and cash equivalents acquired	15
	<b>158</b>
Absa Bank Limited acquired a further 50% interest in Ambit Management Services (Proprietary) Limited during November 2006 (previously recognised as an associate), increasing its shareholding to 100%. The subsidiary has only been consolidated from the date of SARB approval being 1 February 2007.	
Cash, cash balances and balances with central banks	2
Other assets	1
Current tax liabilities	(3)
<b>Net assets acquired</b>	<b>0</b>
<i>Satisfied by:</i>	
Transfer from investments in associates and joint venture companies	(2)
Cash and cash equivalents acquired	2
	<b>0</b>
<b>Total cash and cash equivalents acquired</b>	<b>17</b>
<b>55.2 Disposal of subsidiary during the current year</b>	
During 2007, the Group deregistered UBS Insurance 1993 Limited.	
The net assets of the subsidiary at the date of deregistration were as follows:	
Other assets	55
<b>Net asset value</b>	<b>55</b>
Settlement of loans due from the Group	55

An amount of R36 million was received during the current year as a contingency payment relating to the disposal of Bankhaus Wölbern & Co. during the previous year (refer to note 55.4).

# Notes to the consolidated financial statements

Year ended 31 December

## 55. Acquisitions and disposals of subsidiaries (continued)

### 55.3 Acquisition of subsidiaries during the previous year

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

	GROUP
	2006
	Rm
Details of the net assets acquired and goodwill arising are as follows:	
Cash paid and payable	44
Less: Fair value of net assets acquired	(6)
Goodwill transferred to equity	38
Total consideration	(44)
<i>Satisfied by:</i>	
Cash outflow on acquisition	(44)

### 55.4 Disposal of subsidiaries during the previous year

On 1 January 2006, the Group disposed of Bankhaus Wölbern & Co. As per the terms of the agreement, additional contingency payments were payable in subsequent years if certain predetermined criteria were met. In the current year under review such a payment to the amount of R36 million was received as full and final settlement.

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

Cash, cash balances and balances with central banks	579
Deferred tax liabilities (refer to note 11)	(31)
Deposits	(5 062)
Intangible assets	7
Investments	3
Loans and advances	2 303
Minority interest	(41)
Other assets	482
Other liabilities	(579)
Property and equipment	24
Share capital	(96)
Trading assets	2 628
Net asset value	217
Gain on disposal	50
Investment in subsidiary	96
Less: Release of foreign currency translation reserve	(25)
Total consideration	338
<i>Satisfied by:</i>	
Cash consideration received	338
Final dividend	108
Cash and cash equivalents disposed of	(579)
	(133)
On 13 November 2006, the Group disposed of Specialised Investments (Proprietary) Limited. The net assets of Specialised Investments (Proprietary) Limited at the date of disposal were as follows:	
Debt instruments and equity instruments	26
Other assets	6
Borrowed funds	(26)
Other liabilities	(6)
Net asset value	0
Gain on disposal	0
Total cash and cash equivalents disposed off	(133)



## **56. Financial risks**

### **56.1 Introduction**

Risk management is fundamental to the Group's business and plays a crucial role in enabling management to operate more effectively in a changing environment. Over time it has evolved into one of the Group's core capabilities and is integral to the evaluation of strategic alternatives and the setting of objectives, all within a risk management framework that ensures alignment with the Group's risk appetite and overall strategy.

Generally speaking, the approach followed by the Group to manage risk is to ensure that all significant risks are identified and managed. On the highest level, these risks are identified in the principal risks policy (PRP), which is approved by the board. Within that context, and moving progressively down in the cascading organisational levels, a five-step risk management process (direct, assess, control, report, manage/challenge) is adopted throughout the Group.

The responsibility for risk management resides at all levels, from members of the board to individuals throughout the Group. Overall risk management policies and risk appetite are established on a comprehensive, organisation-wide basis by senior management and, reviewed with and where appropriate, approved by the board of directors. These policies and appetites are clearly communicated throughout the Group and apply to all business units in the various divisions and wholly owned subsidiaries, as well as non-wholly owned subsidiaries and majority equity stakes over which the Group 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 regards to financial information, accounting policies, internal control and compliance matters. The GRCMC's function is to assist the board in fulfilling its responsibilities with regards to risk management and to ensure compliance with the requirements of the Banks Act regarding risk and capital management.

### **56.2 Risk appetite**

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

Risk appetite is the level of risk that the Group is willing to accept in fulfilling business objectives. To determine this acceptable level of risk, potential earnings volatility against financial objectives are considered first. As part of the planning process, management estimates the potential earnings volatility from different businesses under various scenarios. The Group estimates the capacity to absorb unexpected losses in terms of the tolerable level of variance from financial targets, by considering the ability to support business growth, desired dividend payout levels and capital ratio targets. If the projections entail too high a level of risk, management will challenge each area to find new ways to adjust the business mix to incur less risk on a diversified basis.

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

## **57. Credit risk**

### **57.1 Introduction**

Credit risk is the risk of suffering financial loss should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk may also arise where the downgrading of an entity's credit rating causes the fair value of the Group's investment in that entity's financial instruments to fall. The credit risk that the Group faces arises mainly from commercial and consumer loans and advances, including credit card lending. The Group has policies, procedures and processes dedicated to controlling and monitoring risk from all such activities.

While credit exposures principally arise in loans and advances, the Group can be exposed to other credit risks. These exposures comprise loan commitments, contingent liabilities, debt securities and other exposures arising in the course of trading activities. The risks are managed in a similar way to those in loans and advances, and are subject to the same or similar approval and governance processes.

The nature of the credit risks among these exposures differ considerably:

- Loan commitments may become funded loans and the risks are thus similar to loans.
- Contingent liabilities (ie, guarantees, assets pledged as security, acceptances and endorsements) may expose the Group to the potential loss through enhancing the credit of a counterparty without lending. However, these historically experience low loss rates.
- Losses arising from instruments held for trading (ie, derivatives and debt securities) are accounted for as trading losses, rather than impairment charges, even though the fall in value causing the loss may be attributable to credit deterioration.

# Notes to the consolidated financial statements

Year ended 31 December

## 57. Credit risk (continued)

### 57.1 Introduction (continued)

The most significant other credit risks are in respect of guarantees, irrevocable loan commitments, debt securities, available-for-sale debt instruments, and settlement risk.

**Guarantees and irrevocable loan commitments:** The Group is exposed to loss through the financial guarantees, acceptances and endorsements and irrevocable loan commitments it issues to customers and commitments to provide loan finance which cannot be withdrawn once entered into. The credit risks associated with such contracts are managed in a similar way to loans and advances.

**Debt securities:** Debt securities, treasury and other eligible bills are generally unsecured with the exception of asset backed securities and similar instruments which are secured by pools of financial assets. Managing the risks associated with debt securities differs in two important respects from the process for risk management of loans and advances. Firstly, a market price is generally available for a bond or other debt security, which is a good indication of creditworthiness. Secondly, many debt securities are rated by independent rating agencies, which is a further indication of credit quality. However, even with continuous monitoring by the rating agencies, there is often a lag between a credit event and re-rating. Therefore, while useful, external ratings can only inform and, as a result, are not a substitute for the credit assessment undertaken for each exposure by the Group, using its own grading system.

**Settlement risk:** The Group is also exposed to settlement risk in its dealings with other financial institutions. These risks arise, for example, in foreign exchange transactions when the Group pays away its side of the transaction to another bank or counterparty before receiving payment from the third party. The risk is that the third party may not meet its obligation. It also arises on derivative contracts where the carrying value of the financial asset is related to the credit condition of the counterparty.

While these exposures are of short duration, they can be significant. In recent years, settlement risk has been reduced by several industry initiatives that have enabled simultaneous and final settlement of transactions to be made (such as payment-versus-payment through continuous linked settlement and delivery-versus-payment in central bank money).

The Group has worked with its peers in the development of these arrangements. As a result, the majority of high-value transactions are increasingly settled by such mechanisms. Where these mechanisms are not available, the risk is further reduced by dealing predominantly with highly rated counterparties, holding collateral and limiting the size of the exposures according to the rating of the counterparty. Furthermore, credit risk is manifested as country risk where difficulties may arise in the country in which the exposure is domiciled, thus impeding or reducing the value of the asset, or where the counterparty is the country itself.

### 57.2 Credit risk management

The granting of credit is one of the Group's major sources of income and is therefore one of its most significant risks, and the Group dedicates considerable resources to controlling it effectively.

In managing credit risk, the Group applies the five-step risk management process outlined in the PRP, which is supported by the individual credit risk control frameworks. This policy is approved by the board of directors on recommendation from the GRCMC and defines the roles of key individuals and committees in the risk management process.

In terms of the PRP, the Group Risk Director appoints a principal risk owner (PRO) for each principal risk, who is responsible for working with the risk owners in the business units to ensure that each principal risk is appropriately managed and controlled.

The credit risk control framework provides a structure within which credit is managed and for which specific operational policies and procedures are drafted as applicable to specific business areas.

The Group has a centralised database of large corporate, sovereign and bank facilities and is currently constructing a database covering all the Group's assets. System-based credit application processes for bank lending are operational throughout the Group and an electronic corporate credit application system is deployed in all of the Group's major businesses.

Each business segment has an embedded credit risk management team. These teams assist Group Risk in the formulation of the Group's risk policy and the implementation of it across the businesses. Examples include ensuring that:

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

## **57. Credit risk** *(continued)*

### **57.2 Credit risk management** *(continued)*

Those corporate accounts which are deemed to contain heightened levels of risk are recorded on graded problem loan lists known as either watch lists or early warning lists. These are updated monthly and circulated to the relevant risk control points. Once listing has taken place, exposure is carefully monitored and, where possible, exposure reductions are effected. These lists are graded in line with the perceived severity of the risk attached to the lending. Businesses with exposure to corporate customers all work to three categories of increasing concern. By the time an account becomes impaired it will normally, but not necessarily, have passed through all three categories, which reflect the need for ever-increasing caution and control.

Where an obligor's financial health gives grounds for concern, it is immediately placed into the appropriate category. All obligors are subject to a full review of all facilities on, at least, an annual basis. Interim reviews may be undertaken if circumstances dictate.

Within the retail portfolios, which tend to comprise homogeneous assets, statistical techniques more readily allow impairment to be monitored on a portfolio basis. This applies in Retail Banking that comprises, among others, Absa Private Bank, Small Business, Absa Home Loans, Absa Vehicle and Asset Finance, as well as Absa Card. It is consistent with the Group's policy of raising an impairment allowance as soon as an objective evidence of impairment is identified as a result of one or more loss events that have occurred after initial recognition.

Where models are used, they are based upon customers' personal and financial performance information over recent periods as a predictor for future performance. The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

The Group manages country risk by setting a country risk appetite, which is known as the country guideline and agreed at the Credit Risk Committee (CRC). All cross-border or domestic foreign currency transactions are aggregated to give the current utilisation, in terms of country loss-given default (CLGD), against country appetite. The level of CLGD incurred by a counterparty transaction will largely depend on three main factors: the country severity, the product severity and counterparty grade.

CLGD is incurred in the country of direct risk, defined as where the majority of operating assets are held. This may differ from the country of incorporation. However, where transactions are secured with collateral, the country risk can be transferred from the country of the borrower to the country of the collateral provider. This is only permitted where the collateral definitely covers the borrowing and is not expected to decrease over time.

Country risk grades are assigned to all countries where the Group has, or is likely to have, exposure and are reviewed every quarter to ensure they remain appropriate. Country grades, which are derived from long-term sovereign foreign currency ratings, range from 1 (lowest probability of default) to 21 (highest probability of default). A ceiling is applied where a country is graded 12 or worse so that the counterparty cannot be graded better than the country, unless some form of protection is available in the event of a cross-border event, such as a significant portion of a counterparty's assets or income being held or generated in hard currency.

The principal committees that review credit risk management, formulate the overall Group credit policy and resolve all significant credit policy issues, are the CRC and the GRMC. The GACC also reviews the impairment allowance as part of financial reporting. All these committees receive regular and comprehensive reports on risk issues.

The monthly CRC meetings, chaired by the Group Risk Director, exercises oversight through review and challenge of the size and constitution of the portfolios when viewed against the Group's risk appetite for retail as well as wholesale credit risks.

# Notes to the consolidated financial statements

Year ended 31 December

## 57. Credit risk (continued)

### 57.2 Credit risk management (continued)

The Group Executive Committee monitors and manages risk-adjusted performance of businesses and receives a quarterly risk update including a copy of the Group risk profile report.

The GRCCM reviews the Group risk profile, approves the Group control framework and approves minimum control requirements for principal risks. It receives a quarterly report covering all of the principal risks.

The GACC considers the adequacy and effectiveness of the Group control framework and receives quarterly reports on control issues of significance and half-yearly impairment allowances and regulatory reports. Both GRCCM and GACC also receive reports dealing in more depth with specific issues relevant at the time. The proceedings of both committees are reported to the board of directors, which also receives a concise quarterly risk report. The board approves the overall Group risk appetite.

### 57.3 Credit risk measurement

The Group uses statistical modelling techniques throughout its business in its credit rating systems. These systems assist the Group in frontline credit decisions on new commitments and in managing the portfolio of existing exposures. They enable the application of consistent risk measurement across all credit exposures, retail and wholesale. The key building blocks in the measurement system are the probability of customer default (PD), exposure in the event of default (EAD), and severity of loss-given default (LGD). Using these, the Group builds the analyses that leads to its decision support systems in the risk appetite context.

These three components are building blocks used in a variety of applications that measure credit risk across the entire portfolio. One of these applications is a measurement of expected loss that is used by the Group. Within the Group this is known as risk tendency (RT) and is a statistical estimate of the average loss for the loan portfolio, for a 12-month period, taking into account a portfolio's size and risk characteristics under current credit conditions. RT provides insight into the credit quality of the portfolio and assists management in tracking risk changes as the Group's stock of credit exposures evolves in size or risk profile.

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

$$RT = PD (\text{point in time}) \times EAD \times LGD.$$

The RT of each individual loan is aggregated to produce the RT of the various subportfolios in the Group and ultimately for the whole Group. At this aggregate level, RT is a statistical estimate of the predicted average loss over a 12-month period that is inherent in the Group's credit exposures.

The Group also assesses the credit quality of borrowers and other counterparties and assigns them an internal risk rating. There are two different categories of default rating used. The first reflects the statistical probability of a customer in a rating class defaulting within the next 12-month period, and is referred to as a point in time rating (PIT). The second also reflects the statistical probability of a customer in a rating class defaulting, but the period of assessment is different, in this case the period is defined as 12 months of average credit conditions for the customer type. This type of rating therefore provides a measure of risk that is independent of the current credit conditions for a particular customer type and is much more stable over time than a PIT rating. This rating is referred to as a through the cycle (TTC) rating.

Multiple rating methodologies may be used to inform the rating decision on individual large credits, such as internal and external models, rating agency grades and, for wholesale assets, market information such as credit spreads. For smaller credits, a single source may suffice, such as the result from a rating model.

The 21 default grades classification represents the best estimate of credit risk for a counterparty based on current economic conditions. The previous 12-grade internal credit rating scale (mapped to the 21-grade scale) is currently still in use for the retail portfolios. The table on page 312 details how these equate to one another and external ratings.

**57. Credit risk** (continued)

**57.3 Credit risk measurement** (continued)

**57.3.1 Maximum exposure to credit risk**

For financial assets recognised on balance sheet, the exposure to credit risk equals the carrying amount. For financial guarantees, the maximum exposure to credit risk is the maximum amount that the Group would have to pay if the guarantee was called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The following represents the maximum exposure, at the balance sheet date, to credit risk for on and off balance sheet financial instruments, before taking into account any collateral held or other credit enhancements and after the allowance for impairment and netting where appropriate.

**57.3.1 (a) Credit risk exposures relating to on balance sheet assets**

	<b>GROUP</b>	
	<b>2007</b> Rm	2006 Rm
Balances with the SARB	10 396	8 402
Balances with other central banks	500	650
Money market assets	4 642	3 473
<b>Cash, cash balances and balances with central banks (refer to note 2)</b>	<b>15 538</b>	12 525
Land Bank bills	492	492
RSA government bonds	13 024	13 166
Treasury bills	9 441	7 171
<b>Statutory liquid asset portfolio (refer to note 3)</b>	<b>22 957</b>	20 829
Loans and advances to banks	52 817	20 995
Remittances in transit	1 208	805
<b>Loans and advances to banks (refer to note 4)</b>	<b>54 025</b>	21 800
Debt instruments	2 206	176
Derivative assets	21 704	15 065
Money market assets	1 340	705
<b>Trading assets (refer to note 5)</b>	<b>25 250</b>	15 946
Derivatives designated as cash flow hedging instruments	5	94
Derivatives designated as fair value hedging instruments	720	551
<b>Hedging assets (refer to note 5)</b>	<b>725</b>	645
Accounts receivable	4 635	3 875
Settlement accounts and collateral received	18 282	7 689
<b>Other assets (refer to note 6)</b>	<b>22 917</b>	11 564

# Notes to the consolidated financial statements

Year ended 31 December

## 57. Credit risk (continued)

### 57.3 Credit risk measurement (continued)

#### 57.3.1 Maximum exposure to credit risk (continued)

##### 57.3.1 (a) Credit risk exposures relating to on balance sheet assets (continued)

	GROUP	
	2007 Rm	2006 Rm
Retail banking	328 603	275 190
Cheque accounts	6 036	4 880
Credit cards	12 941	10 834
Instalment credit agreements	63 162	56 440
Loans to associates and joint venture companies	6 466	6 226
Microloans	2 460	1 194
Mortgages	227 141	185 780
Other advances	1 187	810
Personal loans	9 210	9 026
Absa Corporate and Business Bank	70 370	56 140
Corporate	10 640	6 249
Large and Medium	56 827	47 894
Other	2 903	1 997
Absa Capital	53 011	38 800
Africa and other	3 974	3 695
<b>Total loans and advances to customers (refer to note 8)</b>	<b>455 958</b>	<b>373 825</b>
Debt instruments	15 235	15 061
<b>Investments (refer to note 12)</b>	<b>15 235</b>	<b>15 061</b>
<b>Total assets subject to credit risk</b>	<b>612 605</b>	<b>472 195</b>
Assets not subject to credit risk <sup>1</sup>	28 304	22 917
<b>Total assets per balance sheet</b>	<b>640 909</b>	<b>495 112</b>
<b>57.3.1 (b) Credit risk exposures relating to off balance sheet items</b>		
Financial guarantees	824	560
Guarantees	9 037	9 056
Irrevocable facilities	40 040	37 265
Letters of credit	3 273	2 139
Other contingencies	23	16
	<b>53 197</b>	<b>49 036</b>

<sup>1</sup>Includes coins and bank notes, prepayments, constructed assets held for resale, repossessed properties, deferred costs, investments in equity instruments, reinsurance assets, deferred tax assets, intangible assets and property and equipment which are not subject to credit risk.

**57. Credit risk** (continued)

**57.3 Credit risk measurement** (continued)

**57.3.1 Maximum exposure to credit risk** (continued)

**57.3.1 (c) Financial assets and financial liabilities designated at fair value**

The following represents the maximum exposure at the balance sheet date to credit risk of financial instruments designated at fair value before taking into account any collateral held or other credit enhancements.

	<b>GROUP</b>	
	<b>2007</b>	2006
	<b>Rm</b>	Rm
<b>Assets</b>		
Cash, cash balances and balances with central banks (refer to note 2)	<b>3 644</b>	2 377
Statutory liquid asset portfolio (refer to note 3)	<b>2 683</b>	3 744
Loans and advances to banks (refer to note 4)	<b>10 992</b>	—
Loans and advances to customers (refer to note 8)	<b>14 311</b>	13 084
Investments (refer to note 12)	<b>11 289</b>	14 572
<b>Total assets designated at fair value</b>	<b>42 919</b>	33 777
<b>Liabilities</b>		
Deposits from banks (refer to note 16)	<b>28 603</b>	—
Other liabilities and sundry provisions (refer to note 18)	<b>234</b>	—
Deposits due to customers (refer to note 19)	<b>11 465</b>	265
Debt securities in issue (refer to note 20)	<b>3 764</b>	11 523
Liabilities under investment contracts (refer to note 21)	<b>7 908</b>	5 655
<b>Total liabilities designated at fair value</b>	<b>51 974</b>	17 443
At the balance sheet, the Group did not use credit derivatives as a mechanism to hedge its exposure to credit risk for financial assets and financial liabilities designated at fair value.		
The carrying value of liabilities at fair value and the amount which the Group is contractually required to pay to the holder of the obligation at maturity, approximate each other.		
<b>57.3.1 (d) Increase/(decrease) in fair value attributable to changes in credit risk</b>		
<b>Assets</b>		
Loans and advances to customers	<b>21</b>	61
Investments	<b>(4)</b>	—

The cumulative change in fair value due to changes in credit risk for loans and advances to customers designated at fair value is calculated by assigning to each customer an internal risk grading based on the customer's probability of default. The risk grading determines the credit spread incorporated in the valuation curve. Changes in the risk grading will result in a change in fair value of the loan due to changes in credit risk.

The change in fair value for investments designated at fair value is calculated by stripping out the trading margin from the fixed rate instruments to determine the split between interest and credit movement.

For financial liabilities other than loans and advances to customers and investments, the constant credit spread approach was applied from the date that the assets and liabilities were originated. No changes were noted in the credit risk of the assets and liabilities and the applicable credit spreads, after origination.

# Notes to the consolidated financial statements

Year ended 31 December

## 57. Credit risk (continued)

### 57.3 Credit risk measurement (continued)

#### 57.3.2 Financial assets subject to credit risk

For the purposes of the Group's disclosure regarding credit quality, the maximum exposure to credit risk of financial assets at the balance sheet date have been analysed as follows:

	Cash, cash balances and balances with central banks <sup>1</sup> Rm	Statutory liquid assets portfolio Rm	Loans and advances to banks Rm
Neither past due nor impaired (refer to note 57.3.3 (a))	15 538	22 957	54 025
Past due, but not impaired (refer to note 57.3.5)	—	—	—
Impaired (refer to note 57.3.6 (a))	—	—	—
Less: Impairment allowance (refer to notes 9 and 57.3.6 (b))			
Identified impairments	—	—	—
Identified individual	—	—	—
Identified collective	—	—	—
Unidentified impairments	—	—	—
<b>Carrying value of financial assets (refer to note 57.3.1 (a))</b>	<b>15 538</b>	<b>22 957</b>	<b>54 025</b>

	Cash, cash balances and balances with central banks <sup>1</sup> Rm	Statutory liquid assets portfolio Rm	Loans and advances to banks Rm
Neither past due nor impaired (refer to note 57.3.3 (a))	12 525	20 829	21 800
Past due but not impaired (refer to note 57.3.5)	—	—	—
Impaired (refer to note 57.3.6 (a))	—	—	—
Less: Impairment allowance (refer to notes 9 and 57.3.6 (b))			
Identified impairment	—	—	—
Identified individual	—	—	—
Identified collective	—	—	—
Unidentified impairments	—	—	—
<b>Carrying value of financial assets (refer to note 57.3.1 (a))</b>	<b>12 525</b>	<b>20 829</b>	<b>21 800</b>

<sup>1</sup>Cash, cash balances and balances with central banks exclude coins and bank notes which are not subject to credit risk.

<sup>2</sup>Trading assets and investments exclude equity instruments as they are not subject to credit risk.

<sup>3</sup>Other assets exclude prepayments, constructed assets held for sale, repossessed properties and deferred costs which are not subject to credit risk.



**GROUP**

**2007**

Trading assets <sup>2</sup> Rm	Hedging assets Rm	Other assets <sup>3</sup> Rm	Loans and advances to customers Rm	Investments <sup>2</sup> Rm	Total Rm
25 250	725	22 917	433 941	15 235	590 588
—	—	—	2 798	—	2 798
—	—	—	24 885	—	24 885
—	—	—	(3 656)	—	(3 656)
—	—	—	(2 649)	—	(2 649)
—	—	—	(1 007)	—	(1 007)
—	—	—	(2 010)	—	(2 010)
<b>25 250</b>	<b>725</b>	<b>22 917</b>	<b>455 958</b>	<b>15 235</b>	<b>612 605</b>

2006

Trading assets <sup>2</sup> Rm	Hedging assets Rm	Other assets <sup>3</sup> Rm	Loans and advances to customers Rm	Investments <sup>2</sup> Rm	Total Rm
15 946	645	11 564	360 912	15 061	459 282
—	—	—	1 280	—	1 280
—	—	—	16 372	—	16 372
—	—	—	(3 035)	—	(3 035)
—	—	—	(2 623)	—	(2 623)
—	—	—	(412)	—	(412)
—	—	—	(1 704)	—	(1 704)
<b>15 946</b>	<b>645</b>	<b>11 564</b>	<b>373 825</b>	<b>15 061</b>	<b>472 195</b>

# Notes to the consolidated financial statements

Year ended 31 December

## 57. Credit risk (continued)

### 57.3 Credit risk measurement (continued)

#### 57.3.3 Financial assets neither past due nor impaired

The Group categorises its current exposures according to a 21-grade internal rating scale default grades (DG) that corresponds to a statistical probability of customers in that rating class defaulting within a 12-month period. An indicative mapping of the DG buckets to the equivalent international rating agency scales can be performed as illustrated in the table below:

DG	DG mapping (to risk-rated or credit-scored models)			Rating agency mappings (international rating scales)		
	Min PD (>)	Max PD (≤)	PD (midpoint)	Standard & Poor's	Moody's	Fitch
1	0,000%	0,019%	0,010%	AAA	Aaa	AAA
2	0,020%	0,029%	0,025%	AA	Aa	AA
3	0,030%	0,049%	0,040%	A+	A1	A+
4	0,050%	0,099%	0,075%	A/A-	A2/A3	A/A-
5	0,100%	0,149%	0,125%	BBB+	Baa1	BBB+
6	0,150%	0,199%	0,175%	BBB+/BBB	Baa1/Baa2	BBB+/BBB
7	0,200%	0,249%	0,225%	BBB	Baa2	BBB
8	0,250%	0,299%	0,275%	BBB/BBB-	Baa2/Baa3	BBB/BBB-
9	0,300%	0,399%	0,350%	BBB-	Baa3	BBB-
10	0,400%	0,499%	0,450%	BBB-/BB+	Baa3/Ba1	BBB-/BB+
11	0,500%	0,599%	0,550%	BB+	Ba1	BB+
12	0,600%	1,199%	0,900%	BB	Ba2	BB
13	1,200%	1,549%	1,375%	BB/BB-	Ba2/Ba3	BB/BB-
14	1,550%	2,149%	1,850%	BB/BB-	Ba2/Ba3	BB/BB-
15	2,150%	3,049%	2,600%	BB-	Ba3	BB-
16	3,050%	4,449%	3,750%	B+	B1	B+
17	4,450%	6,349%	5,400%	B+/B	B1/B2	B+/B
18	6,350%	8,649%	7,500%	B	B2	B
19	8,650%	11,349%	10,000%	B-	B3	B-
20	11,350%	18,649%	15,000%	CCC+	Caa1	CCC+
21	18,650%	99,999%	30,000%	CCC	Caa2	CCC

The grading represents a through-the-cycle view of the distribution of the book.

#### Default grades 1 – 11

These financial assets have a lower probability of default than other assets. Typically these customers will have a probability of default of less than 0,5%.

#### Default grades 12 – 19

Financial assets in these grades typically require more detailed management attention where clear evidence of financial deterioration or weakness exists. Assets in this category, although currently protected, are potentially weaker credits. These assets contain some credit deficiencies but not to the point of justifying a classification of substandard.

#### Default grades 20 – 21

These financial assets are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have well-defined weaknesses that jeopardise the liquidation of the asset. They are characterised by the distinct possibility that the Group will sustain some loss if the deficiencies are not corrected.

**57. Credit risk** (continued)

**57.3 Credit risk measurement** (continued)

**57.3.3 Financial assets neither past due nor impaired** (continued)

Financial assets neither past due nor impaired can be analysed according to the internal rating system used in the Group's business. The credit quality of financial assets subject to credit risk, that were neither past due nor impaired, based on the Group's internal ratings, were as follows:

**57.3.3 (a) Credit risk exposures relating to on balance sheet assets**

	GROUP			
	2007			
	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total Rm
Balances with the SARB	10 396	—	—	10 396
Balances with other central banks	500	—	—	500
Money market assets	4 642	—	—	4 642
<b>Cash, cash balances and balances with central banks</b>	<b>15 538</b>	<b>—</b>	<b>—</b>	<b>15 538</b>
Land Bank bills	492	—	—	492
RSA government bonds	13 024	—	—	13 024
Treasury bills	9 441	—	—	9 441
<b>Statutory liquid asset portfolio</b>	<b>22 957</b>	<b>—</b>	<b>—</b>	<b>22 957</b>
Loans and advances to banks	52 817	—	—	52 817
Remittances in transit	1 208	—	—	1 208
<b>Loans and advances to banks</b>	<b>54 025</b>	<b>—</b>	<b>—</b>	<b>54 025</b>
Debt instruments	2 168	38	—	2 206
Derivative assets	21 354	350	—	21 704
Money market assets	1 317	23	—	1 340
<b>Trading assets</b>	<b>24 839</b>	<b>411</b>	<b>—</b>	<b>25 250</b>
Derivatives designated as cash flow hedging instruments	5	—	—	5
Derivatives designated as fair value hedging instruments	720	—	—	720
<b>Hedging assets</b>	<b>725</b>	<b>—</b>	<b>—</b>	<b>725</b>
Accounts receivable	2 799	1 836	—	4 635
Settlement accounts and collateral received	18 256	26	—	18 282
<b>Other assets</b>	<b>21 055</b>	<b>1 862</b>	<b>—</b>	<b>22 917</b>
Retail banking	12 507	267 878	27 540	307 925
Cheque accounts	20	5 864	126	6 010
Credit cards	303	10 243	806	11 352
Instalment credit agreements	—	55 872	2 140	58 012
Loans to associates and joint venture companies	4 691	1 722	53	6 466
Microloans	—	1 744	547	2 291
Mortgages	6 499	185 016	21 925	213 440
Other advances	994	188	4	1 186
Personal loans	—	7 229	1 939	9 168

# Notes to the consolidated financial statements

Year ended 31 December

## 57. Credit risk (continued)

### 57.3 Credit risk measurement (continued)

#### 57.3.3 Financial assets neither past due nor impaired (continued)

	GROUP			
	2007			
	DG1 – 11 Rm	DG12 – 19 Rm	DG20 – 21 Rm	Total Rm
Absa Corporate and Business Bank	13 781	53 566	1 482	68 829
Corporate	890	9 677	74	10 641
Large and Medium	11 728	42 113	1 393	55 234
Other	1 163	1 776	15	2 954
Absa Capital	21 649	31 279	252	53 180
Africa and other	1 508	2 481	18	4 007
<b>Loans and advances to customers</b>	<b>49 445</b>	<b>355 204</b>	<b>29 292</b>	<b>433 941</b>
Debt instruments	15 235	—	—	15 235
<b>Investments</b>	<b>15 235</b>	<b>—</b>	<b>—</b>	<b>15 235</b>
<b>Total (refer to note 57.3.2)</b>	<b>203 819</b>	<b>357 477</b>	<b>29 292</b>	<b>590 588</b>
		2006		
	DG1 – 11 Rm	DG12 – 19 Rm	DG20 – 21 Rm	Total Rm
Balances with the SARB	8 402	—	—	8 402
Balances with other central banks	650	—	—	650
Money market assets	3 473	—	—	3 473
<b>Cash, cash balances and balances with central banks</b>	<b>12 525</b>	<b>—</b>	<b>—</b>	<b>12 525</b>
Land Bank bills	492	—	—	492
RSA government bonds	13 166	—	—	13 166
Treasury bills	7 171	—	—	7 171
<b>Statutory liquid asset portfolio</b>	<b>20 829</b>	<b>—</b>	<b>—</b>	<b>20 829</b>
Loans and advances to banks	20 995	—	—	20 995
Remittances in transit	805	—	—	805
<b>Loans and advances to banks</b>	<b>21 800</b>	<b>—</b>	<b>—</b>	<b>21 800</b>

**57. Credit risk** (continued)

**57.3 Credit risk measurement** (continued)

**57.3.3 Financial assets neither past due nor impaired** (continued)

	GROUP 2006			Total Rm
	DG1 – 11 Rm	DG12 – 19 Rm	DG20 – 21 Rm	
Debt instruments	172	4	—	176
Derivative assets	14 766	299	—	15 065
Money market assets	564	141	—	705
<b>Trading assets</b>	<b>15 502</b>	<b>444</b>	<b>—</b>	<b>15 946</b>
Derivatives designated as cash flow hedging instruments	94	—	—	94
Derivatives designated as fair value hedging instruments	551	—	—	551
<b>Hedging assets</b>	<b>645</b>	<b>—</b>	<b>—</b>	<b>645</b>
Accounts receivable	2 325	1 550	—	3 875
Settlement accounts and collateral received	7 689	—	—	7 689
<b>Other assets</b>	<b>10 014</b>	<b>1 550</b>	<b>—</b>	<b>11 564</b>
Retail banking	11 801	230 160	21 422	263 383
Cheque accounts	25	4 744	102	4 871
Credit cards	346	9 273	671	10 290
Instalment credit agreements	—	51 984	858	52 842
Loans to associates and joint venture companies	4 439	1 726	61	6 226
Microloans	—	744	235	979
Mortgages	6 187	154 636	17 621	178 444
Other advances	804	6	1	811
Personal loans	—	7 047	1 873	8 920
Absa Corporate and Business Bank	10 660	43 211	1 019	54 890
Corporate	470	5 344	59	5 873
Large and Medium	9 396	36 646	940	46 982
Other	794	1 221	20	2 035
Absa Capital	14 930	23 977	86	38 993
Africa and other	1 767	1 877	2	3 646
<b>Loans and advances to customers</b>	<b>39 158</b>	<b>299 225</b>	<b>22 529</b>	<b>360 912</b>
Debt instruments	15 061	—	—	15 061
<b>Investments</b>	<b>15 061</b>	<b>—</b>	<b>—</b>	<b>15 061</b>
<b>Total (refer to note 57.3.2)</b>	<b>135 534</b>	<b>301 219</b>	<b>22 529</b>	<b>459 282</b>

# Notes to the consolidated financial statements

Year ended 31 December

## 57. Credit risk (continued)

### 57.3 Credit risk measurement (continued)

#### 57.3.4 Financial assets renegotiated

Certain of the Group's loans and advances to customers would have been past due or impaired if their terms had not been renegotiated.

At the balance sheet date, the carrying amount of assets<sup>1</sup> renegotiated and transferred<sup>2</sup> to the neither past due nor impaired classification in the last 12 months was as follows:

	GROUP	
	2007 Rm	2006 Rm
<b>Loans and advances to customers</b>		
Cheque accounts	32	3
Mortgages	2 142	2 584
Personal loans	70	73
Retail banking	2 244	2 660
Absa Corporate and Business Bank	1 035	842
	<b>3 279</b>	<b>3 502</b>

In the event that a customer becomes past due, and temporarily cannot afford to pay the arrears or monthly instalments, the customer could qualify for a remediation period to give the customer the opportunity to rectify the situation. On expiry of the remediation period the customer's situation will be reassessed and the rectification of the account or the renegotiation of the terms of the agreement will be explored. The terms of the agreement can only be permanently altered once in a 12-month period and is subject to affordability assessments and customer risk. The renegotiated term of the contract is limited by the maximum legally allowed financing term for the specific product.

<sup>1</sup>Assets need to be included in loans and advances at the balance sheet date.

<sup>2</sup>Assets are only transferred to the neither past due nor impaired classification once the customer demonstrates the ability to make the contractual payments for a specified period.

**57. Credit risk** (continued)

**57.3 Credit risk measurement** (continued)

**57.3.5 Financial assets that are past due, but not impaired**

These are assets where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate, based on the level of security collateral available.

The age of loans and advances to customers that are past due but not impaired is as follows:

	GROUP					Total Rm
	2007					
Loans and advances to customers	Past due up to 1 month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm	
Retail banking	579	120	119	124	672	1 614
Cheque accounts	—	1	1	2	12	16
Instalment credit agreements	57	5	4	4	69	139
Mortgages	517	113	113	117	587	1 447
Personal loans	5	1	1	1	4	12
Absa Corporate and Business Bank						
Large and Medium	1 098	1	—	5	60	1 164
Africa and other	20	—	—	—	—	20
<b>Past due but not impaired advances (refer to note 57.3.2)</b>	<b>1 697</b>	<b>121</b>	<b>119</b>	<b>129</b>	<b>732</b>	<b>2 798</b>

# Notes to the consolidated financial statements

Year ended 31 December

## 57. Credit risk (continued)

### 57.3 Credit risk measurement (continued)

#### 57.3.5 Financial assets that are past due, but not impaired (continued)

Loans and advances to customers	GROUP 2006					Total Rm
	Past due up to 1 month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm	
Retail banking	343	78	87	56	297	861
Cheque accounts	1	2	1	1	11	16
Instalment credit agreements	5	5	3	2	19	34
Mortgages	333	70	82	52	263	800
Personal loans	4	1	1	1	4	11
Absa Corporate and Business Bank	63	6	1	7	342	419
Corporate	28	—	—	—	132	160
Large and Medium	35	6	1	7	210	259
<b>Past due but not impaired advances (refer to note 57.3.2)</b>	<b>406</b>	<b>84</b>	<b>88</b>	<b>63</b>	<b>639</b>	<b>1 280</b>

#### 57.3.6 Financial assets individually assessed as impaired

The Group's credit policy considers the following to be key indicators (albeit not the only indicators) of default:

- The Group considers that the borrower is unlikely to pay its credit obligation in full, without recourse by the Group to actions such as realising any security held.
- The obligor is overdue.

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

In the retail portfolio, the identified impairment is calculated on both an individual and collective basis. For accounts currently residing in the legal environment, impairment is held against individual exposures. Where retail exposures are identified as delinquent (one or more payments down) but not currently in the legal process, they are impaired collectively, given the level of delinquency. For accounting purposes, these accounts are considered to be identified impairments.



57. Credit risk (continued)

57.3 Credit risk measurement (continued)

57.3.6 Financial assets individually assessed as impaired (continued)

57.3.6 (a) Analysis of assets individually assessed as impaired

Loans and advances to customers	GROUP					
	2007			2006		
	Original carrying amount Rm	Impairment allowance Rm	Revised carrying amount Rm	Original carrying amount Rm	Impairment allowance Rm	Revised carrying amount Rm
Retail banking	22 852	2 523	20 329	14 034	1 948	12 086
Cheque accounts	252	151	101	136	94	42
Credit cards	2 475	754	1 721	955	299	656
Instalment credit agreements	5 716	621	5 095	4 045	401	3 644
Microloans	353	97	256	465	242	223
Mortgages	13 455	686	12 769	8 085	819	7 266
Personal loans	601	214	387	348	93	255
Absa Corporate and Business Bank	1 912	1 039	873	2 205	1 008	1 197
Corporate	119	69	50	411	116	295
Large and Medium	1 691	874	817	1 788	892	896
Other	102	96	6	6	—	6
Absa Capital Africa and other	24	16	8	—	—	—
	97	78	19	133	79	54
<b>Total (refer to note 57.3.2)</b>	<b>24 885</b>	<b>3 656</b>	<b>21 229</b>	<b>16 372</b>	<b>3 035</b>	<b>13 337</b>

57.3.6 (b) Reconciliation of total impairments (identified and unidentified)

Impairment of loans and advances to customers	GROUP						
	Opening balance Rm	Acquisitions and disposals Rm	Net present value unwind on non-performing book Rm	Exchange and other adjustments Rm	Amounts written off and recoveries Rm	Impairment raised Rm	Closing balance Rm
Retail banking	3 085	—	(247)	—	(1 624)	2 574	3 788
Absa Corporate and Business Bank	1 374	—	(27)	—	(8)	196	1 535
Absa Capital	193	—	—	—	—	1	194
Africa and other	87	—	—	4	(22)	80	149
	<b>4 739</b>	<b>—</b>	<b>(274)</b>	<b>4</b>	<b>(1 654)</b>	<b>2 851</b>	<b>5 666</b>

# Notes to the consolidated financial statements

Year ended 31 December

## 57. Credit risk (continued)

### 57.3 Credit risk measurement (continued)

#### 57.3.6 Financial assets individually assessed as impaired (continued)

#### 57.3.6 (b) Reconciliation of total impairments (identified and unidentified) (continued)

Impairment of loans and advances to customers	GROUP 2006							Closing balance Rm
	Opening balance Rm	Acquisi- tions and disposals Rm	Net present value unwind on non- per- forming book Rm	Exchange and other adjust- ments Rm	Amounts written off and recoveries Rm	Impair- ment raised Rm		
Retail banking	2 629	—	(94)	—	(982)	1 532	3 085	
Absa Corporate and Business Bank	1 087	—	(25)	—	(72)	384	1 374	
Absa Capital	1 735	—	—	—	(1 543)	1	193	
Africa and other	459	(92)	—	(2)	(313)	35	87	
	5 910	(92)	(119)	(2)	(2 910)	1 952	4 739	

#### 57.4 Credit risk mitigation, collateral and other credit enhancements

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

Nevertheless, collateral can be an important mitigant of credit risk and the Group 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.

**57. Credit risk** (continued)

**57.4 Credit risk mitigation, collateral and other credit enhancements** (continued)

The following types of collateral are currently held against assets subject to credit risk:

<b>Assets subject to credit risk on balance sheet</b>	<b>Type of collateral</b>
Cash, cash balances and balances with central banks	<ul style="list-style-type: none"><li>• Deposits from customers and cession of ringfenced bank accounts with cash</li></ul>
Loans and advances to banks	<ul style="list-style-type: none"><li>• Bonds and guarantees</li><li>• South African government bonds</li></ul>
Loans and advances to customers	<ul style="list-style-type: none"><li>• Bonds over properties</li><li>• Call options to holding companies</li><li>• Charge on property</li><li>• Debentures</li><li>• Governmental guarantees</li><li>• Guarantees from shareholders and directors</li><li>• Insurance policies</li><li>• Life insurance policies</li><li>• Listed equities</li><li>• Parental guarantees</li><li>• Personal and other company guarantees</li><li>• Pledged securities</li><li>• Property and equipment</li><li>• Put options from holding companies/other group companies</li><li>• Shares</li></ul>

**Valuation of collateral**

Valuation of the collateral taken will be within agreed parameters and will be conservative in value. Any collateral taken in respect of OTC trading exposures will be subject to a "haircut" which is negotiated at the time of signing the collateral agreement. A haircut is the valuation percentage applicable to each type of collateral and will be largely based on liquidity and price volatility of the underlying security.

Within the corporate sectors, collateral for impaired loans, including guarantees and insurance, is reviewed regularly and at least annually to ensure that it is still enforceable and that the impairment allowance remains appropriate given the current valuation. Where the collateral has decreased in value, an additional impairment allowance may be considered. Conversely, increases in collateral may result in a release of the impairment allowance.

The Group will consider all relevant factors, including local market conditions and practices, before any collateral is realised.

For most forms of security, the collateral given is valued only on origination or in the course of enforcement actions. The value of security is not updated based on the specific security except where a loan is individually assessed as impaired. For mortgages, in cases where a loan is not individually assessed as impaired, the house price index is applied to obtain the fair value of security. In the case of corporates, lending security may be in the form of floating charges where the value of collateral varies with the level of assets, such as inventory and receivables held by the customer.

The Group also uses various forms of specialised legal agreements to reduce risk, including entering into master netting agreements with counterparties, which the Group uses to restrict its exposure to credit losses. The International Swap and Derivative Association (ISDA) Master Agreement is the Group's preferred agreement for documenting OTC activity. It provides the contractual framework within which dealing activities across a full range of OTC products are conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults or other predetermined events occur. In the normal course of events, where the ISDA Master Agreement is used, the collateral document will be the ISDA Credit Support Annex (CSA). The collateral document must give the Group the power to realise any collateral placed with it in the event of the failure of the counterparty, and to obtain further collateral when requested or in the event of insolvency, administration or similar processes, as well as in the case of early termination.

# Notes to the consolidated financial statements

Year ended 31 December

## 57. Credit risk (continued)

### 57.4 Credit risk mitigation, collateral and other credit enhancements (continued)

Security structures and legal covenants are subject to regular review, at least annually, to ensure that they remain fit for purpose and remain consistent with accepted local market practice. The Group actively manages its credit exposures. When weaknesses in exposures are detected (either in individual exposures or in groups of exposures) the Group takes action to mitigate the risks. Such actions may include reducing the amounts outstanding (in discussion with the customers, clients or counterparties if appropriate), using credit derivatives and, sometimes, selling the loan assets.

The Group manages the diversification of its portfolio to avoid unwanted credit risk concentrations. This takes several dimensions. Maximum exposure guidelines are in place relating to the exposures to any individual counterparty. These permit higher exposures to higher-rated borrowers than to lower-rated borrowers. They also distinguish between types of counterparties, for example, between sovereign governments, banks and corporations. Excesses are considered individually at the time of credit sanctioning, are reviewed regularly, and are reported to the Group Credit Committee (GCC) as well as the CRC and the GRCMC.

Similarly, the country risk policy specifies risk appetite by country and avoids excessive concentrations of credits in individual countries. Finally, there are policies that limit lending to certain industries, for example, commercial real estate.

#### 57.4.1 Fair value of collateral for loans past due but not impaired and loans individually impaired

Financial assets that are past due or individually assessed as impaired are for the most part collateralised or subject to other forms of credit enhancements. The effects of such arrangements are taken into account in the calculation of the impairment allowance held against them.

The description and fair value of collateral and other credit enhancements held in respect of loans and advances to customers past due but not impaired and individually assessed as impaired is as follows:

	<b>GROUP</b>	
	<b>2007</b>	2006
	<b>Rm</b>	Rm
<b>Loans and advances to customers</b>		
Retail banking	<b>17 703</b>	11 087
Cheques accounts	<b>36</b>	55
Instalment credit agreements	<b>3 802</b>	2 915
Microloans	<b>2</b>	1
Mortgages	<b>13 798</b>	8 064
Personal loans	<b>65</b>	52
Absa Corporate and Business Bank		
Large and Medium	<b>1 898</b>	1 282
Africa and other	<b>93</b>	13
<b>Fair value of collateral for loans past due but not impaired and individually impaired</b>	<b>19 694</b>	12 382
<b>Carrying values of loans past due but not impaired</b>	<b>2 798</b>	1 280
<b>Carrying values of loans individually impaired</b>	<b>24 885</b>	16 372

An apparent shortfall exists due to the Group using a probability of default when assessing certain of the individually impaired loans.

**57. Credit risk** (continued)

**57.4 Credit risk mitigation, collateral and other credit enhancements** (continued)

**57.4.2 Enforcement of collateral**

Carrying value of assets held by the Group at the balance sheet date as a result of the enforcement of collateral, was as follows:

	GROUP	
	2007 Rm	2006 Rm
<b>Loans and advances to customers</b>		
<b>Residential properties</b>		
Opening balance	142	221
Acquisitions	83	35
Disposals	(53)	(114)
<b>Closing balance</b>	<b>172</b>	<b>142</b>

Any properties repossessed are made available for sale in an orderly and timely fashion, with any proceeds realised being used to reduce or repay the outstanding loan. The Group does not, as a rule, occupy repossessed properties for its business use.

**57.5 Credit risk concentration**

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The concentrations of credit exposure described below are not proportionally related to credit loss. Some segments of the Group's portfolio have, and are expected to have, proportionally higher credit charges compared to the exposure of other segments. Moreover, the volatility of credit loss is different in different parts of the portfolio. Thus comparatively large credit charges could arise in parts of the portfolio.

Mandate and scale limits, which can also be set at Group level to reflect overall risk appetite, can relate either to the stock of current exposures in the relevant portfolio or to the flow of new exposures into that portfolio. Typical limits include the caps on high loan to value mortgages, the proportion of new mortgage business that is buy-to-let and restriction on maximum residual value risk in relation to vehicle lease agreements.

# Notes to the consolidated financial statements

Year ended 31 December

## 57. Credit risk (continued)

### 57.5 Credit risk concentration (continued)

#### 57.5.1 Analysis of credit risk concentration by industry

The following table reflects the Group's credit exposures at their carrying amounts, as categorised by the industry sectors of our counterparties at the balance sheet date:

	Cash, cash balances and balances with central banks Rm	Statutory liquid asset portfolio Rm	Loans and advances to banks Rm	Trading and hedging assets Rm	Loans and advances to customers Rm
Agriculture	—	—	—	5	10 812
Construction and property	—	—	—	3 536	39 661
Consumer (home loans)	—	—	—	—	206 354
Consumer (other personal lending)	—	—	—	—	93 751
Electricity	—	—	—	—	2 731
Finance	15 538	—	54 025	18 950	41 330
Government	—	22 957	—	1 280	2 722
Manufacturing	—	—	—	558	8 843
Mining	—	—	—	80	8 363
Other	—	—	—	796	11 133
Services	—	—	—	119	14 177
Transport	—	—	—	356	2 760
Wholesale	—	—	—	295	13 321
<b>Subject to credit risk</b>	<b>15 538</b>	<b>22 957</b>	<b>54 025</b>	<b>25 975</b>	<b>455 958</b>

	Cash, cash balances and balances with central banks Rm	Statutory liquid asset portfolio Rm	Loans and advances to banks Rm	Trading and hedging assets Rm	Loans and advances to customers Rm
Agriculture	—	—	—	19	9 541
Construction and property	—	—	—	24	24 877
Consumer (home loans)	—	—	—	626	165 111
Consumer (other personal lending)	—	—	—	3	80 839
Electricity	—	—	—	3	636
Finance	12 525	—	21 800	11 744	40 997
Government	—	20 829	—	367	2 288
Manufacturing	—	—	—	971	9 925
Mining	—	—	—	1 232	4 369
Other	—	—	—	60	6 565
Services	—	—	—	245	15 196
Transport	—	—	—	723	3 577
Wholesale	—	—	—	574	9 904
<b>Subject to credit risk</b>	<b>12 525</b>	<b>20 829</b>	<b>21 800</b>	<b>16 591</b>	<b>373 825</b>

**GROUP**

2007

Other assets Rm	Investments Rm	Financial guarantees Rm	Guarantees Rm	Letters of credit Rm	Other contingencies Rm	Irrevocable facilities Rm	Total Rm
13	—	—	96	36	—	5	10 967
357	4 688	—	2 240	64	4	90	50 640
1	—	—	—	—	—	8 875	215 230
62	—	—	453	—	—	—	94 266
—	20	378	433	19	—	485	4 066
20 558	5 670	446	1 978	1 025	12	15 283	174 815
1 711	1 393	—	29	941	—	—	31 033
14	180	—	1 745	865	3	1 252	13 460
—	1 160	—	572	139	—	7 343	17 657
121	2 054	—	114	16	2	2	14 238
80	—	—	200	—	—	10	14 586
—	70	—	312	48	—	4 883	8 429
—	—	—	865	120	2	1 812	16 415
22 917	15 235	824	9 037	3 273	23	40 040	665 802

2006

Other assets Rm	Investments Rm	Financial guarantees Rm	Guarantees Rm	Letters of credit Rm	Other contingencies Rm	Irrevocable facilities Rm	Total Rm
—	—	—	97	23	—	5	9 685
73	5 154	—	2 245	42	3	84	32 502
70	—	—	—	—	—	8 260	174 067
—	—	—	454	—	—	—	81 296
—	88	—	434	12	—	451	1 624
9 666	4 763	560	1 982	670	8	14 223	118 938
1	2 334	—	29	615	—	—	26 463
—	166	—	1 748	565	2	1 165	14 542
—	1 415	—	574	91	—	6 834	14 515
2	1 079	—	112	12	2	3	7 835
1 527	39	—	201	—	—	9	17 217
225	23	—	313	31	—	4 544	9 436
—	—	—	867	78	1	1 687	13 111
11 564	15 061	560	9 056	2 139	16	37 265	521 231

# Notes to the consolidated financial statements

Year ended 31 December

## 57. Credit risk (continued)

### 57.5 Credit risk concentration (continued)

#### 57.5.2 Analysis of credit risk concentration by geographical sector

The following table reflects the Group's credit exposure at their carrying amounts, as categorised by geographical region as at the balance sheet date. For this table, the Group has allocated exposures to regions based on the country of domicile of the Group's counterparties.

	GROUP				Total Rm
	2007				
	South Africa Rm	Rest of Africa Rm	Europe Rm	Asia, Americas and Australia Rm	
<b>On balance sheet exposures</b>					
Cash, cash balances and balances with central banks	13 611	1 893	—	34	15 538
Statutory liquid asset portfolio	22 957	—	—	—	22 957
Loans and advances to banks	38 072	271	15 093	589	54 025
Trading and hedging assets	17 073	—	8 711	191	25 975
Loans and advances to customers	436 758	4 322	3 881	10 997	455 958
Other assets	22 683	71	163	—	22 917
Investments	14 202	974	59	—	15 235
<b>Subject to credit risk (refer to note 57.3.1 (a))</b>	<b>565 356</b>	<b>7 531</b>	<b>27 907</b>	<b>11 811</b>	<b>612 605</b>
<b>Off balance sheet exposures</b>					
Financial guarantees	824	—	—	—	824
Guarantees	8 781	256	—	—	9 037
Irrevocable facilities	40 040	—	—	—	40 040
Letters of credit	3 060	213	—	—	3 273
Other contingencies	23	—	—	—	23
	<b>52 728</b>	<b>469</b>	<b>—</b>	<b>—</b>	<b>53 197</b>



**57. Credit risk (continued)****57.5 Credit risk concentration (continued)****57.5.2 Analysis of credit risk concentration by geographical sector (continued)**

	GROUP 2006				Total
	South Africa Rm	Rest of Africa Rm	Europe Rm	Asia, Americas and Australia Rm	Rm
<b>On balance sheet exposures</b>					
Cash, cash balances and balances with central banks	10 779	1 746	—	—	12 525
Statutory liquid asset portfolio	20 829	—	—	—	20 829
Loans and advances to banks	3 866	292	17 269	373	21 800
Trading and hedging assets	11 326	108	3 829	1 328	16 591
Loans and advances to customers	363 676	2 843	3 196	4 110	373 825
Other assets	11 421	30	113	—	11 564
Investments	14 411	489	161	—	15 061
Subject to credit risk (refer to note 56.3.1 (a))	436 308	5 508	24 568	5 811	472 195
<b>Off balance sheet exposures</b>					
Financial guarantees	560	—	—	—	560
Guarantees	8 872	184	—	—	9 056
Irrevocable facilities	37 265	—	—	—	37 265
Letters of credit	1 993	146	—	—	2 139
Other contingencies	16	—	—	—	16
	48 706	330	—	—	49 036

**58. Market risk**

Market risk is the risk that the Group's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads.

The Group's market risk management objectives include:

- The protection and enhancement of the balance sheet and income statement and facilitating business growth within a controlled and transparent risk management framework;
- Concentrating traded market risk in Absa Capital; and
- Concentrating the primary interest rate and foreign exchange rate risk appetite of the Group in Absa Capital's trading book, and minimising banking book interest income volatility.

**58.1 Management and control responsibilities**

Market risk is managed in terms of the market risk control framework, in line with the PRP requirements. Under delegated authority from the Group Chief Executive, the Group Risk Director has appointed a PRO for market risk who is responsible for the design of the market risk control framework, which is approved by the GRCCM.

The board approves the overall appetite for market risk at Group level, within which the GRCCM approves the market risk appetite for all categories of market risk. Market risk limits are set within the context of the approved market risk appetite. The MRC governs market risk across the Group and meets monthly to review, approve and make recommendations concerning the market risk profile including risk appetite, limits and utilisation. Oversight and support is provided to the business by the central market risk team, assisted by risk management teams in the businesses. The head of each business, assisted by the business risk management team, is accountable for all market risks associated with its activities, which are reported to business risk governance and control committees. Each business is responsible for the identification, measurement, management, control and reporting of market risk as outlined in the market risk control framework.

# Notes to the consolidated financial statements

Year ended 31 December

## 58. Market risk (continued)

### 58.2 Traded market risk

The Group policy is to concentrate its traded market risk exposure in Absa Capital. This includes transactions where Absa Capital acts as principal with clients or with the market. For maximum efficiency, Absa Capital manages clients and market activities together.

In Absa Capital, market risk occurs in both the trading book and the banking book as defined for regulatory purposes. Interest rate risk in Absa Capital's banking book is subjected to the same rigorous measurement and control standards as described below for its traded market risk, but the associated sensitivities are reported in the banking book interest rate risk section further on.

#### 58.2.1 Risk measurement

The measurement techniques used to measure and control traded market risk include daily value at risk and stress testing.

##### Daily value at risk (DVaR)

DVaR is an estimate of the potential loss that might arise from unfavourable market movements if the current positions were to be held unchanged for one business day, measured to a confidence level of 98%. Daily losses exceeding the DVaR figure are likely to occur, on average, twice in every 100 business days.

Absa Capital uses an internal DVaR model based on the historical simulation method. Two years of historical price and rate data is applied, and updated daily. This internal model is also used for measuring value at risk over a 10-day holding period at a 99% confidence level for regulatory capital calculation purposes. The model has been signed off and is regularly reviewed by the SARB for use in the Group.

There are a number of considerations that should be taken into account when reviewing the DVaR numbers. These are:

- Historical simulation assumes that the past is a good representation of the future, which may not always be the case.
- The assumed one-day time horizon will not fully capture the market risk of positions that cannot be closed out or hedged within one day.
- DVaR does not indicate the potential loss beyond the 98<sup>th</sup> percentile.

To complement DVaR, stress testing and other sensitivity measures are used.

##### DVaR backtesting

DVaR is an important market risk measurement and control tool and consequently the performance of the model is regularly assessed. The main approach employed is a technique known as backtesting, which counts the number of days when losses from the regulatory trading book exceed the corresponding DVaR estimate. The regulatory standard for backtesting is to measure losses against DVaR assuming a one-day holding period with a 99% level of confidence. The regulatory green zone of four or less exceptions over a 12-month period (daily trading revenue loss exceeding the corresponding backtesting DVaR) is consistent with a good working DVaR model.

For both 2007 and 2006, green status was maintained for Absa Capital's regulatory trading book.

##### Stress testing

Stress testing provides an indication of the potential size of losses that could arise in extreme conditions. Absa Capital performs two main types of stress testing. Firstly, risk factor stress testing, where historical stress moves are applied to each of the main risk categories which include interest rate, equity, foreign exchange and credit spread risk. Secondly, the trading book is subjected to ad hoc stress scenarios.

**58. Market risk (continued)**

**58.2 Traded market risk (continued)**

**58.2.2 Analysis of traded market risk exposures**

The table below reflects the DVaR statistics for Absa Capital's trading book activities for the 12 months ended at the balance sheet date.

Absa Capital's traded market risk exposure, as measured by average total DVaR, increased by 77% to R12,69 million (2006: R7,19 million). The increase in average total DVaR was consistent with Absa Capital's business plan to grow its risk solutioning to clients and increased market volatility during the second half of 2007.

**Absa Capital trading book DVaR**

	2007			2006		
	Average Rm	High <sup>1</sup> Rm	Low <sup>1</sup> Rm	Average Rm	High <sup>1</sup> Rm	Low <sup>1</sup> Rm
Interest rate risk <sup>3</sup>	7,92	21,38	1,52	3,34	8,82	0,68
Foreign exchange risk	1,75	26,46	0,08	2,35	10,28	0,37
Equities risk	9,41	31,60	3,23	5,16	18,18	0,04
Commodities risk	0,76	10,16	0,03	0,30	2,29	0,00
Diversification effect	(7,15)	n/a	n/a	(3,96)	n/a	n/a
<b>Total DVaR<sup>2</sup></b>	<b>12,69</b>	<b>31,81</b>	<b>3,81</b>	<b>7,19</b>	<b>20,83</b>	<b>2,11</b>

**Notes**

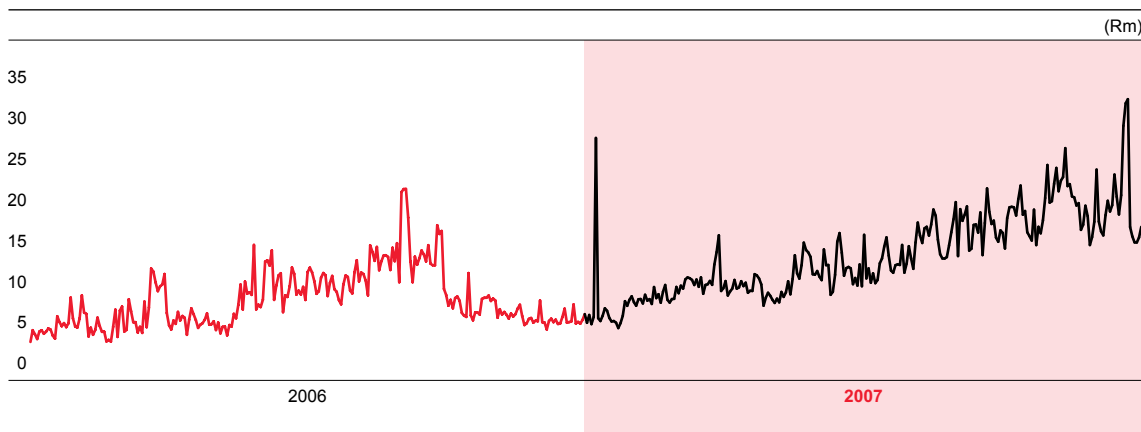
<sup>1</sup>The high and low DVaR figures reported for each category did not necessarily occur on the same day as the high and low total DVaR. Consequently a diversification effect number for the high and low DVaR figures would not be meaningful and is therefore omitted from the above table.

<sup>2</sup>The year-end total DVaR for 2007 was R16,19 million (2006: R4,80 million). The year-end total value at risk over a 10-day holding period at a 99% confidence level for 2007 was R55,04 million (2006: R19,12 million).

<sup>3</sup>Credit spread risk remains small and is reported together with interest rate risk.

The graph below shows the history of Absa Capital's total trading book DVaR on a daily basis for 2006 and 2007. Throughout 2007, Absa Capital's total trading book DVaR remained within the approved risk appetite and DVaR limit. The trend for 2007 reflects controlled take-on of risk in line with Absa Capital's business plan. Absa Capital does on some occasions, in the conduct of client transactions, take on significantly larger than usual market risk. However, this is always undertaken within Absa's market risk governance framework.

**Absa Capital trading book total DVaR (daily values)**



# Notes to the consolidated financial statements

Year ended 31 December

## 58. Market risk (continued)

### 58.3 Banking book interest rate risk

Interest rate risk is the risk that Absa's financial condition may be adversely affected as a result of changes in interest rate levels, yield curves and spreads. Banking book interest rate risk arises from the provision of retail and wholesale (non-traded) banking products and services, as well as certain structural exposures on the Group balance sheet. These risks impact both the earnings and the economic value of the Group.

Banking book interest rate risk management strategies considered include:

- strategies regarding changes in the volume, composition, pricing and interest rate risk characteristics of assets and liabilities; and
- the execution of applicable derivative contracts to maintain the Group's interest rate risk exposure within limits. Where this is the case, hedge accounting is applied where possible so that the benefits of risk management are reflected in the financial statements. Hedge accounting techniques used include cash flow hedge accounting and fair value hedge accounting and may involve applying hedge accounting with respect to future anticipated transactions. Applicable accounting rules as stipulated in the Group's accounting policies are followed.

As part of Absa Group Treasury's balance sheet management role, interest rate exposures arising from the repricing mismatches of assets and liabilities in the domestic banking book are transferred from the businesses to Absa Group Treasury through matched funds transfer pricing. These positions are aggregated and the net exposure is hedged with the market via Absa Capital. Mainly owing to timing considerations, market risk can arise when some of the net position stays with Absa Group Treasury.

Structural interest rate risk arises from the variability of income from non-interest bearing products, managed variable rate products and the Group's equity, and is managed by Absa Group Treasury.

Banking book interest rate risk is also taken in each of the Absa Africa subsidiaries to support and facilitate customer activity, and managed by local treasury functions, subject to modest risk limits and other controls.

#### 58.3.1 Risk measurement

Annual earnings at risk (AEaR) measures the sensitivity of net interest income over the next 12 months to a specified shock in interest rates. Where appropriate, AEaR is assessed across a range of interest rate scenarios, including parallel shocks, yield curve twists, inversions, and other relevant scenarios.

The structural balance is hedged using a portfolio of swaps where the maturity is based on the assumed stability of the underlying balance. The AEaR calculation takes into account both the underlying structural balance and the portfolio of swaps.

Outside Absa Capital, Absa uses a simplified approach to calculate DVaR. It is used as a complementary tool to AEaR. Both AEaR and DVaR are supplemented by stress testing, tailored to each banking book.

#### 58.3.2 Repricing profile

The repricing profile of the Group's domestic and foreign subsidiary bank books is depicted in the table to follow. Items are allocated to time periods by reference to the earlier of the next contractual interest rate repricing date and the maturity date. Instruments which have no explicit contractual repricing or maturity dates are placed in time buckets according to management's judgement and analysis, based on the most likely repricing behaviour. For example, retail deposits are repayable on demand or at short notice, but form a stable base for the Group's operations and liquidity needs because of the broad customer base (numerically and by depositor type).

The repricing profile shows that the consolidated banking book remains asset-sensitive, or positively gapped, as interest-earning assets reprice sooner than interest-paying liabilities, before and after derivative hedging activities. Thus, future net interest income remains vulnerable to a decrease in market interest rates. Hedging activities undertaken during 2007 resulted in a less asset-sensitive profile, compared to 2006, contributing to greater future interest margin stability.

**58. Market risk** (continued)

**58.3 Banking book interest rate risk** (continued)

**58.3.2 Repricing profile** (continued)

**Expected repricing profile at the balance sheet date**

	2007			
	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
<b>Domestic bank book</b>				
Interest rate sensitivity gap	104 629	(25 904)	(38 779)	(27 734)
Derivatives	(77 307)	19 375	27 591	30 342
Net interest rate sensitivity gap	27 322	(6 529)	(11 188)	2 607
Cumulative interest rate gap	27 322	20 793	9 605	12 213
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	4,7	3,5	1,6	2,1
<b>Foreign subsidiary bank books</b>				
Cumulative interest rate gap	(233)	(113)	(130)	(37)
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	(3,0)	(1,5)	(1,7)	(0,5)
<b>Total</b>				
Cumulative interest rate gap	27 089	20 680	9 475	12 176
Cumulative gap as a percentage of Group total assets (%)	4,2	3,2	1,5	1,9

	2006			
	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
<b>Domestic bank book</b>				
Interest rate sensitivity gap	98 262	(20 696)	(34 692)	(23 724)
Derivatives	(53 236)	8 925	25 855	18 457
Net interest rate sensitivity gap	45 026	(11 771)	(8 837)	(5 267)
Cumulative interest rate gap	45 026	33 255	24 418	19 151
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	9,9	7,3	5,4	4,2
<b>Foreign subsidiary bank books</b>				
Cumulative interest rate gap	(406)	(325)	(159)	(48)
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	(6,5)	(5,2)	(2,6)	(0,8)
<b>Total</b>				
Cumulative interest rate gap	44 620	32 930	24 259	19 103
Cumulative gap as percentage of Group total assets (%)	9,0	6,7	4,9	3,9

**Notes**

- Derivatives for interest rate risk management purposes (net nominal value).
- The following banking books are included: Absa Bank domestic banking book; National Bank of Commerce, Tanzania and Barclays Bank Mozambique S.A.
- The 2006 numbers have been restated. Barclays Bank Mozambique S.A.'s defined benefit pension fund assets and liabilities for 2006 were excluded, to be comparable with the 2007 treatment. Additionally, reporting has been done on the basis of expected repricing (previously contractual repricing), which more closely reflects the Group's judgement and past repricing experience. Expected repricing assumptions are approved annually by the MRC.

# Notes to the consolidated financial statements

Year ended 31 December

## 58. Market risk (continued)

### 58.3 Banking book interest rate risk (continued)

#### 58.3.3 Analysis of annual earnings at risk

The table below shows the annual net interest income sensitivity in the Group's domestic and foreign subsidiary bank books. Assuming no management action in response to interest rate movements, a hypothetical immediate and sustained parallel fall of 100 basis points in all interest rates would generate a reduction in projected net interest income of R376 million. The decrease in total net interest income (NII) sensitivity was mainly due to a less asset-sensitive profile in 2007 compared to 2006.

**Net interest income sensitivity (AEaR) for a 100 basis point fall in interest rates as at the balance sheet date**

	Domestic bank book	Foreign subsidiary bank books	Total
<b>2007</b>			
Change (Rm)	(377)	1	(376)
Percentage of projected 12 months' net interest income (%)	(1,81)	0,21	(1,75)
Percentage of Group equity (%)			(1,00)
<b>2006</b>			
Change (Rm)	(416)	3	(413)
Percentage of projected 12 months' net interest income (%)	(2,33)	0,64	(2,25)
Percentage of Group equity (%)			(1,30)

#### Notes

- The following banking books are included: Absa Bank domestic banking book (including exposures held in the Absa Capital bank book); National Bank of Commerce, Tanzania, and Barclays Bank Mozambique S.A.
- The 2006 numbers have been restated. The change reflects inclusion of the African banking subsidiaries.
- Banking book interest rate risk as managed by each of Absa Capital, Absa Group Treasury and the Absa African subsidiary treasuries are also measured in terms of DVaR and subject to DVaR limits.

#### 58.3.4 Equity sensitivity

Interest rate changes affect equity (capital) in the following three ways:

- Higher or lower profit after tax resulting from higher or lower net interest income.
- Higher or lower available-for-sale reserves reflecting higher or lower fair values of available-for-sale financial instruments.
- Higher or lower values of derivatives held in the cash flow hedging reserve.

The pre-tax effect from NII sensitivity is reported in note 58.3.3. The effect of taxation can be estimated using the Group's effective tax rate of 29% (2006: 29%).

The equity sensitivities that follow are illustrative, based on simplified scenarios and consider the impact on the cash flow hedges and available-for-sale portfolios which are marked-to-market through reserves. The impact is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges, and derivatives designated as cash flow hedges, for an assumed change in interest rates.

**58. Market risk** (continued)

**58.3 Banking book interest rate risk** (continued)

**58.3.4 Equity sensitivity** (continued)

**Sensitivity of reserves to interest rate movements**

	2007			2006		
	Impact as at 31 December Rm	Maximum impact <sup>1</sup> Rm	Minimum impact <sup>1</sup> Rm	Impact as at 31 December Rm	Maximum impact <sup>1</sup> Rm	Minimum impact <sup>1</sup> Rm
+ 100 basis point parallel move in all yield curves						
Available-for-sale reserve	(57)	(70)	(45)	(49)	(49)	(22)
Cash flow hedge reserve	(833)	(970)	(649)	(679)	(705)	(425)
<b>Total</b>	<b>(890)</b>	<b>(1 025)</b>	<b>(695)</b>	<b>(728)</b>	<b>(747)</b>	<b>(447)</b>
<b>As a percentage of equity at 31 December (%)</b>	<b>(2,37)</b>	<b>(2,73)</b>	<b>(1,85)</b>	<b>(2,30)</b>	<b>(2,36)</b>	<b>(1,41)</b>
- 100 basis point parallel move in all yield curves						
Available-for-sale reserve	57	70	45	49	49	22
Cash flow hedge reserve	833	970	649	679	705	425
<b>Total</b>	<b>890</b>	<b>1 025</b>	<b>695</b>	<b>728</b>	<b>747</b>	<b>447</b>
<b>As a percentage of equity at 31 December (%)</b>	<b>2,37</b>	<b>2,73</b>	<b>1,85</b>	<b>2,30</b>	<b>2,36</b>	<b>1,41</b>

<sup>1</sup>The maximum and minimum impacts reported for each reserve category did not necessarily occur for the same month as the maximum and minimum impact reported for the total.

# Notes to the consolidated financial statements

Year ended 31 December

## 58. Market risk (continued)

### 58.4 Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

#### 58.4.1 Currency concentration

The tables below summarise the Group's assets and liabilities at carrying amounts, categorised by currency, as at the balance sheet date.

	GROUP					
	2007					
	ZAR Rm	USD Rm	GBP Rm	Euro Rm	Other Rm	Total Rm
<b>Assets</b>						
Cash, cash balances and balances with central banks	18 706	68	34	2	1 819	20 629
Statutory liquid asset portfolio	22 957	—	—	—	—	22 957
Loans and advances to banks	44 611	5 950	1 987	1 196	281	54 025
Trading assets	18 094	4 773	212	2 280	465	25 824
Hedging assets	545	—	—	180	—	725
Other assets	24 147	64	8	—	84	24 303
Current tax assets	185	—	—	—	—	185
Loans and advances to customers	444 186	7 657	62	1 422	2 631	455 958
Reinsurance assets	485	—	—	—	—	485
Deferred tax assets	82	—	—	—	29	111
Investments	27 860	201	256	—	1 010	29 327
Investments in associated undertakings and joint venture companies	1 465	4	—	—	—	1 469
Intangible assets	294	—	—	—	7	301
Property and equipment	4 298	—	4	—	308	4 610
<b>Total assets</b>	<b>607 915</b>	<b>18 717</b>	<b>2 563</b>	<b>5 080</b>	<b>6 634</b>	<b>640 909</b>
<b>Liabilities</b>						
Deposits from banks	43 312	13 677	635	296	113	58 033
Trading liabilities	26 860	5 034	146	2 813	66	34 919
Hedging liabilities	2 226	—	—	—	—	2 226
Other liabilities and sundry provisions	11 453	33	—	9	806	12 301
Current tax liabilities	146	—	24	—	13	183
Deposits due to customers	298 310	7 578	177	20	4 427	310 512
Debt securities in issue	150 348	—	—	6 076	—	156 424
Deferred tax liabilities	2 557	—	—	—	19	2 576
Liabilities under investment contracts	7 908	—	—	—	—	7 908
Policyholder liabilities under insurance contracts	3 318	—	—	—	—	3 318
Borrowed funds	9 949	—	—	—	—	9 949
<b>Total liabilities</b>	<b>556 387</b>	<b>26 322</b>	<b>982</b>	<b>9 214</b>	<b>5 444</b>	<b>598 349</b>



**58. Market risk** (continued)

**58.4 Foreign exchange risk** (continued)

**58.4.1 Currency concentration** (continued)

	GROUP					
	2007					
	ZAR Rm	USD Rm	GBP Rm	Euro Rm	Other Rm	Total Rm
<b>Equity</b>						
<b>Capital and reserves</b>						
Attributable to ordinary equity holders of the Group:						
Share capital	1 350	—	—	—	—	1 350
Share premium	2 292	—	—	—	—	2 292
Other reserves	239	73	194	—	(100)	406
Retained earnings	32 732	(221)	597	—	419	33 527
	36 613	(148)	791	—	319	37 575
Minority interest – ordinary shares	164	—	—	—	177	341
Minority interest – preference shares	4 644	—	—	—	—	4 644
<b>Total equity</b>	<b>41 421</b>	<b>(148)</b>	<b>791</b>	<b>—</b>	<b>496</b>	<b>42 560</b>
<b>Total equity and liabilities</b>	<b>597 808</b>	<b>26 174</b>	<b>1 773</b>	<b>9 214</b>	<b>5 940</b>	<b>640 909</b>
Gross currency position	n/a	(7 457)	790	(4 134)	694	(10 107)
Foreign currency derivative						11 115
<b>Net currency position</b>						<b>1 008</b>
<b>Credit commitments</b>						
Financial guarantee contracts	824	—	—	—	—	824
Capital commitments	83	—	—	—	52	135
Contingent liabilities	51 255	57	78	1	982	52 373

**Note**

All non-monetary items are classified based on the location of the asset, or where it will most reasonably be realised.

	2006					
	ZAR Rm	USD Rm	GBP Rm	Euro Rm	Other Rm	Total Rm
	<b>Assets</b>					
Cash, cash balances and balances with central banks	14 425	20	—	1	2 015	16 461
Statutory liquid asset portfolio	20 829	—	—	—	—	20 829
Loans and advances to banks	14 316	5 820	896	269	499	21 800
Trading assets	13 125	4 233	163	487	6	18 014
Hedging assets	645	—	—	—	—	645
Other assets	11 813	212	111	5	34	12 175
Current tax assets	24	—	—	—	—	24
Loans and advances to customers	365 655	3 392	1 440	1 047	2 291	373 825
Reinsurance contracts	390	—	—	—	—	390
Deferred tax assets	103	—	7	—	19	129
Investments	25 106	268	187	78	508	26 147
Investments in associated undertakings and joint venture companies	693	—	—	—	—	693
Intangible assets	217	—	—	—	13	230
Property and equipment	3 541	—	5	—	204	3 750
<b>Total assets</b>	<b>470 882</b>	<b>13 945</b>	<b>2 809</b>	<b>1 887</b>	<b>5 589</b>	<b>495 112</b>

# Notes to the consolidated financial statements

Year ended 31 December

## 58. Market risk (continued)

### 58.4 Foreign exchange risk (continued)

#### 58.4.1 Currency concentration (continued)

	GROUP 2006					Total Rm
	ZAR Rm	USD Rm	GBP Rm	Euro Rm	Other Rm	
<b>Liabilities</b>						
Deposits from banks	16 362	7 915	121	419	—	24 817
Trading liabilities	17 778	5 769	141	355	82	24 125
Hedging liabilities	1 261	—	—	—	—	1 261
Other liabilities and sundry provisions	9 551	—	29	—	640	10 220
Current tax liabilities	1 176	—	5	—	—	1 181
Deposits due to customers	269 848	4 434	1 174	500	3 892	279 848
Debt securities in issue	98 940	—	—	—	—	98 940
Deferred tax liabilities	2 510	—	18	—	9	2 537
Liabilities under investment contracts	5 655	—	—	—	—	5 655
Policyholder liabilities under insurance contracts	3 187	—	—	—	—	3 187
Borrowed funds	8 420	—	—	—	—	8 420
<b>Total liabilities</b>	<b>434 688</b>	<b>18 118</b>	<b>1 488</b>	<b>1 274</b>	<b>4 623</b>	<b>460 191</b>
<b>Equity</b>						
<b>Capital and reserves</b>						
Attributable to ordinary equity holders of the Group:						
Share capital	1 338	—	—	—	—	1 338
Share premium	2 067	—	—	—	—	2 067
Other reserves	317	195	(9)	—	(91)	412
Retained earnings	27 362	(50)	267	—	297	27 876
	31 084	145	258	—	206	31 693
Minority interest – ordinary shares	148	—	—	—	88	236
Minority interest – preference shares	2 992	—	—	—	—	2 992
<b>Total equity</b>	<b>34 224</b>	<b>145</b>	<b>258</b>	<b>—</b>	<b>294</b>	<b>34 921</b>
<b>Total equity and liabilities</b>	<b>468 912</b>	<b>18 263</b>	<b>1 746</b>	<b>1 274</b>	<b>4 917</b>	<b>495 112</b>
Gross currency position	n/a	(4 318)	1 063	613	672	(1 970)
Foreign currency derivative						2 691
<b>Net currency position</b>						<b>721</b>
<b>Credit commitments</b>						
Financial guarantee contracts	560	—	—	—	—	560
Capital commitments	116	—	—	—	55	171
Contingent liabilities	47 609	—	177	—	690	48 476

#### Note

All non-monetary items are classified based on the location of the asset, or where it will most reasonably be realised.

**58. Market risk** *(continued)*

**58.4 Foreign exchange risk** *(continued)*

**58.4.2 Non-structural and structural foreign exchange risk**

The Group considers two sources of foreign exchange risk: non-structural foreign exchange transaction and structural foreign exchange translation exposures.

**Non-structural foreign exchange risk**

Non-structural foreign exchange risk arises when a business undertakes a transaction in a currency other than its functional currency. Absa's policy is for non-structural foreign exchange risk to be concentrated and managed in the Absa Capital trading book. In accordance with this policy, there were no material net currency exposures outside Absa Capital that would give rise to material foreign exchange gains and losses being recognised in the income statement.

**Structural foreign exchange risk**

Structural foreign exchange risk arises primarily in relation to the Group's foreign investments in subsidiaries, branches or associated undertakings and joint venture companies, whose functional currencies, are currencies other than the Group's presentation currency. For consolidation purposes these are translated into South African rand (ZAR) on a periodic basis. ZAR equivalent values are thus affected by exchange rate movements, which may impact either the income statement or equity.

The impact of a change in the exchange rate between ZAR and any of the relevant currencies would be:

- a higher or lower profit after tax, arising from changes in the exchange rates used to translate items in the consolidated income statement;
- a higher or lower currency translation reserve within equity, representing the retranslation of the net assets of non-ZAR subsidiaries, arising from changes in the exchange rates used to translate the net assets at the balance sheet date, net of the effects of any hedges of net instrument; and
- changes in the value of available-for-sale investments denominated in foreign currencies, impacting the available-for-sale reserve.

The main functional currencies in which the Group's business is transacted are ZAR and, on a lesser scale, US dollar (USD), euro, sterling (GBP), Tanzanian shilling, Mozambican metical and Angolan kwanza.

Structural foreign currency risk can be mitigated through hedging using forward foreign exchange contracts, or by financing with borrowings in the same currency as the functional currency involved. The Group does not currently mitigate structural foreign exchange risk, but structural foreign currency exposures are monitored regularly to consider the need for any mitigating actions towards minimising material fluctuations.

# Notes to the consolidated financial statements

Year ended 31 December

## 58. Market risk (continued)

### 58.5 Interest return on average balances

Average balances and weighted average effective interest rates were as follows:

	GROUP					
	2007			2006		
	Average balance Rm	Average rate %	Interest income/ expense Rm	Average balance Rm	Average rate %	Interest income/ expense Rm
<b>Assets</b>						
Cash, cash balances and balances with central banks and money market assets	17 297	3,54	613	14 863	3,03	451
Statutory liquid asset portfolio	21 681	7,64	1 656	18 715	7,73	1 446
Loans and advances to customers and banks	452 065	11,80	53 331	356 398	9,99	35 594
Trading and hedging assets <sup>1</sup>	18 293	(2,99)	(547)	19 029	(0,16)	(31)
Other assets	22 103	—	—	10 985	—	—
Reinsurance assets	422	—	—	399	—	—
Current tax assets	39	—	—	18	—	—
Deferred tax assets	141	—	—	74	—	—
Investments	23 665	0,30	70	27 431	0,40	109
Investments in associated undertakings and joint venture companies	903	—	—	1 100	—	—
Property, equipment and intangible assets	4 182	—	—	3 624	—	—
<b>Total assets</b>	<b>560 791</b>	<b>9,83</b>	<b>55 123</b>	<b>452 636</b>	<b>8,30</b>	<b>37 569</b>
<b>Liabilities</b>						
Deposits from customers and banks	321 938	7,30	23 495	285 092	5,92	16 870
Trading and hedging liabilities <sup>1</sup>	30 284	1,85	560	23 777	0,63	150
Debt securities in issue	132 540	8,40	11 134	80 683	5,82	4 694
Other liabilities and sundry provisions	17 139	1,49	255	14 983	1,37	206
Borrowed funds	9 690	8,14	789	7 866	9,69	762
Liabilities under investment and insurance contracts	10 084	—	—	9 842	—	—
Current tax liabilities	1 098	—	—	844	—	—
Deferred tax liabilities	2 399	—	—	2 519	—	—
<b>Total liabilities</b>	<b>525 172</b>	<b>—</b>	<b>36 233</b>	<b>425 606</b>	<b>—</b>	<b>22 682</b>
<b>Equity</b>						
<b>Capital and reserves</b>						
Attributable to ordinary equity holders of the Group:						
Share capital	1 311	—	—	1 299	—	—
Share premium	2 126	—	—	1 901	—	—
Other reserves	570	—	—	410	—	—
Retained earnings	27 174	—	—	21 145	—	—
	31 181	—	—	24 755	—	—
Minority interest – ordinary shares	270	—	—	221	—	—
Minority interest – preference shares	4 168	—	—	2 053	—	—
<b>Total equity</b>	<b>35 619</b>	<b>—</b>	<b>—</b>	<b>27 029</b>	<b>—</b>	<b>—</b>
<b>Total equity and liabilities</b>	<b>560 791</b>	<b>6,46</b>	<b>36 233</b>	<b>452 635</b>	<b>5,01</b>	<b>22 682</b>
<b>Net interest margin</b>		<b>3,37</b>			<b>3,29</b>	

Daily averages have been used to calculate the average balances.

<sup>1</sup>Interest on trading and hedging assets and liabilities relates to the fair value adjustments on hedging instruments.

## **59. Liquidity risk**

### **59.1 Introduction**

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

The risk that it will be unable to do so is inherent in all banking operations and can be impacted by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

### **59.2 Liquidity risk management**

Absa Group Treasury's Liquidity and Funding Management function is responsible for the management of liquidity risk on behalf of the Group. Prudent management of liquidity contributes positively to earnings, with sound liquidity risk management being pivotal to the viability of the Group and the maintenance of overall banking stability.

The Group believes that the management of liquidity should encompass an overall balance sheet approach, which consolidates all sources and uses of liquidity, while aiming to maintain a balance between liquidity, profitability and interest rate considerations.

Liquidity risk management within the Group focuses on a number of key areas including:

- the continuous management of net anticipated cash flows, between assets and liabilities, within approved cash flow limits set for periods of one day, one week and one month;
- the active participation in local money and capital markets required to support day-to-day funding needed to refinance maturities, meet customer withdrawals and growth in advances;
- the maintenance of a portfolio of highly liquid assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- the monitoring and managing of liquidity costs; and
- the ongoing assessment and evaluation of various funding sources designated to grow and diversify the Group's funding base in order to achieve an optimal funding profile and sound liquidity risk management.

### **59.3 Liquidity risk measurement**

Monitoring and reporting take the form of cash flow measurement and projections for the next day, next week and next month as these are key periods of liquidity management.

In addition to cash flow management, Absa Group Treasury also monitors its money market shortage participation, short- and long-term funding ratios, short-term maturity mismatches, as well as its off balance sheet liquidity risk. Sources of liquidity are regularly reviewed to maintain a wide diversification by provider, product and term.

On the basis of stress testing and scenario analysis, sources of funding along a continuum of risk scenarios are applied in the process of formulating and evaluating liquidity contingency plans. Business resumption plans encompass decision-making authorities, internal and external communication and, in the event of a system failure, the restoration of liquidity management and payment systems.

A summary of the Group's discounted and undiscounted liquidity profile is reflected in the tables that follow.

# Notes to the consolidated financial statements

Year ended 31 December

## 59. Liquidity risk (continued)

### 59.3 Liquidity risk measurement (continued)

#### 59.3.1 Liquidity risk measurement – discounted

	GROUP				Total Rm
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	
<b>Assets</b>					
Cash, cash balances and balances with central banks	5 137	12 903	2 589	—	20 629
Statutory liquid asset portfolio	—	13 748	5 280	3 929	22 957
Loans and advances to banks	4 295	28 369	17 079	4 282	54 025
Trading assets	25 824	—	—	—	25 824
Hedging assets	—	12	464	249	725
Other assets	988	22 543	676	96	24 303
Current tax assets	—	169	16	—	185
Loans and advances to customers	96 528	56 905	81 879	220 646	455 958
Reinsurance assets	—	373	—	112	485
Deferred tax assets	—	68	43	—	111
Investments	589	8 228	14 502	6 008	29 327
Investments in associated undertakings and joint venture companies	—	369	968	132	1 469
Intangible assets	—	40	253	8	301
Property and equipment	—	77	2 442	2 091	4 610
<b>Total assets</b>	<b>133 361</b>	<b>143 804</b>	<b>126 191</b>	<b>237 553</b>	<b>640 909</b>
<b>Liabilities</b>					
Deposits from banks	12 025	44 037	1 802	169	58 033
Trading liabilities	34 919	—	—	—	34 919
Hedging liabilities	1	1 410	824	(9)	2 226
Other liabilities and sundry provisions	707	9 002	1 772	820	12 301
Current tax liabilities	—	183	—	—	183
Deposits due to customers	178 138	116 747	4 388	11 239	310 512
Debt securities in issue	791	127 244	25 038	3 351	156 424
Deferred tax liabilities	—	81	1 529	966	2 576
Liabilities under investment contracts	—	1 781	5 823	304	7 908
Policyholder liabilities under insurance contracts	—	818	—	2 500	3 318
Borrowed funds	—	450	6 041	3 458	9 949
<b>Total liabilities</b>	<b>226 581</b>	<b>301 753</b>	<b>47 217</b>	<b>22 798</b>	<b>598 349</b>
<b>Equity</b>					
<b>Capital and reserves</b>					
Attributable to ordinary equity holders of the Group:					
Share capital	—	—	—	1 350	1 350
Share premium	—	—	—	2 292	2 292
Other reserves	—	691	(924)	639	406
Retained earnings	—	1 810	(75)	31 792	33 527
Minority interest – ordinary shares	—	2 501	(999)	36 073	37 575
Minority interest – preference shares	—	—	—	341	341
<b>Total equity</b>	<b>—</b>	<b>2 501</b>	<b>(999)</b>	<b>41 058</b>	<b>42 560</b>
<b>Total equity and liabilities</b>	<b>226 581</b>	<b>304 254</b>	<b>46 218</b>	<b>63 856</b>	<b>640 909</b>
<b>Net liquidity position</b>	<b>(93 220)</b>	<b>(160 450)</b>	<b>79 973</b>	<b>173 697</b>	<b>—</b>

**59. Liquidity risk** (continued)

**59.3 Liquidity risk measurement** (continued)

**59.3.1 Liquidity risk measurement – discounted** (continued)

	GROUP				Total Rm
	2006	2006	2006	2006	
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	
<b>Assets</b>					
Cash, cash balances and balances with central banks	4 521	11 940	—	—	16 461
Statutory liquid asset portfolio	—	9 122	7 727	3 980	20 829
Loans and advances to banks	5 349	6 471	7 116	2 864	21 800
Trading assets	18 014	—	—	—	18 014
Hedging assets	—	249	288	108	645
Other assets	660	11 134	269	112	12 175
Current tax assets	—	9	—	15	24
Loans and advances to customers	66 650	48 570	83 165	175 440	373 825
Reinsurance assets	39	351	—	—	390
Deferred tax assets	—	66	51	12	129
Investments	706	9 996	12 864	2 581	26 147
Investments in associated undertakings and joint venture companies	—	354	250	89	693
Intangible assets	—	7	185	38	230
Property and equipment	—	206	1 782	1 762	3 750
<b>Total assets</b>	<b>95 939</b>	<b>98 475</b>	<b>113 697</b>	<b>187 001</b>	<b>495 112</b>
<b>Liabilities</b>					
Deposits from banks	706	24 022	89	—	24 817
Trading liabilities	24 125	—	—	—	24 125
Hedging liabilities	—	544	495	222	1 261
Other liabilities and sundry provisions	769	7 628	1 254	569	10 220
Current tax liabilities	—	1 181	—	—	1 181
Deposits due to customers	143 240	124 264	6 316	6 028	279 848
Debt securities in issue	9 064	78 600	11 138	138	98 940
Deferred tax liabilities	—	147	888	1 502	2 537
Liabilities under investment contracts	—	356	5 198	101	5 655
Policyholder liabilities under insurance contracts	—	1 105	—	2 082	3 187
Borrowed funds	—	405	4 600	3 415	8 420
<b>Total liabilities</b>	<b>177 904</b>	<b>238 252</b>	<b>29 978</b>	<b>14 057</b>	<b>460 191</b>
<b>Equity</b>					
<b>Capital and reserves</b>					
Attributable to ordinary equity holders of the Group:					
Share capital	—	—	—	1 338	1 338
Share premium	—	—	—	2 067	2 067
Other reserves	17	32	77	286	412
Retained earnings	—	2 291	(61)	25 646	27 876
	17	2 323	16	29 337	31 693
Minority interest – ordinary shares	—	—	—	236	236
Minority interest – preference shares	—	—	—	2 992	2 992
<b>Total equity</b>	<b>17</b>	<b>2 823</b>	<b>16</b>	<b>32 565</b>	<b>34 921</b>
<b>Total equity and liabilities</b>	<b>177 921</b>	<b>240 575</b>	<b>29 994</b>	<b>46 622</b>	<b>495 112</b>
<b>Net liquidity position</b>	<b>(81 982)</b>	<b>(142 100)</b>	<b>83 703</b>	<b>140 379</b>	<b>—</b>

# Notes to the consolidated financial statements

Year ended 31 December

## 59. Liquidity risk (continued)

### 59.4 Contractual maturity of financial liabilities – undiscounted basis

The table below reflects the cash flows payable by the Group under financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	GROUP					Total Rm
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	
<b>Liabilities</b>						
<b>On balance sheet</b>						
Deposits from banks	12 032	44 202	1 816	169	(186)	58 033
Trading liabilities	34 919	—	—	—	—	34 919
Hedging liabilities	—	1 544	902	(10)	(210)	2 226
Other liabilities and sundry provisions <sup>1</sup>	707	9 002	1 482	240	(550)	10 881
Deposits due to customers	178 195	121 651	9 579	24 699	(23 612)	310 512
Debt securities in issue	836	136 816	33 716	5 584	(20 528)	156 424
Liabilities under investment contracts	—	1 781	5 823	304	—	7 908
Borrowed funds	—	1 509	8 324	4 986	(4 870)	9 949
<b>Total liabilities</b>	<b>226 689</b>	<b>316 505</b>	<b>61 642</b>	<b>35 972</b>	<b>(49 956)</b>	<b>590 852</b>
<b>Off balance sheet</b>						
Loan commitments	40 040	—	—	—	—	40 040

<sup>1</sup>Balance only includes financial liabilities.



**59. Liquidity risk** (continued)

**59.4 Contractual maturity of financial liabilities – undiscounted basis** (continued)

	GROUP 2006					Total
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Rm
<b>Liabilities</b>						
<b>On balance sheet</b>						
Deposits from banks	710	24 429	111	—	(433)	24 817
Trading liabilities	24 125	—	—	—	—	24 125
Hedging liabilities	—	811	736	180	(466)	1 261
Other liabilities and sundry provisions <sup>1</sup>	769	7 399	1 056	497	(705)	9 016
Deposits due to customers	143 101	137 806	161	6 685	(7 905)	279 848
Debt securities in issue	9 291	73 965	13 763	20 541	(18 620)	98 940
Liabilities under investment contracts	—	356	5 198	101	—	5 655
Borrowed funds	—	1 312	6 875	4 250	(4 017)	8 420
<b>Total liabilities</b>	<b>177 996</b>	<b>246 078</b>	<b>27 900</b>	<b>32 254</b>	<b>(32 146)</b>	<b>452 082</b>
<b>Off balance sheet</b>						
Loan commitments	37 265	—	—	—	—	37 265

<sup>1</sup>Balance only includes financial liabilities.

# Notes to the consolidated financial statements

Year ended 31 December

## 60. Underwriting risk

### 60.1 Definition and categorisation of underwriting risk

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

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

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

Underwriting risk consists of life insurance underwriting risk and short-term insurance underwriting risk.

### 60.2 Credit risk relating to underwriting activities

Credit risk arises from the inability or unwillingness of a counterparty to a financial instrument to fulfil its contractual obligations (also refer to note 57). The Group monitors exposure to individual counterparties on a monthly basis via the GIC and the GACC to ensure that no single concentration exceeds predetermined limits. Credit risk might arise in different ways:

- Reinsurers may fail to honour contractual obligations. Reinsurers settle insurance contract liabilities towards the Group on a monthly basis and therefore the Group is not exposed to significant accrual of credit risk from a reinsurance perspective. Concentration at reinsurers is not a concern; risk is spread across companies with strong credit ratings. The Group has a treaty in place on its mortgage protection portfolio with one reinsurance company whereby risks up to a certain retention limit are retained and the excess is reinsured. A retention level of between the 90<sup>th</sup> and 95<sup>th</sup> percentiles, when new business is ranked by size, is considered adequate. Other than for the mortgage treaty reinsurer the Group also uses three other reinsurers on a facultative basis. Concentration of risk at one reinsurer (and subsequent failure of that reinsurer) is not believed to present a major risk to the Group. All reinsurers are rated "A" or higher by the Standard & Poor's Insurance Rating Service.
- When the Group issues investment policies that guarantee certain minimum payouts (usually in the institutional market) it needs to hedge its guarantees, which attract counterparty risk. Such programmes and activities require board approval and usually also approval from the FSB, which specifies minimum spreads across different counterparties and minimum credit ratings for counterparties. Absa Financial Services also obtains and acts upon advice from Absa Capital when implementing these programmes. The Group's bancassurance operations do not make use of derivative financial instruments to hedge credit risks.
- Credit risk on trade and other receivables relating to underwriting activities is minimal. These balances mainly consist of premium debtors and unsettled investment transactions. Premium debtors are recoverable from policyholders. Concentration of credit risk on premium debts are limited due to the size of the Group's trading base. In addition, credit life cover is only issued to approved customers in terms of the Group's credit risk management policies and procedures. The counterparties to unsettled investment transactions are the same as for investments.
- Credit risk on other balance sheet investments relating to underwriting activities is minimal. The Group's asset management mandates specify maximum concentration and contain liquidity and credit quality constraints (which must comply with the investment strategy as approved by the board) and these are monitored on a monthly basis by the GIC.

### 60.3 Liquidity risk relating to underwriting activities

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments.

Cash generated from operations was positive throughout the year, which implies minimal liquidity risk. The nature of the underwriting business also produces a fairly stable cash flow pattern from month to month. However, liquidity risk might arise from events such as the equity hedging programme, transfers between the individual policyholder and corporate funds and from the Group's tax and dividend commitments.

Liquidity risk is mainly addressed by ensuring that appropriate assets back the Group liabilities and that it has significant and sufficient liquid resources. Cash flow projections with a six-month time horizon are supplied to the GIC on a quarterly basis and the Group's asset managers are advised of any significant future cash flows in advance. The Group's cash investments have a term to maturity of less than one year. The Group's fixed interest investments have a term to maturity that is in line with the duration of the All Bond Index. The duration of these assets is reported by asset managers on a monthly basis to the GIC.

## **60. Underwriting risk** *(continued)*

### **60.4 Cell captive risk**

The Group is registered to conduct cell captive business. Preference shares are issued to each cell owner according to the preference shareholder's agreement between the Group and the respective cell owner. Each cell captive owner is responsible for the solvency of the cell, and the Group therefore does not carry any risk. However, should the cell owner not be able to meet the obligations within the cell, the Group would be required to meet the obligations for third party cell arrangements, and it therefore carries a credit risk against each cell owner. This risk is limited through the selection process of reputable cell owners. Monthly financial accounts are prepared and annual actuarial valuations performed for each cell captive to monitor the financial soundness of the cell.

### **60.5 Short-term insurance underwriting risk**

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

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits is greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level estimated using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio.

The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. It is the Group's strategy to expand into a wide variety of insurance fields in order to obtain a diversified portfolio. Originally the Group was primarily involved in residential property insurance, but progress has been made into the following areas of business: personal lines, commercial insurance, warranties, accident and health, and miscellaneous. In each of these areas experienced underwriting staff are employed, and where there is a lack of experience internally, a professional underwriting manager (where such an underwriter exists) is appointed to help manage the risk on the Group's behalf. The strategy also requires the Group to price as scientifically as possible. This means that underwriting and pricing are not based on the past claims experience only, but also on predictive modelling of risk and market conditions. Scientific pricing is implemented as far as possible for different products, depending on their unique marketing and other circumstances. However, in serious catastrophe event loss situations, which do occur from time to time, a large portfolio of similar risks exposed to the same contingencies is likely to result in substantial fluctuations in results depending on the structure and retentions under the catastrophe reinsurance programme in place.

Factors that aggravate insurance risk include lack of risk diversification in terms of type, amount of risk and geographical location covered. All risks underwritten by the Group are located in South Africa and are mainly concentrated in a number of large cities. Within each of these cities, there are many risks situated in close proximity to each other. A single event could result in simultaneous losses to many policies in a specific area. Reinsurance is purchased to protect the Group from large accumulated losses.

# Notes to the consolidated financial statements

Year ended 31 December

## 60. Underwriting risk *(continued)*

### 60.5 Short-term insurance underwriting risk *(continued)*

#### 60.5.1 Personal property

##### Frequency and severity of claims

For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events (ie, flooding, storms, hail) and their consequences (ie, subsidence claims).

The Group has the right to reprice the risk on renewal. It also has the ability to impose deductibles and reject fraudulent or invalid claims. These contracts are underwritten by reference to the replacement value of the properties and contents insured. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm or flood damage. The Group does not wish to be exposed to any loss from a single risk that would increase the monthly loss ratio by more than a certain percentage, and retentions are set accordingly with reinsurance in place to cover the balance of the risk. Current retention levels and maximum loss ratios have been arrived at as a result of historical experience and the reinsurer's willingness to provide capacity at a given level. A very effective catastrophe reinsurance programme is also in place to limit total liability regarding all losses emanating from a single loss event (ie, major storm and flooding).

Catastrophe reinsurance covers are bought to cover the occurrence of an event for the accumulation of personal property and engineering risks, and covers are arrived at after internal and external modelling of the Group's exposure.

This is by far the largest portfolio of the Group's short-term insurance business. It remains the core business of the Group, which represents approximately 45% of the total gross premium income. Results are generally reasonably stable due to the good spread of risk throughout South Africa and the relative large distances between the main risk concentrations relative to risk exposure to the same event and the nature and extent of the reinsurance programme. Geographically, the main risk concentrations are in Pretoria, Johannesburg and the East Rand. Approximately 12% (2006: 14%) of the total sum insured is concentrated in Pretoria with 11% (2006: 11%) each in Johannesburg and the East Rand. The maximum expected loss for a one-in-200 year event affecting these three areas is a loss of R1,2 billion. A catastrophe would also impact on commercial property. A further R300 million commercial property damage is expected from a one-in-200 year event. Catastrophe cover is purchased to cover losses up to R1,6 billion.

##### Sources of uncertainty in the estimation of future claim payments

Property claims are analysed separately for subsidence and non-subsidence claims. The development of large losses/catastrophes is analysed separately. Non-subsidence claims can be estimated with greater reliability, and the Group reflects all the factors that influence the amount and timing of cash flows from these contracts.

The shorter settlement period for these claims allows the Group to achieve a higher degree of certainty about the estimated cost of claims. Although subsidence claim volumes are relatively small compared to the total book, the estimation process becomes more uncertain for these claims when longer time is needed to assess the emergence of the claim.

The claims experience over the past years has stabilised, and both the frequency and severity of subsidence claims have been stable. The weather in the summer rainfall areas though, has generated a higher number of claims than usual. At year-end 2007, the Group believes that its liabilities for subsidence claims are adequate. However, more permanent changes in the South African climate may produce a higher frequency and severity of claims than currently expected.

## **60. Underwriting risk** *(continued)*

### **60.5 Short-term insurance underwriting risk** *(continued)*

#### **60.5.2 Personal lines**

##### **Frequency and severity of claims**

There is particular emphasis to grow these lines of business. The main cause of losses are motor vehicle accidents (aggravated by poor driving standards), theft and hijackings, while the relatively high crime levels are resulting in substantial total losses caused by contingencies such as theft and burglary relating to contents and all risks insurance. Results are mostly affected by frequency.

Catastrophe reinsurance covers are bought to cover the occurrence of an event for the accumulation of motor and personal lines, and covers are arrived at after internal and external modelling of the Group's exposure.

##### **Sources of uncertainty in the estimation of future claim payments**

The Group annually rerates these products, if applicable, to ensure that the necessary profitability is maintained relative to the risk exposure. It is relatively easy to assess the losses since they mostly relate to repair or replacement of personal belongings.

#### **60.5.3 Commercial and industrial**

##### **Frequency and severity of claims**

The portfolio comprises primarily of motor and non-motor sections. A big part of the book is represented by the motor section.

Owing to this, the portfolio is affected by frequency and severity since this class of business is characterised by factors that have an indirect impact on frequency. The main cause of losses are motor vehicle accidents (aggravated by poor driving standards), theft and hijackings.

The results of the agriculture portfolio may be affected by weather patterns such as drought, excessive rains and other major weather conditions. The overall results may further be affected by commodity prices, the exchange rate and overall conditions affecting agriculture. The book on both assets and crop insurance is growing, which has a positive effect on the spread of risk.

##### **Sources of uncertainty in the estimation of future claim payments**

The biggest influence on future claim payments will be the current underwriting cycle that started to turn in late 2005. It is still deteriorating and will probably also follow the current slowdown in the economy. The possible increase in interest rates will also influence the potential new business, which will reduce claim payments.

The estimation of future claims under the agriculture portfolio will be determined by weather conditions affecting the current summer crop, as well as rising crime levels and rising costs on the asset side.

The industry growth will also be in line with the GDP that is a sign of a mature market. Intense price competition will be a strategy that will also have a direct influence on the premiums available for claim payments.

#### **60.5.4 Warranties**

##### **Frequency and severity of claims**

This product line is greatly influenced by the number of direct imports (especially at the lower end of the motor vehicle market), which have a higher cost of repairs as most of the spares need to be imported.

This trend is prevalent as there is a marked reduction in the number of claims paid for 2007 compared to 2006, however, the cost per claim has increased by an average of 20%.

##### **Sources of uncertainty in the estimation of future claim payments**

Currency fluctuations will impact the cost of repairs which may be further impacted by the availability of spare parts of the imported brands.

# Notes to the consolidated financial statements

Year ended 31 December

## 60. Underwriting risk *(continued)*

### 60.5 Short-term insurance underwriting risk *(continued)*

#### 60.5.5 Accident and health

##### Frequency and severity of claims

For accident and health-related contracts, an increase in accident behaviour (such as an increase in crime rate or worsening of driver behaviour) can give rise to an increase in frequency. An increase in terrorism may increase the frequency of claims on travel insurance. For the most part, all accident and health premiums are collected on a monthly basis and the Group has the right to increase premiums, provided notification is given to the customer. On the travel insurance policies the Group may amend the rates and benefits at renewal. In both cases the Group has the right to cancel the business.

The Group has reinsurance cover in place in respect of any one life and for a maximum accumulation in respect of an event. The current retention levels and maximum loss ratios have been arrived at as a result of the reinsurer's historical experience and their willingness to provide capacity at this level. If required, facultative reinsurance cover can be purchased to cover additional risk.

##### Sources of uncertainty in the estimation of future claim payments

The Group reviews these products on a monthly basis to ensure that the profitability is maintained and will annually re-rate the products based on the assessment of claims.

#### 60.5.6 Miscellaneous

##### Frequency and severity of claims

The results of the portfolio may be affected by the frequency and severity since the premium income is relatively small, and a large claim in one class could impact negatively on the entire miscellaneous line of business. However, the book is growing and this will assist to reduce the volatility which is currently considered to be at an acceptable level, given past claims experience.

##### Sources of uncertainty in the estimation of future claim payments

The Group reviews these products on a monthly basis to ensure that the profitability is maintained and will re-rate the products based on the assessment of claims.

#### 60.5.7 Assumptions, change in assumptions and sensitivities

##### Process used to decide on assumptions

The risks associated with these insurance contracts are subject to a number of variables. The exposure of the Group to claims is described in this section. This exposure is geographically concentrated in South Africa. Geographic concentration implies that the Group has many different contracts where risks are located in close proximity to each other. A single event could result in simultaneous losses to many policies.

The Group uses a case-by-case method to measure its claim liabilities. The Group reviews the individual estimates as and when information regarding the claim becomes available. For each class of business, the cost of the future claims includes estimates of the cost for the indemnity and the associated handling costs.

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

##### Change in assumptions and sensitivity analysis

A stochastic claims reserving model is being used to calculate the incurred but not yet reported (IBNR) claims liability for all products, except motor warranty and legal products, where no IBNR is provided because of the nature of the product. For each calendar year-end from 31 December 1996 to 31 December 2007, the actual amount of claims that occurred before year-end, but were only reported after year-end, expressed as a percentage of net premium income, was calculated. The claims history was extracted from the policy administration system. All reinsurance was deducted in calculating the net premium income. A statistical distribution was then applied to the percentage actual claims reported after year-end. This distribution is used to calculate a 95% (2006: 95%) confidence level for the IBNR at the balance sheet date. A 95% confidence level implies that the provision held should be sufficient in 19 out of 20 years to cover the actual claims that have not been reported at year-end. Based on this calculation, the Group requires an IBNR equal to 6,04% (2006: 6,25%) of net premium income.

**60. Underwriting risk** (continued)

**60.5 Short-term insurance underwriting risk** (continued)

**60.5.7 Assumptions, change in assumptions and sensitivities** (continued)

Over the past 10 years the Group has experienced on average higher amounts of claims reported after December month-end. This is mainly owing to the rainy conditions experienced in the summer months, and as many policyholders are away over December. The historical monthly average run-off of 3,76% (2006: 3,86%) is lower than the 6,04% monthly average (2006: 6,25%), but the statistical distribution described previously was applied to 12 data points, representing the 12 December month-ends from 31 December 1996 to 31 December 2007. Owing to the limited number of data points used, a pure average run-off percentage is considered unreliable and therefore a statistical distribution was applied.

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

**60.5.8 Sensitivity analysis**

The reasonableness of the estimation process is tested by management and reviewed on an annual basis.

The Group believes that the liability for claims carried at year-end is adequate. The sensitivity of the IBNR to a change in the confidence level used was tested, as per the table below:

Confidence level	Calculated IBNR %	
	2007	2006
92,50%	5,69	5,88
95,00%	6,04	6,25
97,50%	6,62	6,86

**Claims development table**

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims.

Claims – gross <sup>1</sup>	31 March		31 December		2007 Rm	Total Rm
	2004 Rm	2005 Rm	2005 Rm	2006 Rm		
Estimate of ultimate claims costs						
At the end of the reporting year/period	648	783	874	1 123	1 593	5 021
One year later	544	690	438	1 002	—	2 674
Two years later	550	549	446	—	—	1 545
Three years later	432	559	—	—	—	991
Four years later	455	—	—	—	—	455
Current estimate of cumulative claims	455	559	446	1 002	1 593	4 055
Cumulative payments to date	(443)	(552)	(443)	(998)	(1 157)	(3 593)
Liability recognised in the balance sheet	12	7	3	4	436	462
Liability in respect of prior years	—	—	—	—	—	5
Total liability included in the balance sheet						467
Claims – net <sup>1</sup>						
Estimate of ultimate claims costs						
At the end of the reporting year/period	596	696	778	1 067	1 434	4 571
One year later	500	614	390	952	—	2 456
Two years later	506	488	397	—	—	1 391
Three years later	398	497	—	—	—	895
Four years later	419	—	—	—	—	419
Current estimate of cumulative claims	419	497	397	952	1 434	3 699
Cumulative payments to date	(407)	(492)	(395)	(948)	(1 042)	(3 284)
Liability recognised in the balance sheet	12	5	2	4	392	415
Liability in respect of prior years	—	—	—	—	—	4
Total liability included in the balance sheet						419

<sup>1</sup>Only includes claims from Absa Insurance Company (Proprietary) Limited which comprises the majority of the Group's short-term underwriting insurance exposure.

# Notes to the consolidated financial statements

Year ended 31 December

## 60. Underwriting risk (continued)

### 60.6 Life insurance underwriting risk

Life insurance underwriting risk is the risk associated with insuring the life and/or health of an individual or groups of individuals, and can be seen as the risk that actual results of an insurer are impacted, and differ from expected results relating to assumptions with respect to mortality and morbidity.

For a portfolio of insurance contracts, probability is applied to pricing and provisioning, and the principal risk that the Group faces is that the actual exposure to mortality, disability and medical payments in respect of policyholder benefits will exceed prudent expectation of the exposure (ie, the carrying amount of the insurance liabilities). Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows (and it can be statistically proven) that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, the more diversified the portfolio, the less likely it is to be affected by a change in any subset of the portfolio. Due to the size of the Group's book of business, uncertainty surrounding future mortality trends (especially the Aids pandemic), lack of catastrophe reinsurance cover in the market, and the fact that many classes of business are not underwritten, certain additional margins are included in the reserves that the Group holds to meet its future liabilities. This lowers the insurance risk, which will fall into profit if the actual insurance experience is better than expected.

The statutory actuary reports annually on the actuarial soundness of the premium rates in use, taking into consideration the reasonable benefit expectations of policyholders. All new rate tables are approved and authorised by the statutory actuary prior to being issued. Annual investigations into the actual mortality and morbidity experience are conducted to support the pricing and risk estimation processes.

The capital adequacy requirement is calculated to determine whether the excess of assets over liabilities is sufficient to provide for the possibility of actual future experience, departing negatively from the assumptions made in calculating policy liabilities and against fluctuations in the value of assets. The level of departure or fluctuation allowed for is as required by the board notice, and is in accordance with PGN 104 of ASSA. The ordinary capital adequacy requirements (OCAR) were applied at the balance sheet date. The intermediate ordinary capital adequacy requirement (IOCAR) was assumed to be backed 100% by equities.

#### 60.6.1 Concentration of insurance risk

Little concentration of insurance risk exists. Assets backing liabilities are well diversified and hence concentration risk is low. Liability exposure is well spread geographically. Concentration in terms of size of individual policies is low and retention limits are in place with excess reinsurance to cover large individual exposures.

The table below reflects the concentration of benefits across three bands of benefits per life assured.

Benefit band per life assured	Gross of reinsurance total benefits assured		Net of reinsurance total benefits assured	
	Rm	%	Rm	%
<b>2007</b>				
0 – 250	44	66	41	70
250 – 500	12	19	15	25
500+	10	15	2	5
	<b>66</b>	<b>100</b>	<b>58</b>	<b>100</b>
2006				
0 – 250	43	74	41	78
250 – 500	10	17	12	22
500+	6	9	0	0
	59	100	53	100



## 60. Underwriting risk *(continued)*

### 60.6 Life insurance underwriting risk *(continued)*

#### 60.6.2 Expense risk

The Group's liabilities include allowances for future maintenance and claim expenses on existing policies. This provision is calculated by determining the current level of maintenance and claim expenses per policy, which is then inflated at the assumed expense inflation rate. The Group is exposed to the risk that the per policy expense assumptions or assumed future inflation is too low. This risk is managed in various ways. In setting the per policy expense assumptions, annual expense investigations are conducted based on the most recent operating expenditure incurred in respect of the book of business. Operating expenditure is also monitored on a monthly basis against budgeted figures, to ensure that it remains within anticipated levels. The assumed future inflation rate is based on observable, actual economic indicators.

#### 60.6.3 Lapse risk

For certain lines of business, significant expenses are incurred at the outset of a policy in the form of commission and/or underwriting costs. In the case of regular premium policies some time has to elapse before the Group is able to recoup such initial expenses. If a policy lapses before the costs have been recouped it will lead to a loss in respect of that policy. In some cases the Group is able to manage this risk by entering into "claw-back" arrangements with brokers whereby some of the initial commission is paid back should the policy lapse within a certain period. The Group conducts annual investigations into its lapse experience to ensure that pricing and valuation assumptions are appropriate, relevant and in line with experience. The Group also makes additional allowance for higher than expected lapse rates in its liability calculations.

#### 60.6.4 Model, data and assumption risk

In calculating its provisions, the Group has to model the expected future cash flows from the in-force book of business. Modelling techniques or methodologies might be incorrect or inappropriate for certain classes of business, leading to incorrect projected cash flows and insufficient reserves. The Group manages this risk by putting the models through rigorous checking procedures to ensure that the cash flows projected by the models are reasonable.

External consultants are used to assist with these checks. The Group also ensures that its modelling methodologies are in line with any guidance issued by the ASSA or, in the absence of such guidance, with generally-accepted actuarial methods. There is a risk that the policy data used to model the liabilities is incorrect or incomplete. This risk is managed by performing various reasonability checks on the data (such as illogical ages or dates of entry) and by reconciling the data with both the previous valuation data download (ie, a movement analysis) and with the financial statements.

The valuation assumptions might deviate from actual experience in future. Best estimate assumptions are derived by using annual investigations into the demographic experience of the business. Economic assumptions are based on observable, actual economic indicators and are internally consistent. Margins are added to best estimate assumptions to allow for variability. These margins include compulsory margins as per PGN 104 of ASSA and further discretionary margins where the statutory actuary deems it necessary.

#### 60.6.5 Assumptions

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

	2007 %	2006 %
Risk-free rate return	8,50	8,00
Equity return	10,50	10,00
Cash return	6,50	6,00
Overall investment return	8,40	8,40
Risk discount rate	11,50	11,00
Expense inflation	5,00	4,50

# Notes to the consolidated financial statements

Year ended 31 December

## 60. Underwriting risk (continued)

### 60.6 Life insurance underwriting risk (continued)

#### 60.6.5 Assumptions (continued)

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

Assumption	Margin
Mortality	7,5% (increase for assurance, decrease for annuities) (2006: 7,5%)
Morbidity	10% (2006: 10%)
Medical	15% (2006: 15%)
Lapse	25% (eg if the best estimate is 10%, the margin is 2,5%) (2006: 25%)
Termination for disability income benefits in payments	10% (2006: 10%)
Surrenders	10% (increase or decrease, depending on which alternative increases liabilities) (2006: 10%)
Expenses	10% (2006: 10%)
Expense inflation	10% (of estimated escalation rate) (2006:10%)
Charge against investment return	25 basis points in the management fee or an equivalent asset-based or investment performance-based margin

In addition to the compulsory margins, the valuation of liabilities also includes the following discretionary margins:

- Additional margin on mortality assumptions of 23,9% on credit life motor business, 15,2% on credit personal loan business and 7,5% on all other products.
- Additional 10% margin on disability and dread disease assumptions.
- Additional margins on lapse and surrender assumptions for certain products.
- Minimum reserve equal to surrender value on credit life and mortgage protection business.
- Elimination of all negative reserves per policy.
- No recognition of future investment management charges on unit linked business.
- A 10% premium margin for all regular premium business valued by discounted cash flow methods, except for the new mortgage protection products and the re-priced flexi funeral plan product.

#### (a) Mortality, disability and dread disease

A standard industry mortality table (SA 85-90) is taken as a base table and adjusted for the major product lines to reflect best estimates. Provision is made for deteriorating claims experience owing to the Aids pandemic in accordance with guidelines as issued by the ASSA. Experience over a period of five years or the maximum period available if less, is investigated with particular emphasis on more recent trends. Specific Aids investigations are also undertaken from time to time. The last investigation was performed during the first quarter of 2006. Adjustments are typically percentage factors of the standard tables. For underwritten lives, select tables are used. For disability, dread disease and critical illness products with limited own past experience, guidance is obtained from reinsurers and their rates are used, both for pricing and valuation purposes.

#### (b) Persistency

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

## 60. Underwriting risk (continued)

### 60.6 Life insurance underwriting risk (continued)

#### 60.6.5 Assumptions (continued)

##### (c) Investment return

Fixed interest securities of an average term equal to the mean term of the liability outflows would constitute a matched position. In the valuation, it has been assumed that cash and a sufficient quantity of gilts of appropriate duration is held. The future gross redemption yield on these benchmark assets was 8,5% (2006: 8,0%) per annum on the valuation date and this has been used to value the liabilities. An adjustment is made for future income tax on investment returns.

In calculating the mismatch provision, cognisance is taken of the difference between gross redemption yields on gilts of appropriate maturity and the earnings yield on equities and applied to the portion of assets that is held in equities. Cognisance is also taken of the fact that most of the equities were hedged at the balance sheet date, which reduced the mismatch provision to zero.

##### (d) Expenses

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

##### (e) Expense inflation

The expense inflation assumption used in the liability valuation represents a long-term view of future expected inflation levels. The assumption will not necessarily be equal to the published consumer price index (CPI) on the valuation date. The Group sets the inflation assumption in line with its fixed-interest investment assumption by assuming that inflation will be 350 basis points less (2006: 350 basis points) than the fixed-interest investment assumption. The assumed fixed-interest investment assumption is taken from the zero coupon yield curve produced by the Bond Exchange of South Africa as at the valuation date.

##### (f) Tax

Future tax on income is allowed for according to current tax legislation at 30% (2006: 30%) in the individual policyholder fund. It has been assumed that current legislation and rates remain unaltered. For the individual policyholder fund, 25% of capital gains are taxable at the normal tax rate of 30% (2006: 30%) giving a tax rate of 7,5% (2006: 7,5%) on realisation of the assets. However, the Group assumes a holding period of seven years for the underlying assets and hence the payment of the capital gains tax is deferred resulting in a lower assumption of 5% being used in the valuation.

##### (g) Change and effect of assumptions since previous valuation

Changes in assumptions to determine the insurance liabilities have a material effect on the financial results. The table below displays the effect of the changes in the major assumptions.

	Increase/(decrease) on insurance liabilities	
	2007 Rm	2006 Rm
Economic basis <sup>1</sup>	(53)	(14)
Expense assumptions <sup>2</sup>	35	(17)
Mortality and Aids assumptions <sup>2</sup>	(20)	(108)
Morbidity assumptions <sup>3</sup>	(45)	—
Lapse assumptions	(1)	4

<sup>1</sup>The economic basis was changed in line with market movements. The assumptions about the future investment return on assets and future inflation were adjusted to reflect the change in gilt yields, resulting in a 0,5% per annum higher investment return assumption compared to the previous year.

<sup>2</sup>The expense assumptions were changed to reflect the results of the most recent expense investigation, increasing the liability by R35 million (2006: R17 million decrease). Female lives under funeral products experienced lower mortality than expected under the previous year's mortality basis and the basis was adjusted as a result. For certain mortgage protection products, the mortality experience was slightly higher than expected.

<sup>3</sup>Disability and dread disease assumptions were decreased in line with the results of experience investigations conducted over recent years, leading to a reduction in liabilities of R45 million (2006: Rnil).

# Notes to the consolidated financial statements

Year ended 31 December

## 60. Underwriting risk (continued)

### 60.6 Life insurance underwriting risk (continued)

#### 60.6.5 Assumptions (continued)

##### (h) Sensitivity analysis

The results of the sensitivities in the table below show that the assumptions regarding future mortality and morbidity experience have a major impact on the size of the actuarial liability. This is to be expected given the nature of the business (risk insurance). This implies that future developments in mortality and morbidity experience, whether positive or negative, will impact on profits in future years. These are of course the areas that are influenced by Aids. Next in importance is the impact of investment returns. Although a significant portion of the book, such as credit life, is short term, the mortgage protection business increases the duration of the business and hence the importance of future investment returns. The business is relatively well protected from changes in other assumptions.

	2007		2006	
	Insurance liability Rm	Change %	Insurance liability Rm	Change %
Central value (refer to note 22.2)	1 788	n/a	1 834	n/a
Mortality and morbidity +10%	1 992	11,40	2 053	11,85
Lapse rate +10%	1 735	(3,00)	1 793	(2,30)
Renewal and termination expense +10%	1 816	1,50	1 861	1,39
Expense inflation +1%	1 811	1,30	1 857	1,19
Investment return -1%	1 876	4,90	1 906	3,86

### 60.7 Reinsurance risk

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

The Group also has stop-loss cover in place.

The Group uses reinsurance to manage risk and to utilise the experience of reinsurance partners where it is deemed necessary, in accordance with a formal reinsurance policy that is approved by the board. In terms of this policy the Group uses reinsurance for large individual risks to protect the income statement, for risks where the Group needs to build knowledge and experience and to obtain technical assistance.

The Group does not use catastrophe reinsurance for protection against a large number of dependent losses. This type of cover is normally used for group life insurance. Although major epidemics like avian flu might present catastrophe-type risks, reinsurance cover for such risks is difficult to obtain and not considered essential in the programme. The table below presents the credit rating of reinsurance assets recognised in the Group's balance sheet, excluding credit life reinsurance.

Reinsurer	Standard & Poor's rating	Description	Parental guarantee
Treaty reinsurer, 72% (2006: 85%) of business ceded	AA-	Very strong	No
Facultative reinsurer, 1,5% (2006: 2,5%) of business ceded	AAA	Extremely strong	Yes
Facultative reinsurer, 1,5% (2006: 2,5%) of business ceded	A+	Strong	No
Facultative reinsurer, 25% (2006: 10%) of business ceded	AA-	Very strong	No

Although a parental guarantee is not in place for all companies, they are all 100% subsidiaries of their international parent companies and operate under the same name, effectively ensuring a parental guarantee. The Group considers the reinsurer's ratings, notified disputes and collection experience in determining which assets should be impaired. As at the balance sheet date the reinsurance assets were unimpaired as none of the reinsurance amounts receivable were past due.

## 60. Underwriting risk (continued)

### 60.8 Mortality and morbidity risk

Applications for risk cover in excess of specified limits are reviewed by experienced underwriters and evaluated against established standards. Testing for HIV is carried out in all cases where the applications for risk cover exceed specified limits. Cover in excess of specified monetary or impairment limits are reinsured.

Mortality and morbidity risks for the main product lines are:

- For mortgage protection business, the main risks are mortality and morbidity. This is the only business that is individually underwritten. Premium rates differentiate by gender, age and smoker status. Substandard risks generally receive additional premium loadings or might be declined. Correct pricing and effective underwriting control the mortality and morbidity risks. Exposure in excess of a retention limit for each policy is reassured to reduce the variability of the claims experience and the exposure to a single life. Most policies have premium guarantee terms, which vary from one year (for yearly renewable term assurance) to 25 years (for products that have an investment component attached). For products with an investment component the overall premium rate is guaranteed, the investment portion is not guaranteed and could be reduced at the discretion of the Group. However, it is a Group policy when products are priced to have no intention to increase premium rates over the policy term. Experience is monitored to confirm that actual experience is in line with pricing assumptions. Insurance and underwriting risks are monitored on a monthly basis by the Underwriting Committee which reports into the Absa Financial Services Risk, Governance and Control Committee.
- For the funeral business the main risk is mortality, which is increased by high Aids rates in the target market. The risk is also exacerbated by the fact that premium rates are the same irrespective of the age of policyholders – significant changes in the age profile of customers could impact on experience. Limitation of cover for certain pre-existing conditions for defined time periods, generally two years, applies. Strict experience monitoring limits the risk, combined with the contractual right to increase premiums with a three-month notice period. The intention is not to exercise this right, but the Group does have the option to do so. Reinsurance is not utilised as sums assured per individual life are small.
- For credit life business, the main risks are retrenchment and mortality. Treaty reinsurance arrangements are in place whereby risk is shared with external business partners. The insurer retains the right to change premiums with a 30-day notice period. Premiums generally do not differentiate by gender, age or smoker status and demographic shifts might introduce additional insurance risk.

Since the nature of most product lines is large volumes with small sums assured per policy, with a wide geographical spread of business, very little concentration of insurance risk occurs. Possible concentration might arise for credit life in travel disasters (aircraft), but sums assured are generally low and investigations have concluded that it is not appropriate to reinsure such risks.

The Group is exposed to Aids risk as a result of providing mortality and morbidity cover on many of its products. The risk is that the allowance for Aids in the pricing and valuation basis is insufficient. This risk is managed in various ways. For business that is medically underwritten, which includes most of the mortgage protection business, HIV tests are performed as part of the normal underwriting process and cover is not provided to lives for which the mortality risk is uncertain or too high. For other lines of business such as funeral and credit life, general pre-existing condition clauses are used to protect the Group from anti-selection – a claim is not valid if it occurs within a certain period from inception, generally 24 months, as a result of a condition that has existed when the policy was incepted. Aids mortality investigations are performed from time to time – the most recent one was performed during the first quarter of 2006. The results of these investigations assist in setting the premium and mortality basis. Margins are also included in the valuation basis to allow for a worse than expected Aids risk experience.

# Notes to the consolidated financial statements

Year ended 31 December

## 61. Capital management

### 61.1 Introduction

#### Objectives of capital management

Absa manages its capital within the minimum regulatory/statutory requirements, economic capital requirements as well as the target levels set by the board of directors. Economic capital is the amount of capital that Absa must hold to protect itself against exceptional losses at a given degree of confidence to maintain the desired credit rating (AA) of the Barclays Group. It is calculated as the aggregate of the capital requirement for:

- Basel II Pillar 1 risks (market, credit and operational risks);
- risks not adequately covered under Pillar 1; and
- risks not measured under Pillar 1.

#### Absa's capital management strategy

Absa's capital management strategy is focused on maximising shareholder value by optimising the level and mix of capital resources. Decisions on the allocation of capital resources, conducted as part of the strategic planning review, are based on a number of factors, including return on economic and regulatory capital.

Absa has a number of capital management objectives, which are to:

- meet the individual capital ratios required by regulators and the Group's board;
- support endeavours of the Barclays Group to maintain an AA credit rating; and
- generate sufficient capital to support asset growth.

#### Importance of capital management

Capital is managed as a board-level priority in Absa, which reflects the importance of capital planning. The board is responsible for assessing and approving the Group's capital management policy, capital target levels, capital strategy and risk-based capital allocation. The capital ratios, together with the short- and medium-term capital plans, are disclosed at least quarterly to the Group's board.

### 61.2 Regulatory capital requirements

#### Minimum banking requirements

Capital adequacy and the use of regulatory capital are monitored by employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision (the Basel Committee) and implemented by the SARB or other host regulators for supervisory purposes. These techniques include the capital adequacy ratio calculation, which the SARB and other host regulators regard as a key supervisory tool.

Risk-weighted assets are determined by applying risk weights to balance sheet assets and off balance sheet financial instruments according to the relative credit risk of the counterparty. The risk weighting for each balance sheet asset and off balance sheet financial instrument is regulated by the Banks Act, No 94 of 1990 (as amended) or by regulations in the respective countries where the other banking licences are held. Included in the overall risk-weighted assets is a notional risk weighting for the trading book, calculated based on the market, counterparty and large exposure risks.

#### Minimum Group regulated entities' requirements

The capital requirements for regulated entities, other than banks, are determined in accordance with the stipulations of their respective regulators.

#### Minimum Group unregulated entities' requirements

The capital requirements are determined in accordance with the SARB capital requirements, which entail the application of a 10% capital requirement to the total on balance sheet and off balance sheet exposures, net of intragroup exposures.

#### Minimum insurance requirements

Insurance businesses are subject to separate regulations under the auspices of the FSB.

## **61. Capital management** *(continued)*

### **61.3 Qualifying capital**

#### **Banking entities**

Regulatory guidelines define three tiers of capital resources:

- Primary (Tier I) capital comprises mainly shareholders' funds, including certain accounting reserves, hybrid debt instruments (in terms of Basel II) and non-redeemable, non-cumulative preference shares. Primary capital is the highest tier and can be used to meet trading and banking activity requirements.
- Secondary (Tier II) capital includes cumulative preference shares, subordinated debt (prescribed debt instruments), general provisions for bad and doubtful debts, general credit risk reserve and fixed asset revaluation reserves.  
Tier II capital can also be used to support both trading and banking activities.
- Tertiary (Tier III) capital comprises prescribed unsecured subordinated debt with a minimum original maturity of two years and uncapitalised net profits derived from trading activities. The use of Tier III capital is restricted to trading activities only. It is not eligible to support counterparty or settlement risk.

In addition, Absa makes provision for a prudence buffer in excess of the minimum capital requirements to ensure that banking entities are adequately capitalised.

#### **Other regulated entities**

The qualifying capital is determined in terms of the rules and regulations of the regulator responsible for the supervision of the entity.

#### **Unregulated entities**

Only primary share capital as defined in the section titled "Banking entities" is regarded as qualifying capital.

#### **Insurance entities**

Capital resource requirements are assessed at company level in accordance with the relevant regulations. Provision is also made for a prudence buffer in excess of the minimum capital requirements to ensure that insurance businesses are adequately capitalised.

#### ***Absa Life Limited***

The statutory capital requirement of Absa Life Limited is based on the requirements of the Long-term Insurance Act, which is overseen by the FSB. Capital adequacy requirements are based on actuarial calculations that consider the risks to which the insurer is exposed.

#### ***Absa Insurance Company Limited***

The statutory capital requirement of Absa Insurance Company Limited is based on the requirements of the Short-term Insurance Act, which is overseen by the FSB. This requires an insurer to maintain a capital level equal to 25% of net written premiums (NWP).

# Notes to the consolidated financial statements

Year ended 31 December

## 61. Capital management (continued)

### 61.4 Target capital levels

One of the measurements used to ensure that the objectives of managing capital are met is the ability to meet the board target levels. Target capital levels have currently been set for the following regulated entities: Absa Group Limited, Absa Bank Limited, Absa Life Limited and Absa Insurance Company Limited. Target capital levels for all other entities are equal to the minimum regulatory requirements set by the respective regulators. The target capital adequacy thresholds for the Group entities mentioned are as follows:

	Absa Group Limited %	Absa Bank Limited %	Absa Life Limited	Absa Insurance Company Limited
Total regulatory minimum requirement	10,00	10,00	1,0 x CAR	25% x NWP
Buffer	2,25	2,25	1,8 x CAR	45% x NWP
Total capital	12,25	12,25	2,8 x CAR <sup>1</sup>	70% x NWP <sup>2</sup>

<sup>1</sup>Capital adequacy requirement (CAR): Actuarial calculation of value at risk on insurance liabilities. 2,8 times CAR being the required capital level determined by the Absa Financial Services (AFS) board.

<sup>2</sup>70% of net written premiums (NWP), being the required capital level determined by the AFS board.

#### Minimum regulatory requirement used as target for other entities

Company name	Regulator	Regulatory requirement <sup>1</sup> %
Absa Bank (London branch)	FSA	10,00
Barclays Bank Mozambique S.A. <sup>2</sup>	Banco de Mozambique	15,00
National Bank of Commerce	Bank of Tanzania	12,00

<sup>1</sup>The minimum requirements are the higher of the home/host regulatory requirements.

<sup>2</sup>Banco Austral, Sarl (Mozambique) changed its name to Barclays Bank Mozambique S.A. in December 2007.



**61. Capital management** (continued)

**61.4 Target capital levels** (continued)

**Absa Bank Limited – Capital adequacy – regulatory capital and risk-weighted assets**

	2007		2006
	Unweighted assets Rm	Risk-weighted assets Rm	Risk-weighted assets Rm
Risk-weighted assets – banking activities			
On balance sheet	521 137	338 385	278 231
Off balance sheet	868 709	9 719	8 498
Total	1 389 846	348 104	286 729
Notional assets – trading activities		11 557	10 439
	1 389 846	359 661	297 168
		<b>Capital as a percentage of risk-weighted assets</b>	Capital as a percentage of risk-weighted assets
	Rm	%	%
<b>Qualifying capital</b>			
Primary capital			
Ordinary share capital	303	0,1	0,1
Ordinary share premium	5 415	1,5	1,8
Preference shares	4 644	1,3	1,0
Reserves <sup>1</sup>	22 755	6,3	6,2
Total Tier I capital	33 117	9,2	9,1
Secondary capital			
Subordinated redeemable debt	10 325	2,9	2,9
Regulatory credit provision/reserve <sup>2</sup>	1 638	0,4	0,3
Impairments	(10)	—	—
Total Tier II capital	11 953	3,3	3,2
Total qualifying capital	45 070	12,5	12,3

<sup>1</sup>Reserves include unappropriated banking profits.

<sup>2</sup>Includes unidentified credit impairments.

# Notes to the consolidated financial statements

Year ended 31 December

## 61. Capital management (continued)

### 61.4 Target capital levels (continued)

#### Capital adequacy ratios and targets

Absa Bank Limited	Target %	Regulatory constraint %	2007 %	2006 %
Total capital adequacy ratio	12,25	≥10,0	12,5	12,3
Tier I capital adequacy ratio	8,75	≥7,5	9,2	9,1
Preference shares as a percentage of Tier I capital	17,00	≤20,0	14,0	11,1
Tier II and Tier III as a percentage of Tier I capital	n/a	≤100,0	36,1	34,8
Lower Tier II as a percentage of Tier I (subordinated debt) capital	n/a	≤50,0	31,2	31,9
Ordinary equity and reserves as a percentage of capital	n/a	n/a	63,2	65,9
Preference shares as a percentage of capital	n/a	n/a	10,3	8,2
Tier II and Tier III as a percentage of capital	n/a	n/a	26,5	25,8

Absa Group Limited and its subsidiaries	2007			2006	
	Risk-weighted assets Rm	Tier I ratio %	Total capital adequacy ratio %	Tier I ratio %	Total capital adequacy ratio %
<b>South African operations</b>					
Absa Bank Limited	359 661	9,2	12,5	9,1	12,3
<b>Non-South African operations</b>					
Absa Bank London (a branch of Absa Bank Limited)	2 760	35,4	40,5	38,7	44,9
Barclays Bank Mozambique S.A.	816	14,7	16,5	21,9	26,2
National Bank of Commerce (Tanzania)	3 535	12,5	13,2	12,8	12,8
<b>Total banking operations</b>	<b>366 772</b>		<b>12,8</b>		<b>12,5</b>
Risk-weighted assets (Rm)			366 772		302 458
Tier I capital (Rm)			34 657		28 316
Tier I ratio (%)			9,5		9,4
<b>Absa Group Limited</b>			<b>13,1</b>		<b>13,1</b>
Risk-weighted assets (Rm)			390 695		314 479
Tier I capital (Rm)			39 602		32 161
Tier I ratio (%)			10,1		10,2
<b>Risk-weighted assets/total assets</b>			<b>61,0</b>		<b>63,5</b>

**61. Capital management** (continued)

**61.4 Target capital levels** (continued)

**Other financial services**

Company name	Regulator	Capital adequacy ratio	
		2007	2006
Absa Life Limited	FSB	<b>4,72 x CAR</b>	5,54 x CAR
Absa Insurance Company Limited	FSB	<b>83,9% x NWP</b>	105,7% x NWP

**61.5 Basel II progress update**

Basel II was instituted in South Africa from 1 January 2008. Under Basel II, Absa's regulatory capital requirement will be determined using the risk-sensitive measurement approaches of Basel II.

SARB approval has been received to implement the advanced internal ratings-based approach for retail credit. The foundation internal ratings-based approach will be implemented for wholesale and corporate credit. The advanced measurement approach will be implemented for operational risk. The standardised approach for credit risk will be implemented for all African entities.

The Group has participated in the SARB-initiated quantitative impact studies and parallel run processes to determine the impact of Basel II on the Group's capital position. Management has refined the assumptions of the risk models and obtained guidance on the interpretation of the new banking regulations.

The capital level of Absa Bank Limited as an entity was not materially affected by Basel II, but there have been substantial changes to the capital required for certain classes of business conducted by the bank. These changes to capital requirements will gradually flow through to more appropriate pricing for risk.

Basel II has resulted in a moderate reduction in the capital adequacy ratios of the Group. The excess capital of insurance entities, above their respective minimum regulatory requirements, is excluded from the qualifying capital base of the Group under Basel II.

# Notes to the consolidated financial statements

Year ended 31 December

## 62. Fair value of financial instruments

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value.

	GROUP			
	2007		2006	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
<b>Financial assets</b>				
Balances with SARB and other central banks	10 896	10 896	9 052	9 052
Coins and bank notes and money on call	5 091	5 091	3 936	3 936
Money market assets	261	261	633	633
<b>Cash, cash balances and balances with central banks (refer to note 2)</b>	<b>16 248</b>	<b>16 248</b>	13 621	13 621
<b>Loans and advances to banks (refer to note 4)</b>	<b>43 033</b>	<b>43 061</b>	21 800	21 800
<b>Other assets (refer to note 6)</b>	<b>22 917</b>	<b>22 917</b>	11 564	11 564
Retail banking	328 603	328 367	275 190	275 161
Cheque accounts	6 036	6 036	4 880	4 880
Credit cards	12 941	12 941	10 836	10 836
Instalment credit agreements	63 162	63 002	56 440	56 414
Loans to associated undertakings and joint venture companies	6 466	6 466	6 226	6 226
Microloans	2 460	2 460	1 194	1 194
Mortgages	227 141	227 087	185 780	185 777
Other	1 187	1 187	810	810
Personal loans	9 210	9 188	9 024	9 024
Absa Capital	45 406	43 213	33 156	33 157
Absa Corporate and Business Bank	63 664	63 743	48 700	48 830
Corporate	10 640	10 643	6 249	6 249
Large and Medium	50 121	50 197	40 454	40 584
Other	2 903	2 903	1 997	1 997
Africa and other	3 974	3 974	3 695	3 692
<b>Loans and advances to customers – net of impairment</b>	<b>441 647</b>	<b>439 297</b>	360 741	360 840
<b>Investments (refer to note 12)</b>	<b>1 018</b>	<b>1 018</b>	489	489
<b>Total</b>	<b>524 863</b>	<b>522 541</b>	408 215	408 314

**62. Fair value of financial instruments** (continued)

	<b>GROUP</b>			
	2007		2006	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
<b>Financial liabilities</b>				
<b>Deposits from banks (refer to note 16)</b>	<b>29 430</b>	<b>29 430</b>	24 817	24 817
<b>Other liabilities and sundry provisions (refer to note 18)</b>	<b>10 647</b>	<b>10 647</b>	9 016	9 016
Call deposits	45 754	45 754	42 595	42 595
Cheque account deposits	96 961	96 961	90 087	90 087
Credit card deposits	2 173	2 173	2 291	2 291
Fixed deposits	89 534	111 216	87 075	88 092
Foreign currency deposits	10 114	10 114	13 679	13 679
Liabilities to clients under acceptances	108	108	20	20
Notice deposits	6 863	6 857	6 879	6 879
Other deposits	8 155	8 155	6 373	6 373
Saving and transmission of deposits	36 863	36 863	26 584	26 584
<b>Deposits due to customers (refer to note 19)</b>	<b>296 525</b>	<b>318 201</b>	275 583	276 600
<b>Debt securities in issue (refer to note 20)</b>	<b>146 697</b>	<b>183 090</b>	87 417	109 103
<b>Borrowed funds (refer to note 23)</b>	<b>9 949</b>	<b>10 116</b>	8 420	8 816
<b>Total</b>	<b>493 248</b>	<b>551 484</b>	405 253	428 352

# Notes to the consolidated financial statements

Year ended 31 December

## 63. Segment reporting

### 63.1 Segment report per geographical segment

	GROUP				Total Rm
	South Africa Rm	Rest of Africa Rm	Europe Rm	Asia Rm	
<b>Income statement</b>					
Net interest income	18 237	533	120	—	18 890
Impairment losses on loans and advances	(2 439)	(41)	47	—	(2 433)
Non-interest income	16 456	256	16	—	16 728
Operating expenses	(17 945)	(479)	(17)	(1)	(18 442)
Other	(667)	(9)	(0)	—	(676)
<b>Operating profit before income tax</b>	<b>13 642</b>	<b>260</b>	<b>166</b>	<b>(1)</b>	<b>14 067</b>
Taxation expense	(3 935)	(68)	(39)	—	(4 042)
<b>Profit for the year</b>	<b>9 707</b>	<b>192</b>	<b>127</b>	<b>(1)</b>	<b>10 025</b>
<b>Attributable to:</b>					
Ordinary equity holders of the Group	9 366	103	127	(1)	9 595
Minority interest – ordinary shares	28	89	—	—	117
Minority interest – preference shares	313	—	—	—	313
	9 707	192	127	(1)	10 025
<b>Balance sheet</b>					
Loans and advances to customers	450 419	3 340	2 199	—	455 958
Investments in associated undertakings and joint venture companies	1 420	49	—	—	1 469
Other assets	175 918	4 821	2 732	11	183 482
<b>Total assets</b>	<b>627 757</b>	<b>8 210</b>	<b>4 931</b>	<b>11</b>	<b>640 909</b>
Deposits due to customers	303 529	6 119	864	—	310 512
Other liabilities	284 484	1 099	2 174	80	287 837
<b>Total liabilities</b>	<b>588 013</b>	<b>7 218</b>	<b>3 038</b>	<b>80</b>	<b>598 349</b>
<b>Other</b>					
Capital expenditure	1 890	120	—	—	2 010

**63. Segment reporting** (continued)

**63.1 Segment report per geographical segment** (continued)

	GROUP 2006 <sup>1</sup>				Total Rm
	South Africa Rm	Rest of Africa Rm	Europe Rm	Asia Rm	
<b>Income statement</b>					
Net interest income	14 366	376	141	4	14 887
Impairment losses on loans and advances	(1 334)	(52)	(188)	1	(1 573)
Non-interest income	14 790	216	13	0	15 019
Operating expenses	(15 678)	(382)	(27)	(2)	(16 089)
Other	(875)	48	—	—	(827)
<b>Operating profit before income tax</b>	<b>11 269</b>	<b>206</b>	<b>(61)</b>	<b>3</b>	<b>11 417</b>
Taxation expense	(3 156)	(19)	28	(4)	(3 151)
<b>Profit for the year</b>	<b>8 113</b>	<b>187</b>	<b>(33)</b>	<b>(1)</b>	<b>8 266</b>
<b>Attributable to:</b>					
Ordinary equity holders of the Group	8 012	127	(33)	(1)	8 105
Minority interest – ordinary shares	28	60	—	—	88
Minority interest – preference shares	73	—	—	—	73
	<b>8 113</b>	<b>187</b>	<b>(33)</b>	<b>(1)</b>	<b>8 266</b>
<b>Balance sheet</b>					
Loans and advances to customers	370 378	2 291	1 156	—	373 825
Investments in associated undertakings and joint venture companies	647	46	—	—	693
Other assets	113 025	4 228	3 087	254	120 594
<b>Total assets</b>	<b>484 050</b>	<b>6 565</b>	<b>4 243</b>	<b>254</b>	<b>495 112</b>
Deposits due to customers	274 829	4 974	45	—	279 848
Other liabilities	177 459	593	2 211	80	180 343
<b>Total liabilities</b>	<b>452 288</b>	<b>5 567</b>	<b>2 256</b>	<b>80</b>	<b>460 191</b>
<b>Other</b>					
Capital expenditure	1 237	62	—	—	1 299

<sup>1</sup>Certain amounts have been reclassified in terms of Annexure A.

# Notes to the consolidated financial statements

Year ended 31 December

## 63. Segment reporting (continued)

### 63.2 Segment report per market segment

	Retail banking		Absa Corporate and Business Bank	
	2007	2006	2007	2006
<b>Income statement (Rm)</b>				
Net interest income	12 816	10 006	3 897	3 092
Net interest income – external	33 388	22 832	2 452	839
Net interest income – internal	(20 572)	(12 826)	1 445	2 253
Impairment losses on loans and advances	(2 235)	(1 195)	(148)	(331)
Non-interest income	9 083	8 267	2 255	2 076
Non-interest income – external	8 513	7 767	2 058	1 916
Non-interest income – internal	570	500	197	160
Depreciation and amortisation	(270)	(62)	(8)	(6)
Operating expenses <sup>1</sup>	(11 687)	(10 504)	(3 233)	(2 835)
Other	(301)	(297)	(43)	(48)
Equity-accounted earnings	31	19	56	34
<b>Operating profit before income tax</b>	<b>7 437</b>	<b>6 234</b>	<b>2 776</b>	<b>1 982</b>
Taxation expense	(2 341)	(1 989)	(851)	(598)
<b>Profit for the year</b>	<b>5 096</b>	<b>4 245</b>	<b>1 925</b>	<b>1 384</b>
<b>Attributable to:</b>				
Ordinary equity holders of the Group	5 071	4 222	1 922	1 384
Minority interest – ordinary shares	25	23	3	—
Minority interest – preference shares	—	—	—	—
	<b>5 096</b>	<b>4 245</b>	<b>1 925</b>	<b>1 384</b>
<b>Operating performance (%)</b>				
Net interest margin on average assets	3,25	3,21	4,38	4,09
Impairment losses on loans and advances as a percentage of average loans and advances to customers	0,74	0,49	0,23	0,67
Non-interest income as a percentage of operating income	41,4	45,2	36,6	40,2
Top-line growth <sup>2</sup>	19,8	24,9	19,0	17,8
Cost growth <sup>2</sup>	13,2	16,1	14,1	15,1
Cost-to-income ratio	54,5	57,8	52,7	55,0
Cost-to-assets ratio	3,1	3,4	3,8	3,8

Certain comparatives have been reclassified in terms of Annexure A.

<sup>1</sup>Excludes depreciation and amortisation.

<sup>2</sup>Compared to an unaudited pro forma.



	Absa Capital		African operations		Bancassurance		Other		Absa Group	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	1 655	1 092	533	376	(49)	37	38	284	18 890	14 887
	(18 544)	(10 272)	536	391	(49)	37	1 107	1 060	18 890	14 887
	20 199	11 364	(3)	(15)	—	—	(1 069)	(776)	—	—
	(1)	2	(41)	(52)	1	(2)	(9)	5	(2 433)	(1 573)
	2 155	1 427	256	216	3 251	3 076	(272)	(43)	16 728	15 019
	2 479	1 767	256	216	3 709	3 190	(287)	163	16 728	15 019
	(324)	(340)	—	—	(458)	(114)	15	(206)	—	—
	(2)	(9)	(35)	(28)	(22)	(19)	(528)	(652)	(865)	(776)
	(1 318)	(936)	(444)	(355)	(1 128)	(977)	233	294	(17 577)	(15 313)
	(77)	(108)	(12)	(2)	(47)	(58)	(287)	(427)	(767)	(940)
	—	—	3	1	—	—	1	59	91	113
	2 412	1 468	260	156	2 006	2 057	(824)	(480)	14 067	11 417
	(679)	(353)	(68)	(19)	(504)	(553)	401	361	(4 042)	(3 151)
	1 733	1 115	192	137	1 502	1 504	(423)	(119)	10 025	8 266
	1 733	1 115	103	77	1 502	1 500	(736)	(193)	9 595	8 105
	—	—	89	60	—	4	—	1	117	88
	—	—	—	—	—	—	313	73	313	73
	1 733	1 115	192	137	1 502	1 504	(423)	(119)	10 025	8 266
	n/a	n/a	7,49	6,26	n/a	n/a	n/a	n/a	3,37	3,28
	0,00	0,00	1,47	2,56	n/a	n/a	n/a	n/a	0,58	0,45
	56,6	56,6	32,4	36,5	101,5	98,8	n/a	n/a	47,0	50,2
	51,2	29,8	33,3	(7,1)	2,9	6,7	n/a	n/a	19,1	18,0
	39,6	6,1	25,3	(12,6)	15,5	8,9	n/a	n/a	14,6	12,1
	34,6	37,5	60,7	64,7	35,9	32,0	n/a	n/a	51,8	53,8
	0,4	0,4	6,5	6,4	3,7	5,2	n/a	n/a	3,2	3,6

# Notes to the consolidated financial statements

Year ended 31 December

## 63. Segment reporting (continued)

### 63.2 Segment report per market segment (continued)

	Retail banking		Absa Corporate and Business Bank	
	2007	2006	2007	2006
<b>Balance sheet (Rm)</b>				
Total advances	328 603	275 190	70 370	56 140
Investments in associated undertakings and joint venture companies	341	283	1 059	344
Other assets	104 839	75 403	19 456	24 934
Other assets – external	35 166	24 799	8 024	6 447
Other assets – internal <sup>1</sup>	69 673	50 604	11 432	18 487
<b>Total assets</b>	<b>433 783</b>	<b>350 876</b>	<b>90 885</b>	<b>81 418</b>
Total deposits	96 952	80 855	76 301	67 691
Other liabilities	315 469	255 330	7 614	8 470
Other liabilities – external	24 333	9 211	6 528	7 354
Other liabilities – internal <sup>1</sup>	291 136	246 119	1 086	1 116
<b>Total liabilities</b>	<b>412 421</b>	<b>336 185</b>	<b>83 915</b>	<b>76 161</b>
<b>Financial performance (%)</b>				
Return on average equity	26,8	29,1	30,0	27,4
Return on average assets	1,28	1,35	2,13	1,70
<b>Other</b>				
Banking customer base per segment (South Africa)	8 905 491	8 303 873	87 708	81 661

Certain comparatives have been reclassified in terms of Annexure A.

<sup>1</sup>Internal assets and liabilities for the Group are eliminated in "Other".

#### Note

The comparative year has been reclassified for:

- Migration of customers from Absa Private Bank to Retail Bank in the current year.
- AllPay Consolidated Investment Holdings (Proprietary) Limited was moved from "Corporate centre" to retail banking during the year under review.
- Absa Development Company Holdings (Proprietary) Limited was moved from "Corporate centre" to "Absa Corporate and Business Bank" during the year under review.

Capital is allocated based on Basel I risk-weighted calculation as a consequence, business units that have relatively lower asset levels attract a lower capital requirement.

	Absa Private Bank		Retail Bank <sup>1</sup>	
	2007	2006	2007	2006
<b>Retail banking</b>				
Attributable earnings (Rm)	237	178	2 070	1 479
Return on average equity (%)	15,4	13,3	102,7	114,3
Cost-to-income ratio (%)	69,2	71,5	65,7	70,2
Impairment losses on loans and advances as a percentage of average loans and advances to customers (%)	0,26	0,27	4,35	2,78
Total assets (Rm)	31 030	26 520	90 359	65 626
Total loans and advances (Rm)	28 709	24 548	15 749	13 082
Total deposits (Rm)	18 879	14 409	75 977	64 159
Total liabilities (Rm)	29 314	25 151	87 864	65 486

<sup>1</sup>Includes the results of Digital Banking, Micro Lending, Personal Bank Ventures and Alliances, Small Business, Telephone Banking and Entry Level Banking.

<sup>2</sup>Includes the results of Repossessed Properties.

	Absa Capital		African operations		Bancassurance		Other		Absa Group	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	53 011	38 800	3 340	2 291	—	120	634	1 284	455 958	373 825
	—	—	49	46	—	—	20	20	1 469	693
	371 432	243 110	4 820	4 283	37 526	23 829	(354 591)	(250 965)	183 482	120 594
	97 872	56 462	4 781	4 158	37 386	23 711	253	5 017	183 482	120 594
	273 560	186 648	39	125	140	118	(354 844)	(255 982)	—	—
	424 443	281 910	8 209	6 620	37 526	23 949	(353 937)	(249 661)	640 909	495 112
	130 663	126 197	6 119	4 974	—	—	477	131	310 512	279 848
	288 071	151 416	1 099	718	33 618	19 911	(358 034)	(255 502)	287 837	180 343
	232 967	141 452	1 046	663	25 368	18 939	(2 405)	2 724	287 837	180 343
	55 104	9 964	53	55	8 250	972	(355 629)	(258 226)	—	—
	418 734	277 613	7 218	5 692	33 618	19 911	(357 557)	(255 371)	598 349	460 191
	34,6	27,1	20,1	17,1	37,8	38,9	n/a	n/a	27,2	27,4
	0,49	0,44	1,39	1,28	4,88	7,75	n/a	n/a	1,68	1,74
	2 503	2 415	n/a	n/a	n/a	n/a	n/a	n/a	8 995 702	8 387 949

	Absa Home Loans <sup>2</sup>		Absa Card		Absa Vehicle and Asset Finance		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
	1 288	1 086	706	700	770	779	5 071	4 222
	15,1	16,5	70,7	104,4	13,7	16,8	26,8	29,1
	34,6	39,6	40,8	42,1	43,9	44,9	54,5	57,8
	0,26	0,13	3,50	2,08	1,02	0,80	0,74	0,49
	219 947	177 762	13 995	11 189	78 452	69 779	433 783	350 876
	202 497	165 218	11 817	9 998	69 831	62 344	328 603	275 190
	—	—	2 065	2 247	31	40	96 952	80 855
	210 124	170 489	12 807	10 380	72 312	64 679	412 421	336 185

# Notes to the consolidated financial statements

Year ended 31 December

## 63. Segment reporting (continued)

### 63.3 Bancassurance segment assets and segment liabilities

	Note	2007 Rm	2006 Rm
<b>Assets</b>			
Cash balances and money market assets		3 644	2 403
Insurance operations	1	3 200	2 025
Other		444	378
Other assets <sup>1</sup>		22 483	10 890
Investments		11 362	10 626
Insurance operations	1	11 362	10 601
Other		—	25
Property and equipment		37	30
<b>Total assets</b>		<b>37 526</b>	<b>23 949</b>
<b>Liabilities</b>			
Current tax liabilities		129	223
Liabilities under investment contracts		7 908	5 655
Policyholder liabilities under insurance contracts		3 250	3 111
Other liabilities and sundry provisions <sup>1</sup>		22 089	10 574
Deferred tax liabilities		242	348
<b>Total liabilities</b>		<b>33 618</b>	<b>19 911</b>

<sup>1</sup>Other assets and liabilities include settlement account balances.

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

	2007			
	Listed Rm	Unlisted Rm	Cash and fixed interest Rm	Total Rm
Shareholder investments	2 561	181	892	3 634
Life	784	113	89	986
Non-life	1 777	68	803	2 648
Policyholder investments	2 055	4 409	4 464	10 928
Insurance contracts	—	817	1 656	2 473
Investment contracts	2 055	3 592	2 808	8 455
	2006 <sup>2</sup>			
	Listed Rm	Unlisted Rm	Cash and fixed interest Rm	Total Rm
Shareholder investments	2 417	199	694	3 310
Life	686	150	231	1 067
Non-life	1 731	49	463	2 243
Policyholder investments	2 035	4 004	2 565	8 604
Insurance contracts	555	679	1 197	2 431
Investment contracts	1 480	3 325	1 368	6 173

<sup>2</sup>Restated for structural change. Insurance operations only include Absa Life Limited and Absa Insurance Company Limited.

In managing the liabilities towards 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 legal claim.

**63. Segment reporting** (continued)

**63.4 Bancassurance operations**

Note	Life insurance		Short-term insurance		Other		Total bancassurance	
	2007	2006 <sup>1</sup>	2007	2006 <sup>1</sup>	2007	2006 <sup>1</sup>	2007	2006
<b>Income statement (Rm)</b>								
	<b>1 142</b>	1 265	<b>2 012</b>	1 660	<b>38</b>	69	<b>3 192</b>	2 994
	<b>(401)</b>	(303)	<b>(1 244)</b>	(1 006)	<b>42</b>	(10)	<b>(1 603)</b>	(1 319)
Investment income								
Policyholder insurance contracts	<b>170</b>	317	<b>73</b>	61	—	—	<b>243</b>	378
Policyholder investment contracts	<b>495</b>	520	—	—	<b>84</b>	—	<b>579</b>	520
Changes in investment and insurance contracts								
Insurance contracts	<b>45</b>	(240)	—	—	—	—	<b>45</b>	(240)
Investment contracts	<b>(482)</b>	(508)	—	—	<b>(52)</b>	—	<b>(534)</b>	(508)
Other income	<b>24</b>	16	<b>12</b>	3	<b>1 203</b>	1 144	<b>1 239</b>	1 163
<b>Gross operating income</b>	<b>993</b>	1 067	<b>853</b>	718	<b>1 315</b>	1 203	<b>3 161</b>	2 988
Commission <sup>2</sup>	<b>(196)</b>	(344)	<b>(333)</b>	(276)	—	2	<b>(529)</b>	(618)
Operating expenditure	<b>(187)</b>	(129)	<b>(204)</b>	(148)	<b>(806)</b>	(777)	<b>(1 197)</b>	(1 054)
<b>Net operating income</b>	<b>610</b>	594	<b>316</b>	294	<b>509</b>	428	<b>1 435</b>	1 316
Investment income on shareholder funds	<b>167</b>	216	<b>292</b>	363	<b>112</b>	158	<b>571</b>	737
Taxation	<b>(253)</b>	(219)	<b>(71)</b>	(180)	<b>(180)</b>	(154)	<b>(504)</b>	(553)
<b>Profit attributable to ordinary equity holders of the Group</b>	<b>524</b>	591	<b>537</b>	477	<b>441</b>	432	<b>1 502</b>	1 500

<sup>1</sup>Reclassified for structural change. "Insurance operations" only include Absa Life Limited and Absa Insurance Company Limited.

<sup>2</sup>Commission includes internal commissions, eliminated on consolidation of Absa Group.

# Notes to the consolidated financial statements

Year ended 31 December

## 63. Segment reporting (continued)

### 63.4 Bancassurance operations (continued)

#### 1. Investment income

	Life insurance		Short-term insurance		Other		Total bancassurance	
	2007	2006	2007	2006	2007	2006	2007	2006
<b>Policyholder-investment contracts (Rm)</b>	<b>495</b>	520	—	—	<b>84</b>	—	<b>579</b>	520
Net interest income	44	75	—	—	4	—	48	75
Dividend income	13	10	—	—	44	—	57	10
Fair value gains	438	435	—	—	36	—	474	435
<b>Policyholder-insurance contracts (Rm)</b>	<b>170</b>	317	<b>73</b>	61	—	—	<b>243</b>	378
Net interest income	93	78	73	61	—	—	166	139
Dividend income	23	19	—	—	—	—	23	19
Fair value gains	54	220	—	—	—	—	54	220
<b>Shareholder funds (Rm)</b>	<b>167</b>	216	<b>292</b>	363	<b>112</b>	158	<b>571</b>	737
Net interest income	9	15	13	40	51	75	73	130
Dividend income	15	12	69	53	17	30	101	95
Fair value gains	143	189	210	270	44	53	397	512
<b>Total (Rm)</b>	<b>832</b>	1 053	<b>365</b>	424	<b>196</b>	158	<b>1 393</b>	1 635
Net interest income	146	168	86	101	55	75	287	344
Dividend income	51	41	69	53	61	30	181	124
Fair value gains	635	844	210	270	80	53	925	1 167

## 64. Derivatives

Derivative financial instruments are entered into in the normal course of business to manage various financial risks. Derivative financial instruments entered into in terms of asset and liability management strategies are defined as hedging transactions and such instruments are accounted for in terms of the Group's accounting policies as set out in note 1.7.12.

At the balance sheet date, the Group did not have any compound financial instruments with multiple embedded derivatives in issue.

### 64.1 Derivatives held for trading

The Group trades derivative instruments mainly on behalf of customers while their own positions are insignificant. The Group transacts derivative contracts to address customer demands both as a market maker in the wholesale markets and in structuring tailored derivatives for customers. Trading derivative products include the following instruments:

#### Foreign exchange derivatives

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

#### Interest rate derivatives

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

## 64. Derivatives (continued)

### 64.1 Derivatives held for trading (continued)

#### Equity derivatives

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

#### Commodity derivatives

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

#### Credit derivatives

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

### 64.2 Derivatives held for hedging

The Group enters into derivative transactions, which are designated and qualify as either fair value or cash flow hedges for recognised assets or liabilities or forecasted transactions.

#### Derivatives designated as fair value hedges

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

Fair value hedges are used by the Group to protect against changes in fair value of financial assets and liabilities owing to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, available-for-sale assets, debt securities and borrowed funds.

The Group recognised the following gains and losses on hedging instruments and hedging items:

	GROUP	
	2007 Rm	2006 Rm
Movement in hedged item (assets) (refer to note 28)	(343)	(39)
Movement in hedging instrument (refer to note 28)	457	68
Movement in hedged item (liabilities) (refer to note 29)	417	121
Movement in hedging instrument (refer to note 29)	(560)	(150)

Hedge effectiveness is measured using a statistical method and results are within the 80% to 125% range.

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

	GROUP	
	2007 Rm	2006 Rm
Ineffectiveness (outside range)	(5)	(4)
Ineffectiveness (inside range)	(14)	47

# Notes to the consolidated financial statements

Year ended 31 December

## 64. Derivatives (continued)

### 64.2 Derivatives held for hedging (continued)

#### Derivatives designated as cash flow hedges

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

The Group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Group designates interest rate swaps as hedging instruments in a cash flow hedging relationship to hedge the variability in cash flows owing to changes in interest rates.

A schedule indicating the periods when the hedged cash flows are expected to occur and when they are expected to affect the income statement as at the balance sheet date is as follows:

		GROUP						
		2007						
	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	More than 5 years	Total	
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	
Forecast receivable cash flow <sup>1</sup>	3	—	—	—	—	—	3	
Forecast payable cash flow <sup>1</sup>	(629)	(352)	(174)	(73)	(19)	(8)	(1 255)	
Net cash outflow	(626)	(352)	(174)	(73)	(19)	(8)	(1 252)	
		2006						
	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	More than 5 years	Total	
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	
Forecast receivable cash flow <sup>1</sup>	25	24	16	13	9	9	96	
Forecast payable cash flow <sup>1</sup>	(377)	(121)	(60)	(28)	(2)	—	(588)	
Net cash outflow	(352)	(97)	(44)	(15)	7	9	(492)	

<sup>1</sup>These balances are shown before taxation.



#### 64. Derivatives (continued)

##### 64.2 Derivatives held for hedging (continued)

The following net gain/(loss) on cash flow hedges was recycled from equity to the income statement:

	GROUP	
	2007 Rm	2006 Rm
Interest and similar income (refer to note 28)	(1 004)	(99)
Gains and losses from banking and trading activities (refer to note 34)	(60)	(5)
	(1 064)	(104)
Taxation	309	30
<b>Net cash flow hedges recycled to the income statement</b>	<b>(755)</b>	<b>(74)</b>

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

	GROUP	
	2007 Rm	2006 Rm
Ineffectiveness (outside range)	(60)	139
Ineffectiveness (inside range)	(46)	(45)

##### 64.3 Detail breakdown of derivatives

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

- **Foreign exchange contracts** represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.
- **Foreign currency and interest rate futures** are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the exchange.
- **Forward rate agreements** are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.
- **Currency and interest rate swaps** are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (ie, fixed rate for floating rate) or a combination of all these (ie cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.
- **Options** are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange traded or negotiated between the Group and a customer.

# Notes to the consolidated financial statements

Year ended 31 December

## 64. Derivatives (continued)

### 64.3 Detail breakdown of derivatives (continued)

	GROUP					
	2007				2006	
	Notional amount Rm	Fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Fair value (net) Rm
<b>Trading</b>						
<b>Foreign exchange derivatives</b>						
Foreign exchange contracts	314 329	356	5 185	(4 829)	193 897	(208)
Currency swaps	93 746	(869)	1 774	(2 643)	41 255	(845)
Currency interest rate swaps	17 404	10	193	(183)	15 293	59
OTC foreign exchange options	5 991	9	92	(83)	9 153	—
OTC foreign exchange options purchased	3 000	92	92	—	4 577	97
OTC foreign exchange options written	2 991	(83)	—	(83)	4 576	(97)
Other OTC foreign exchange derivatives	25 587	(7)	1	(8)	460	—
<b>Total foreign exchange derivatives</b>	<b>457 057</b>	<b>(501)</b>	<b>7 245</b>	<b>(7 746)</b>	<b>260 058</b>	<b>(994)</b>
<b>Interest rate derivatives</b>						
Forward rate agreements (FRAs)	862 847	30	767	(737)	354 565	28
Swaps	31 904	(86)	13	(99)	16 271	(80)
Interest rate swaps	771 075	(730)	8 169	(8 899)	392 006	(1 383)
OTC options on FRAs and swaps	15 781	(145)	52	(197)	10 422	11
OTC options on FRAs and swaps purchased	10 411	52	52	—	5 258	34
OTC options on FRAs and swaps written	5 370	(197)	—	(197)	5 164	(23)
OTC bond option contracts	4 446	6	15	(9)	1 835	6
OTC bond options purchased	2 945	15	15	—	961	17
Other bond options written	1 501	(9)	—	(9)	874	(11)
OTC interest rate derivatives Non-qualifying hedges	1 686 053	(925)	9 016	(9 941)	775 099	(1 418)
Interest rate swaps	49 689	224	743	(519)	54 119	(496)
<b>Total interest rate derivatives</b>	<b>1 735 742</b>	<b>(701)</b>	<b>9 759</b>	<b>(10 460)</b>	<b>829 218</b>	<b>(1 914)</b>
<b>Balance carried forward</b>	<b>2 192 799</b>	<b>(1 202)</b>	<b>17 004</b>	<b>(18 206)</b>	<b>1 089 276</b>	<b>(2 908)</b>

64. Derivatives (continued)

64.3 Detail breakdown of derivatives (continued)

	GROUP					
	2007				2006	
	Notional amount	Fair value	Fair value assets	Fair value liabilities	Notional amount	Fair value
<b>Balance brought forward</b>	<b>2 192 799</b>	<b>(1 202)</b>	<b>17 004</b>	<b>(18 206)</b>	1 089 276	(2 908)
<b>Equity derivatives</b>						
OTC options purchased	13 468	1 011	1 007	4	8 091	1 224
OTC options written	11 357	(1 384)	—	(1 384)	8 028	(1 199)
Equity futures	1 529	1 304	1 304	—	2 750	2 212
Other OTC equity derivatives	83 857	6	176	(170)	501	91
OTC equity derivatives	110 211	937	2 487	(1 550)	19 370	2 328
Exchange traded derivatives	99 578	(16)	—	(16)	51 176	(20)
Exchange traded options purchased	38 340	—	—	—	19 956	—
Exchange traded options written	39 213	(16)	—	(16)	19 080	(20)
Exchange traded futures	22 025	—	—	—	12 140	—
<b>Total equity derivatives</b>	<b>209 789</b>	<b>921</b>	<b>2 487</b>	<b>(1 566)</b>	70 546	2 308
<b>Commodity derivatives</b>						
Agricultural forwards	42	3	4	(1)	20	2
OTC agricultural options purchased	21	2	2	—	17	2
OTC agricultural options written	60	(2)	—	(2)	24	(1)
OTC options on gold	8 275	80	1 657	(1 577)	7 588	77
OTC gold options purchased	4 138	1 663	1 657	6	3 794	1 118
OTC gold options written	4 137	(1 583)	—	(1 583)	3 794	(1 041)
Other OTC commodity derivatives	3 308	(93)	509	(602)	1 975	(12)
OTC commodity derivatives	11 706	(10)	2 172	(2 182)	9 624	68
Exchange traded derivatives	466	—	—	—	200	—
Exchange traded agricultural options purchased	32	—	—	—	5	—
Exchange traded agricultural options written	85	—	—	—	29	—
Exchange traded agricultural futures	349	—	—	—	166	—
<b>Total commodity derivatives</b>	<b>12 172</b>	<b>(10)</b>	<b>2 172</b>	<b>(2 182)</b>	9 824	68
<b>Balance carried forward</b>	<b>2 414 760</b>	<b>(291)</b>	<b>21 663</b>	<b>(21 954)</b>	1 169 646	(532)

# Notes to the consolidated financial statements

Year ended 31 December

## 64. Derivatives (continued)

### 64.3 Detail breakdown of derivatives (continued)

	GROUP					
	2007				2006	
	Notional amount Rm	Fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Fair value Rm
<b>Balance brought forward</b>	<b>2 414 760</b>	<b>(291)</b>	<b>21 663</b>	<b>(21 954)</b>	1 169 646	(532)
<b>Credit derivatives</b>						
Swaps	3 328	39	39	—	1 556	27
Embedded derivatives	(3 514)	(12)	2	(14)	1 261	(5)
<b>Total credit derivatives</b>	<b>(186)</b>	<b>27</b>	<b>41</b>	<b>(14)</b>	<b>2 817</b>	<b>22</b>
<b>Total trading</b>	<b>2 414 574</b>	<b>(264)</b>	<b>21 704</b>	<b>(21 968)</b>	<b>1 172 463</b>	<b>(510)</b>
<b>Hedging</b>						
<b>Cash flow hedges</b>						
Interest rate swaps	87 159	(1 608)	5	(1 613)	110 928	(568)
OTC options	304	(13)	—	(13)	—	—
	<b>87 463</b>	<b>(1 621)</b>	<b>5</b>	<b>(1 626)</b>	<b>110 928</b>	<b>(568)</b>
<b>Fair value hedges</b>						
Interest rate swaps	1 969	(60)	540	(600)	20 837	(71)
Equity options and currency swaps	—	180	180	—	23	23
	<b>1 969</b>	<b>120</b>	<b>720</b>	<b>(600)</b>	<b>20 860</b>	<b>(48)</b>
<b>Total hedges</b>	<b>89 432</b>	<b>(1 501)</b>	<b>725</b>	<b>(2 226)</b>	<b>131 788</b>	<b>(616)</b>
<b>Total derivative instruments</b>	<b>2 504 006</b>	<b>(1 765)</b>	<b>22 429</b>	<b>(24 194)</b>	<b>1 304 251</b>	<b>(1 126)</b>

**64. Derivatives** *(continued)*

**64.3 Detail breakdown of derivatives** *(continued)*

To the extent that the Group has ISDA agreements with the same counterparty, the Group's net exposure was R11 127 million (2006: R13 100 million).

**Notional amount**

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

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

**Fair value**

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

**Fair value assets and liabilities**

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

## Annexure A: Reclassifications

### Consolidated balance sheet

As at 31 December 2006

	Commentary	GROUP		
		As previously reported Rm	Reclassifications Rm	Reclassified balance Rm
<b>Assets</b>				
Cash, cash balances and balances with central banks		16 461	—	16 461
Statutory liquid asset portfolio		20 829	—	20 829
Loans and advances to banks		21 800	—	21 800
Trading assets	1	17 983	31	18 014
Hedging assets	1	676	(31)	645
Other assets		12 175	—	12 175
Current tax assets		24	—	24
Loans and advances to customers	2 & 3	386 174	(12 349)	373 825
Reinsurance assets		390	—	390
Deferred tax assets		129	—	129
Investments	2 & 3	13 798	12 349	26 147
Investments in associated undertakings and joint venture companies		693	—	693
Intangible assets		230	—	230
Property and equipment		3 750	—	3 750
<b>Total assets</b>		<b>495 112</b>	<b>—</b>	<b>495 112</b>
<b>Liabilities</b>				
Deposits from banks	4	35 156	(10 339)	24 817
Trading liabilities	1	23 484	641	24 125
Hedging liabilities	1	1 902	(641)	1 261
Other liabilities and sundry provisions	5	10 746	(526)	10 220
Current tax liabilities		1 181	—	1 181
Deposits due to customers	4	368 449	(88 601)	279 848
Debt securities in issue	4	—	98 940	98 940
Deferred tax liabilities		2 537	—	2 537
Liabilities under investment contracts	5	5 129	526	5 655
Policyholder liabilities under insurance contracts	5	3 187	—	3 187
Borrowed funds		8 420	—	8 420
<b>Total liabilities</b>		<b>460 191</b>	<b>—</b>	<b>460 191</b>
<b>Equity</b>				
<b>Capital and reserves</b>				
Attributable to ordinary equity holders of the Group:				
Share capital		1 338	—	1 338
Share premium		2 067	—	2 067
Other reserves		412	—	412
Retained earnings		27 876	—	27 876
		31 693	—	31 693
Minority interest – ordinary shares		236	—	236
Minority interest – preference shares		2 992	—	2 992
<b>Total equity</b>		<b>34 921</b>	<b>—</b>	<b>34 921</b>
<b>Total equity and liabilities</b>		<b>495 112</b>	<b>—</b>	<b>495 112</b>

## Consolidated income statement

For the year ended 31 December 2006

	Commentary	GROUP		
		As previously reported Rm	Reclassifications Rm	Reclassified balance Rm
Net interest income	2 & 8	14 941	(54)	14 887
Interest and similar income	6	38 368	(799)	37 569
Interest expense and similar charges	6	(23 427)	745	(22 682)
Impairment losses on loans and advances		(1 573)	—	(1 573)
<b>Net interest income after impairment losses on loans and advances</b>		13 368	(54)	13 314
Net fee and commission income		10 374	(221)	10 153
Fee and commission income	7 & 8	10 951	296	11 247
Fee and commission expense	8	(577)	(517)	(1 094)
Net insurance premium income		2 994	—	2 994
Net insurance claims and benefits paid		(1 319)	—	(1 319)
Change in insurance and investment liabilities		(748)	—	(748)
Gains and losses from banking and trading activities	2 & 8	1 347	29	1 376
Gains and losses from investment activities	2	1 916	(25)	1 891
Other operating income	7	938	(266)	672
<b>Operating income before operating expenses</b>		28 870	(537)	28 333
Operating expenditure		(17 566)	537	(17 029)
Operating expenses	8	(16 620)	531	(16 089)
Non-credit related impairments		(75)	—	(75)
Indirect taxation		(871)	6	(865)
Share of retained earnings from associated undertakings and joint venture companies		113	—	113
<b>Operating profit before income tax</b>		11 417	—	11 417
Taxation expense		(3 151)	—	(3 151)
<b>Profit for the year</b>		8 266	—	8 266
<b>Attributable to:</b>				
Ordinary equity holders of the Group		8 105	—	8 105
Minority interest – ordinary shares		88	—	88
Minority interest – preference shares		73	—	73
		8 266	—	8 266

# Annexure A: Reclassifications

## 1. Trading and hedging assets and liabilities

Certain trading assets and liabilities previously aggregated with hedging assets and liabilities have been separated.

## 2. Abacas

Abacas is a conduit vehicle within Absa Capital that buys longer-term rated bonds and issues short-term paper. This vehicle is consolidated by the Group and the assets were reflected under "Loans and advances to customers". This is now classification as "Investments".

## 3. Equity and shareholder Loans

Shareholder loans granted to Private Equity, Commercial Property Finance (CPF) and Incubator Fund clients have been reclassified as part of the net investment in that entity. Previously these were shown as "Loans and advances to customers".

## 4. Debt securities in issue

Negotiable certificates of deposit and other funding paper issued were previously reported as a subcategory of "Deposits due to customers" and "Deposits from banks". This is disclosed on a separate line on the face of the balance sheet, called "Debt securities in issue".

## 5. Liabilities under investment contracts

The "General Fund", a fund which Absa Life Limited is required to consolidate under IFRS, has been reclassified as an investment contract. The impact of this is the liabilities to policyholders have been moved from "Other liabilities and sundry provisions" to "Liabilities under investment contracts".

## 6. Reclassification of interest

Hedging income and expenses have been reclassified to eliminate mismatches better.

## 7. Fees from trust and other fiduciary activities

Unit/property trust income has been reclassified from "Other operating income" to "Fee and commission income".

## 8. Fee expenses and similar items

While implementing IFRS 7, the Group adopted a policy where all fees paid, relating to either a financial instrument or fee income, should be classified as a fee expense. Similarly, any fees related to trading should be moved to "Gains and losses from banking and trading activities".



## Annexure B: Embedded value report of Absa Life Limited

### SCOPE OF THE EMBEDDED VALUE REPORT

This report deals with the embedded value of Absa Life Limited and the value of new business written during the financial year.

### EMBEDDED VALUE

The embedded value of the life business is the discounted present value of the projected stream of future after-tax shareholder profits from business in force at the valuation date, as well as the shareholders' net assets. No allowance has been made for STC on future dividends as full credit is obtained by the shareholder.

Shareholders' net assets are the excess of the assets of the life business, less current liabilities, over the actuarial value of policy liabilities, as determined using the statutory valuation method adjusted to add back inadmissible assets.

The development of the embedded value can be analysed as follows:

	2007 Rm	2006 Rm
<b>Embedded value at the end of the year</b>	<b>2 091</b>	2 486
<i>Less:</i> Embedded value at the beginning of the year	<b>(2 486)</b>	(2 046)
<i>Plus:</i> Dividends declared and paid (including STC)	<b>938</b>	322
<b>Embedded value earnings</b>	<b>543</b>	762
<i>Consisting of:</i>		
Investment return on shareholders' net assets	<b>132</b>	152
Unwinding of discount rate	<b>128</b>	115
Value of new business written	<b>213</b>	263
Changes in assumptions and methodology	<b>(59)</b>	57
Investment experience better than assumptions	<b>18</b>	73
Operational experience better than assumptions	<b>111</b>	102
	<b>543</b>	762
<b>Return on embedded value (%)</b>	<b>21,8</b>	37,2

### VALUE OF NEW BUSINESS

This is a measure of the value added to a company as a result of writing new business. This is calculated as the discounted value, at the date of sale, of projected after-tax shareholder profit from new business written during the 12-month period – net of the opportunity cost of the solvency capital requirements for new business.

	2007 Rm	2006 Rm
Shareholders' net assets	<b>1 082</b>	1 430
Cost of solvency capital	<b>(20)</b>	(20)
Value of business in force	<b>1 029</b>	1 076
Total embedded value	<b>2 091</b>	2 486
Value of new business	<b>213</b>	263

The shareholders' net assets of R1 082 million (2006: R1 430 million) represents the excess of assets over liabilities with assets at market value and liabilities on the statutory soundness valuation method adjusted to add back the inadmissible assets. The shareholders' net assets covered the capital adequacy requirement (CAR) 4,7 times as at the balance sheet date (2006: 5,5 times).

The embedded value of new business acquired in 2007 was R213 million, down from R263 million in 2006. A major contributor to the reduction was the adverse impact on credit life business volumes of the introduction of the National Credit Act (NCA) in June 2007. In addition, significant increases in the sales of investment products that attract high interest income, adversely affected expectations of future post-tax profits.

# Annexure B: Embedded value report of Absa Life Limited

## ASSUMPTIONS

The embedded value and value of new business was determined using the same “best estimate” assumptions regarding future mortality, discontinuance rate and expenses used in the financial soundness valuation.

The discount rate used to discount future profits includes a margin over assumed investment returns to allow for the risk that the actual experience in future years may differ from that assumed.

The main economic assumptions that were used for the embedded value calculations are set out in the following table:

	2007 %	2006 %
Risk-free rate of return	8,5	8,0
Equity return	10,5	10,0
Cash return	6,5	6,0
Overall investment return	8,4	8,4
Risk discount rate	11,5	11,0
Unit cost inflation	5,0	4,5

## SENSITIVITIES

In order to indicate the sensitivity of the values to varying risk discount rates, an increase/(decrease) in the risk discount rate of 1% would reduce/(increase) the value of existing business by R49 million/(R54 million) and the value of new business by R10 million/(R11 million), should all the other assumptions remain unchanged.

## REVIEW BY THE INDEPENDENT ACTUARIES

The embedded value of Absa Life Limited and the value of new business written during the year have been reviewed and agreed by the independent consulting actuaries, Deloitte.

# Company balance sheet

As at 31 December

		COMPANY	
	Note	2007 Rm	2006 Rm
<b>Assets</b>			
Loans and advances to banks	2	99	30
Other assets	3	637	6
Current tax assets	4	3	6
Deferred tax assets	5	2	4
Investments	6	124	92
Investments in associated undertakings and joint venture companies	7	58	56
Subsidiaries	8	8 400	8 028
<b>Total assets</b>		<b>9 323</b>	<b>8 222</b>
<b>Liabilities</b>			
Other liabilities and sundry provisions	9	61	54
Deferred tax liabilities	5	—	6
Borrowed funds	10	158	164
<b>Total liabilities</b>		<b>219</b>	<b>224</b>
<b>Equity</b>			
<b>Capital and reserves</b>			
Attributable to ordinary equity holders of the Company:			
Share capital	11	1 357	1 344
Share premium	11	2 636	2 198
Other reserves	12	170	171
Retained earnings		4 941	4 285
<b>Total equity</b>		<b>9 104</b>	<b>7 998</b>
<b>Total equity and liabilities</b>		<b>9 323</b>	<b>8 222</b>

# Company income statement

Year ended 31 December

		<b>COMPANY</b>	
	Note	<b>2007 Rm</b>	2006 Rm
Net interest income		<b>56</b>	40
Interest and similar income	13	<b>71</b>	53
Interest expense and similar charges	14	<b>(15)</b>	(13)
<b>Net interest income after impairment losses on loans and advances</b>		<b>56</b>	40
Gains and losses from investment activities	15	<b>4 118</b>	3 167
Other operating income	16	<b>8</b>	—
<b>Operating income before operating expenses</b>		<b>4 182</b>	3 207
Operating expenditure		<b>(6)</b>	(5)
Operating expenses	17	<b>(6)</b>	(1)
Indirect taxation	18	<b>—</b>	(4)
<b>Operating profit before income tax</b>		<b>4 176</b>	3 202
Taxation expense	19	<b>(119)</b>	(63)
<b>Profit for the year</b>		<b>4 057</b>	3 139
<b>Attributable to:</b>			
Ordinary equity holders of the Company		<b>4 057</b>	3 139

## Company statement of changes in equity

Year ended 31 December

	COMPANY						
	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Foreign currency translation reserve Rm	Share-based payment reserve Rm	Retained earnings Rm	Total Rm
Balance at 1 January 2006	666 855	1 334	2 005	(11)	120	3 440	6 888
Shares issued	5 100	10	170	—	—	—	180
Movement in share-based payment reserve	—	—	—	—	85	—	85
Transfer from share-based payments reserve	—	—	23	—	(23)	—	—
Dividends declared – ordinary shares	—	—	—	—	—	(2 294)	(2 294)
Profit for the year	—	—	—	—	—	3 139	3 139
<b>Balance at 1 January 2007</b>	<b>671 955</b>	<b>1 344</b>	<b>2 198</b>	<b>(11)</b>	<b>182</b>	<b>4 285</b>	<b>7 998</b>
Shares issued	6 618	13	345	—	—	—	358
Movement in share-based payment reserve	—	—	—	—	81	—	81
Transfer from share-based payments reserve	—	—	93	—	(93)	—	—
Dividends declared – ordinary shares	—	—	—	—	—	(3 401)	(3 401)
Foreign currency translation effects	—	—	—	11	—	—	11
Profit for the year	—	—	—	—	—	4 057	4 057
<b>Balance at 31 December 2007</b>	<b>678 573</b>	<b>1 357</b>	<b>2 636</b>	<b>—</b>	<b>170</b>	<b>4 941</b>	<b>9 104</b>
Note	11	11	11	12	12		

# Company cash flow statement

Year ended 31 December

	Note	COMPANY	
		2007 Rm	2006 Rm
<b>Cash flow from operating activities</b>			
Interest and commission received		71	53
Net trading and other income		4 131	2 790
Cash payments to employees and suppliers		(15)	(13)
Income taxes paid		(123)	(100)
Cash flow from operating profit before changes in operating assets and liabilities		4 064	2 730
Net increase in other assets		(510)	(1)
Net increase/(decrease) in other liabilities		10	(13)
Net cash generated from operating activities		3 564	2 716
<b>Cash flow from investing activities</b>			
Redemption of borrowed funds		7	—
Investment in shares		(2)	(785)
Decrease in net loans from subsidiaries		(416)	(245)
Net (increase)/decrease in securities		(41)	385
Net cash utilised from investing activities		(452)	(645)
<b>Cash flow from financing activities</b>			
Issue of ordinary shares		358	180
Dividends paid	21	(3 401)	(2 294)
Net cash utilised from financing activities		(3 043)	(2 114)
Net increase/(decrease) in cash and cash equivalents		69	(43)
Cash and cash equivalents at the beginning of the year		30	73
<b>Cash and cash equivalents at the end of the year</b>	2	<b>99</b>	<b>30</b>

# Notes to the company financial statements

Year ended 31 December

		COMPANY	
		2007 Rm	2006 Rm
<b>1. Accounting policies</b>	The financial statements of Absa Group Limited (Company) are prepared according to the same accounting principles used in preparing the consolidated financial statements of Absa Group Limited and its subsidiaries (Group). For detailed accounting policies refer to the Group's financial statements.		
<b>2. Loans and advances to banks</b>	Loans and advances to banks	99	30
	<i>Portfolio analysis</i>		
	Loans and receivables	99	30
	Loans with variable rates are R3 million (2006: R18 million) and fixed rates are R96 million (2006: R12 million).		
<b>3. Other assets</b>	Accounts receivable and prepayments	—	6
	Accrued dividends	637	—
		637	6
	<i>Portfolio analysis</i>		
	Loans and receivables	637	6
<b>4. Current tax assets</b>	Amount due from revenue authorities	3	6
<b>5. Deferred tax</b>			
<b>5.1 Reconciliation of net deferred tax liability</b>			
	<b>Balance at the beginning of the year</b>	2	2
	Income statement charge (refer to note 19)	(4)	—
	<b>Balance at the end of the year</b>	(2)	2
<b>5.2 Deferred tax liability/(asset)</b>	Tax effects of temporary differences between tax and book value for:		
	Other deferred tax	—	6
	<b>Deferred tax liability</b>	—	6
	<b>Deferred tax asset – STC</b>	(2)	(4)
	<b>Net deferred tax (asset)/liability</b>	(2)	2
<b>5.3 Secondary taxation on companies (STC)</b>	Accumulated STC credits	21	32
	Deferred tax asset raised (refer to note 5.2)	2	4
	Movement in deferred tax asset for the year (refer to note 5.2)	(2)	4
	If the total reserves of R5 111 million as at the balance sheet date (2006: R4 456 million) were to be declared as dividends, the secondary tax impact at a rate of 10% (2006: 12,5%) would be R511 million (2006: R557 million).		
<b>6. Investments</b>	Debt instruments	124	92
	Directors' valuation of securities	124	92
	<i>Portfolio analysis</i>		
	Available-for-sale		
	Debt instruments	124	92

# Notes to the company financial statements

Year ended 31 December

	COMPANY	
	2007 Rm	2006 Rm
<b>7. Investments in associated undertakings and joint venture companies</b>		
Unlisted investments	58	56
<b>7.1 Movement in carrying amount</b>		
<b>Carrying amount at the beginning of the year</b>	56	64
Net acquisition/(disposal) of associated undertakings and joint venture companies at cost (refer to note 7.2)	2	(8)
<b>Carrying amount at the end of the year</b>	58	56
Directors' valuation of unlisted investments	78	72
<b>7.2 Acquisitions and disposals</b>		
<b>The following acquisitions were concluded during the year, at cost:</b>		
Batho Bonke Investments (Proprietary) Limited	2	n/a
During March 2007, the Company acquired a 49,9% interest in Batho Bonke Investments (Proprietary) Limited.		
<b>Total acquisitions</b>	2	n/a
<b>The following disposals were concluded during the year:</b>		
CBZ Holdings Limited	0	n/a
On 4 September 2007, the Company sold its share in CBZ Holdings Limited to a third party. The Company's investment had been impaired to zero.		
<b>The following disposals were concluded during the previous year:</b>		
Capricorn Investment Holdings Limited	n/a	(8)
On 9 November 2006, the Company sold its share in Capricorn Investment Holdings Limited to a third party.		
<b>Total disposals</b>	0	(8)
<b>Net acquisitions/(disposals)</b>	2	(8)
<b>8. Subsidiaries</b>		
Shares at cost	9 271	9 315
Net loans from subsidiary companies	(871)	(1 287)
	8 400	8 028

The opening balance of shares in subsidiaries at cost was restated by debt securities held in an investment vehicle being reclassified to investments.



			COMPANY	
			2007 Rm	2006 Rm
<b>9. Other liabilities and sundry provisions</b>				
Creditors, other accruals and sundry provisions			61	54
<i>Portfolio analysis</i>				
Financial liabilities at amortised cost			61	54
<b>10. Borrowed funds</b>				
The subordinated debt instruments listed below qualify as secondary capital in terms of the Banks Act, No 94 of 1990 (as amended).				
<b>10.1 Redeemable cumulative option-holding preference shares</b>			158	164
<b>Preference dividend rate</b>	<b>Option exercise dates</b>	<b>Number</b>		
72% of the prime	1 July 2007 to 1 July 2009	79 237 500	158	158
overdraft rate	1 March, 1 June, 1 September or 1 December of each year			
Accrued dividend			7	6
Less: Redemption of preference shares for Absa Group Limited Employee Share Ownership Administrative Trust		(3 618 000)	(7)	—
The dividends are compounded and payable semi-annually in arrear on 30 September and 31 March of each year. The shares were issued by Absa Group Limited on 1 July 2004 and the redemption dates commence on the first business day after the third anniversary of the date of issue of the redeemable preference shares and ending on the fifth anniversary of the date of issue. Such exercise and notice will be deemed to be effective only on the option exercise dates, being 1 March, 1 June, 1 September or 1 December of each year. The shares are convertible into ordinary shares at the option of the preference shareholders on the redemption dates in lots of 100.				
<i>Portfolio analysis</i>				
Financial liabilities at amortised cost				
Redeemable cumulative option-holding preference shares			158	164
<b>11. Share capital and premium</b>				
<b>Ordinary share capital</b>				
<b>Authorised</b>				
800 000 000 (2006: 800 000 000) ordinary shares of R2 each			1 600	1 600
<b>Issued</b>				
678 573 074 (2006: 671 955 074) ordinary shares of R2 each			1 357	1 344
<b>Total issued capital</b>				
Share capital			1 357	1 344
Share premium			2 636	2 198
			3 993	3 542

*Unissued shares*

The unissued shares are under the control of the directors subject to a limit of 5% of issued ordinary share capital as at the balance sheet, in terms of a general authority to allot and issue them on such terms and conditions and at such times as they deem fit. This authority expires at the forthcoming annual general meeting of the Company.

# Notes to the company financial statements

Year ended 31 December

	COMPANY	
	2007 Rm	2006 Rm
<b>11. Share capital and premium (continued)</b>		
<i>Shares issued during the year</i>		
The following ordinary shares were issued during the year:		
• On 1 June 2007, 3 000 000 shares at R36,21 per share, being R2,00 par value and R34,21 share premium.		
• On 3 September 2007, 3 241 000 shares at R69,00 per share, being R2,00 par value and R67,00 share premium.		
• On 13 December 2007, 377 000 shares at R69,00 per share, being R2,00 par value and R67,00 share premium.		
<i>Shares issued during the previous year</i>		
The following ordinary shares were issued during the previous year:		
• On 5 June 2006, 3 300 000 shares at R36,17 per share, being R2,00 par value and R34,17 share premium.		
• On 1 December 2006, 1 800 000 shares at R33,92 per share, being R2,00 par value and R31,92 share premium.		
All shares issued by the Company are paid in full.		
<b>11.2 Preference share capital – unlisted</b>		
<b>Authorised</b>		
80 467 500 (2006: 80 467 500) redeemable cumulative option-holding preference shares of R2 each	<b>161</b>	161
<b>Issued</b>		
75 619 500 (2006: 79 237 500) redeemable cumulative option-holding preference shares of R2 each	<b>151</b>	158

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

The 73 152 300 (2006: 73 152 300) shares held by Batho Bonke Capital (Proprietary) Limited are entitled to voting rights equivalent to those of the listed ordinary shares. The remaining shares held by the Absa Group Limited Employee Share Ownership Administrative Trust are not entitled to voting rights.

#### *Shares redeemed during the year*

The following options held by the Absa Group Limited Employee Share Ownership Administrative Trust were exercised by employees and converted into ordinary shares during the year under review:

- On 3 September 2007, 3 241 000 preference shares were redeemed and converted into ordinary share capital at R69,00 per share, being R2,00 par value and R67,00 share premium.
- On 13 December 2007, 377 000 ordinary shares were redeemed and converted into ordinary share capital at R69,00 per share, being R2,00 par value and R67,00 share premium.

## **12. Other reserves**

### **Foreign currency translation reserve**

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

### **Share-based payment reserve**

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

If the options lapse before vesting, the related reserve is transferred to retained earnings.

	COMPANY	
	2007 Rm	2006 Rm
<b>13. Interest and similar income</b>		
Interest and similar income is earned from:		
Loans and advances to banks	12	6
Loans to subsidiary companies	59	47
	<b>71</b>	<b>53</b>
<i>Portfolio analysis</i>		
Interest on financial assets held at amortised cost	71	53
<b>14. Interest expense and similar charges</b>		
Interest expense and similar charges are paid on:		
Borrowed funds	15	13
<i>Portfolio analysis</i>		
Interest on financial liabilities held at amortised cost	15	13
<b>15. Gains and losses from investment activities</b>		
Designated fair value		
Equity instruments	9	3
Subsidiaries		
Dividends received	4 085	2 787
Associated undertakings and joint venture companies	24	377
Profit realised on disposal	37	377
Loss on exchange differences	(13)	—
	<b>4 118</b>	<b>3 167</b>
<b>16. Other operating income</b>		
Sundry income	8	—
<b>17. Operating expenses</b>		
Administrative expenses	6	1
<b>18. Indirect taxation</b>		
Regional Services Council Levies <sup>1</sup>	—	4
<b>19. Taxation expense</b>		
<b>Current</b>		
South African current taxation	31	50
Secondary taxation on companies	92	13
	<b>123</b>	<b>63</b>
<b>Deferred tax</b>		
Deferred taxation (refer to note 5.1)	(4)	—
	<b>119</b>	<b>63</b>
<b>Reconciliation between accounting profit and the tax expense</b>		
Operating profit before income tax	4 176	3 202
Tax calculated at a tax rate of 29% (2006: 29%)	1 211	928
Income not subject to tax	(1 217)	(926)
Expenses not deductible for tax purposes	32	—
Secondary tax on companies	93	9
Other	—	52
	<b>119</b>	<b>63</b>

<sup>1</sup>Regional Services Council Levies were abolished from 1 July 2006.

# Notes to the company financial statements

Year ended 31 December

	COMPANY			
	2007		2006	
	Gross Rm	Net <sup>1</sup> Rm	Gross Rm	Net <sup>1</sup> Rm
<b>20. Headline earnings</b>				
<b>Headline earnings is determined as follows:</b>				
Net profit attributable to ordinary equity holder of the Company		4 057		3 139
<b>Adjusted for:</b>				
IAS 21 – Recycled foreign currency translation reserve, disposal of investments in foreign operations	13	9	—	—
IAS 28 and IAS 31 – Net profit on disposal of associated undertakings and joint venture companies (refer to note 15)	(37)	(37)	(377)	(377)
IAS 39 – Net profit on disposal of available-for-sale assets and strategic investments	—	—	(3)	(3)
<b>Headline earnings</b>		<b>4 029</b>		<b>2 759</b>

<sup>1</sup>Net of tax.

	COMPANY	
	2007 Rm	2006 Rm
<b>21. Dividends per share</b>		
<b>Dividends paid to ordinary equity holders during the year</b>		
February 2007 final dividend number 41 of 265 cents per ordinary share (February 2006: 135 cents)	1 781	900
September 2007 interim dividend number 42 of 240 cents per ordinary share (September 2006: 208 cents)	1 620	1 394
	<b>3 401</b>	<b>2 294</b>
<b>Dividends paid to ordinary equity holders relating to income for the year</b>		
September 2007 interim dividend number 42 of 240 cents per ordinary share (September 2006: 208 cents)	1 620	1 394
February 2008 final dividend number 43 of 320 cents per ordinary share (February 2007: 265 cents)	2 171	1 781
	<b>3 791</b>	<b>3 175</b>

A final dividend of 320 cents per ordinary share was approved by the board on 19 February 2008. The total dividend amounts to R2 171 million and the STC payable by the Group in respect of the dividend approved and declared subsequent to the balance sheet date, amounts to R217 million.

No provision has been made for this dividend and the related STC in the financial statements for the year ended 31 December 2007.

## 22. Related parties

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

# SHAREHOLDER AND ADMINISTRATIVE INFORMATION

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# Notice of annual general meeting

**Absa Group Limited**

**(Incorporated in the Republic of South Africa)**

**Registration number 1986/003934/06**

**(the Company)**

**JSE share code: ASA**

**Issuer code: AMAGB**

**ISIN: ZAE000067237**

Notice is hereby given that the 22<sup>nd</sup> (twenty-second) annual general meeting of ordinary shareholders will be held in the P W Scales Auditorium, Absa Towers, 160 Main Street, Johannesburg, on Tuesday, 22 April 2008, at 11:00.

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

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

## **AGENDA**

1. To consider the Group's and the Company's audited financial statements for the year ended 31 December 2007.
2. To sanction the proposed remuneration payable to non-executive directors from 1 May 2008, as set out in the table contained in the explanatory notes to the resolutions to be considered at the annual general meeting.
3. In line with international best practice, to consider the re-election (by separate and stand-alone resolutions) of D C Brink and B P Connellan who have served on the board for more than nine years and who have offered themselves for re-election:
  - "Resolved that D C Brink who is required to retire as a director of the Company at this annual general meeting and who is eligible for re-election and who has offered himself for re-election, is hereby reappointed as a director of the Company with immediate effect."
  - "Resolved that B P Connellan who is required to retire as a director of the Company at this annual general meeting and who is eligible for re-election and who has offered himself for re-election, is hereby reappointed as a director of the Company with immediate effect."

To re-elect (by separate and stand-alone resolutions) the following directors who retire by rotation, but being eligible, and who have offered themselves for re-election: D C Arnold, J H Schindehütte, F A Sonn and L L von Zeuner.

- "Resolved that D C Arnold who is required to retire as a director of the Company at this annual general meeting and who is eligible for re-election and who has offered himself for re-election, is hereby reappointed as a director of the Company with immediate effect."
- "Resolved that J H Schindehütte who is required to retire as a director of the Company at this annual general meeting and who is eligible for re-election and who has offered himself for re-election, is hereby reappointed as a director of the Company with immediate effect."
- "Resolved that F A Sonn who is required to retire as a director of the Company at this annual general meeting and who is eligible for re-election and who has offered himself for re-election, is hereby reappointed as a director of the Company with immediate effect."

## Notice of annual general meeting

- “Resolved that L L von Zeuner who is required to retire as a director of the Company at this annual general meeting and who is eligible for re-election and who has offered himself for re-election, is hereby reappointed as a director of the Company with immediate effect.”
4. To confirm the appointment of the following directors who were appointed between two annual general meetings: S A Fakie, R A Jenkins, R Le Blanc, N P Mageza, G Marcus, E C Mondlane, Jr., T S Munday and B J Willemse.
- “Resolved that the appointment of S A Fakie as a director of the Company on 1 January 2008 is hereby confirmed.”
  - “Resolved that the appointment of R A Jenkins as a director of the Company on 4 June 2007 is hereby confirmed.”
  - “Resolved that the appointment of R Le Blanc as a director of the Company on 4 June 2007 is hereby confirmed.”
  - “Resolved that the appointment of N P Mageza as a director of the Company on 10 September 2007 is hereby confirmed.”
  - “Resolved that the appointment of G Marcus as a director of the Company on 1 July 2007 is hereby confirmed.”
  - “Resolved that the appointment of E C Mondlane, Jr., as a director of the Company on 26 September 2007 is hereby confirmed.”
  - “Resolved that the appointment of T S Munday as a director of the Company on 16 April 2007 is hereby confirmed.”
  - “Resolved that the appointment of B J Willemse as a director of the Company on 1 January 2008 is hereby confirmed.”

Biographical details for each of the directors are set out on pages 116 to 124 and 406 of this report.

5. To consider and, if deemed fit, to pass, with or without modification, the following as an ordinary resolution in terms of sections 221 and 222 of the Companies Act 61 of 1973, as amended (Companies Act), in order to provide the directors with flexibility to issue the unissued ordinary shares as and when suitable situations arise:

“Resolved that the authorised but unissued ordinary shares of the Company (other than those specifically identified and authorised for issue in terms of any other authority by shareholders) are hereby placed under the control of the directors, who be and are hereby authorised, subject to any applicable legislation and the Listings Requirements of the JSE Limited (JSE) from time to time and any other stock exchange upon which ordinary shares in the capital of the Company may be quoted or listed from time to time, to allot and issue those ordinary shares on any such terms and conditions as they deem fit, subject to the proviso that the aggregate number of ordinary shares able to be allotted and issued in terms of this resolution shall be limited to 5% (five per cent) of the number of ordinary shares in issue at 31 December 2007.”

The maximum number of shares that can be allotted and issued in terms of the above is 33 928 654 (thirty three million nine hundred and twenty eight thousand six hundred and fifty four) ordinary shares (5% (five per cent) of the 678 573 074 (six hundred and seventy eight million five hundred and seventy three thousand and seventy four) ordinary shares in issue as at 31 December 2007).

6. To consider and, if deemed fit, to pass, with or without modification, the following resolution as a **special resolution** in order to provide the directors with flexibility to repurchase securities in terms of section 85 of the Companies Act as and when suitable situations arise:

“Resolved that the Company or any subsidiary of the Company may, subject to the Companies Act, the Company’s articles of association and the Listings Requirements of the JSE from time to time (Listings Requirements) and any other stock exchange upon which the securities in the capital of the Company may be quoted or listed from time to time, repurchase securities issued by the Company, provided that this authority shall be valid only until the next annual general meeting of the Company or for 15 (fifteen) months from the date of the resolution, whichever is the shorter, and may be varied by a **special resolution** by any general meeting of the Company at any time prior to the next annual general meeting.”



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

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

- the repurchase of securities is effected through the order book operated by the JSE trading system and is done without any prior understanding or arrangement between the Company or the relevant subsidiary and the counterparty;
- the Company or the relevant subsidiary is authorised thereto by its articles of association;
- the Company or the relevant subsidiary is authorised thereto by its shareholders in terms of a **special resolution** of the Company or the relevant subsidiary in general meeting, which authorisation shall be valid only until the next annual general meeting or for 15 (fifteen) months from the date of the resolution, whichever period is the shorter;
- repurchases are made at a price not greater than 10% (ten per cent) above the weighted average of the market value for the securities for the 5 (five) business days immediately preceding the date on which the repurchase is effected;
- at any point in time, the Company or the relevant subsidiary may only appoint one agent to effect any repurchases on the Company's behalf;
- the Company or the relevant subsidiary only undertake repurchases if, after such repurchase, the Company still complies with shareholder-spread requirements in terms of the Listings Requirements;
- the Company or the relevant subsidiary does not repurchase securities during a prohibited period defined in terms of the Listings Requirements, unless it has a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement on Sens prior to the commencement of the prohibited period;
- a paid press announcement containing full details of such repurchases is published as soon as the Company has repurchased securities constituting, on a cumulative basis, 3% (three per cent) of the number of securities in issue prior to the repurchases and for each 3% (three per cent), on a cumulative basis, thereafter; and
- the general repurchase is limited to a maximum of 10% (ten per cent) of the Company's or the relevant subsidiary's issued share capital of that class in any one financial year.

Any acquisition shall be subject to:

- the Companies Act, as amended;
- the Listings Requirements and any other applicable stock exchange rules, as may be amended from time to time; and
- the sanction of any other relevant authority whose approval is required in law.

The directors of the Company undertake that, after having considered the effect of the repurchases, they will not undertake such repurchases unless:

- the Company and the Group would be able to repay their debts in the ordinary course of business for the period of 12 (twelve) months after the date of the notice of the annual general meeting;
- the assets of the Company and the Group, fairly valued in accordance with International Financial Reporting Standards and the Company's accounting policies used in the latest audited Group financial statements, will be in excess of the liabilities of the Company and the Group for the period of 12 (twelve) months after the date of the notice of the annual general meeting;
- the Company and the Group will have adequate capital and reserves for ordinary business purposes for the period of 12 (twelve) months after the date of the notice of the annual general meeting; and
- the working capital of the Company and the Group will be adequate for ordinary business purposes for the period of 12 (twelve) months after the date of the notice of the annual general meeting.

In terms of the Listings Requirements, the maximum number of shares that can be repurchased amounts to 67 857 308 (sixty seven million eight hundred and fifty seven thousand three hundred and eight) ordinary shares

## Notice of annual general meeting

(10% (ten per cent) of the 678 573 074 (six hundred and seventy eight million five hundred and seventy three thousand and seventy four) ordinary shares in issue as at 31 December 2007).

The **reason** for passing of the **special resolution** is to enable the Company or any of its subsidiaries, by way of a general authority from shareholders, to repurchase securities issued by the Company.

The **effect** of the **special resolution**, once registered, will be to permit the Company or any of its subsidiaries to repurchase such securities in terms of the Companies Act. This authority will only be used if circumstances are appropriate.

For the purposes of considering the **special resolution** and in compliance with paragraph 11.26 of the Listings Requirements, certain information is either listed below or has been included elsewhere in this report, in which this notice of annual general meeting is included:

- Directors and management – refer to pages 116 to 130 and 406 of this report.
- Major shareholders – refer to page 58 of this report.
- No material changes in the financial or trading position of the Company and its subsidiaries have occurred since 31 December 2007.
- Directors' interests in securities – refer to page 199 of this report.
- Share capital of the Company – refer to page 202 of this report.
- The directors, whose names are set out on page 409 of this report, collectively and individually accept full responsibility for the accuracy of the information contained in this notice and accompanying documents and certify that, to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement false or misleading and that they have made all reasonable enquiries in this regard, and further that this notice contains all information required by law and the Listings Requirements.
- There are no legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Company is aware), which may have or have had a material effect on the Company's financial position over the past 12 (twelve) months.

The Company will only transact in derivative transactions relating to the repurchase of securities if the following conditions are met with regard to the price of the derivative:

- The strike price of any put option written by the Company, less the value of the premium received by the Company for that put option, may not be greater than the fair value of a forward agreement based on a spot price not greater than 10% (ten per cent) above the weighted average of the market value for the securities for the 5 (five) business days immediately preceding the date on which the transaction is effected.
- The strike price of any call option may be greater than 10% (ten per cent) above the weighted average of the market value for the securities for the 5 (five) business days immediately preceding the date on which the transaction is effected at the time of entering into the derivative agreement, but the Company may not exercise the call option if it is more than 10% (ten per cent) "out of the money".
- The strike price of the forward agreement may be greater than 10% (ten per cent) above the weighted average of the market value for the securities for the 5 (five) business days immediately preceding the date on which the transaction is effected, but limited to the fair value of a forward agreement calculated from a spot price not greater than 10% (ten per cent) above the average of the market value for the securities for the 5 (five) business days immediately preceding the date on which the transaction is effected.

7. To consider altering the Company's articles of association in terms of section 62 of the Companies Act and, if deemed fit, to pass, with or without modification, the following resolution as a **special resolution** to enable the Company's directors to remove a co-director through the signing of a resolution to that effect by not less than three-fourths (75%) of the other directors on the board.

"Resolved that Article 86.5 of the Company's articles of association be and is hereby amended by the deletion of the phrase "all his co-directors" and the substitution in its place of the phrase "not less than three-fourths (75%) of the other directors on the board" so that the resultant Article 86.5 will read as follows:

*'86. The office of director shall, notwithstanding the provisions of any agreement between the Company and the director, be vacated, ipso facto, if the director:*

*86.5 is removed by resolution in writing signed by not less than three-fourths (75%) of the other directors on the board.'"*

The **reason** for the passing of the **special resolution** is to enable the board of directors to remove a co-director from office through the passing of a resolution to that effect by not less than three-fourths (75%) of the other directors on the board.

The **effect** of the **special resolution**, once registered, is that the articles of association will allow for the removal of a director by not less than three-fourths (75%) of the other directors on the board.

#### **PROXY AND VOTING PROCEDURE**

Members who have not dematerialised their shares or who have dematerialised their shares with "own name" registration are entitled to attend or vote at the annual general meeting and are entitled to appoint a proxy to attend, speak and vote in their stead. The person so appointed need not be a member of the Company.

If certificated members or dematerialised members with "own name" registration are unable to attend the annual general meeting, but wish to be represented thereat, they must complete the proxy form on page 407 of this report.

In order to be effective, proxy forms should be delivered to the transfer secretaries, Computershare Investor Services (Proprietary) Limited at 70 Marshall Street, Johannesburg, 2001, or be posted to PO Box 61051, Marshalltown, 2107, so as to reach this address no later than 11:00 on Friday, 18 April 2008.

Members who have dematerialised their shares, other than those members who have dematerialised their shares with "own name" registration, should contact their participant (previously central securities depository participant) or stockbroker:

- to furnish their participant or stockbroker with their voting instruction; or
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

By order of the board



**S Martin**

*Group Secretary*

Johannesburg

20 March 2008

# Appendix to the notice of annual general meeting

## IMPORTANT NOTES ABOUT THE ANNUAL GENERAL MEETING (AGM)

- Date:** Tuesday, 22 April 2008, at 11:00.
- Venue:** P W Scales Auditorium, Absa Towers, 160 Main Street, Johannesburg.
- Time:** The AGM will start promptly at 11:00. Shareholders wishing to attend are advised to be in the auditorium no later than 10:45. Reception staff at the Absa Towers complex will direct shareholders to the AGM venue. Refreshments will be served after the AGM.
- Admission:** Shareholders, representatives of shareholders and proxies attending the AGM are requested to register at the registration desk in the auditorium reception area at the venue. Shareholders, representatives of shareholders and proxies may be required to provide proof of identity.
- Security:** Secure parking is provided at the venue by prior arrangement. Attendees are requested not to bring cameras, laptop computers or tape recorders. Cellular telephones should be switched off for the duration of the proceedings.

## OTHER IMPORTANT NOTES

### 1. General

Shareholders wishing to attend the AGM have to ensure beforehand with the transfer secretaries of the Company that their shares are in fact registered in their name. Should this not be the case and the shares be registered in any other name or in the name of a nominee company, it is incumbent on shareholders attending the meeting to make the necessary arrangements with that party to be able to attend and vote in their personal capacity. The proxy form contains detailed instructions in this regard.

### 2. Certificated shareholders and dematerialised shareholders with “own name” registration

If you are the registered holder of certificated Absa Group Limited ordinary shares or the registered holder of certificated redeemable cumulative option-holding par value preference shares or hold dematerialised Absa Group Limited ordinary shares in your own name and you are unable to attend the AGM and wish to be represented at the AGM, you should complete and return the attached form of proxy in accordance with the instructions contained therein so as to be received by the transfer secretaries, Computershare Investor Services (Proprietary) Limited, at 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), by no later than 11:00 on Friday, 18 April 2008.

### 3. Dematerialised shareholders

If you are the holder of dematerialised Absa Group Limited ordinary shares, but not the holder of dematerialised Absa ordinary shares in your own name, you must timeously provide your depository participant or stockbroker with your voting instructions for the AGM in terms of the custody agreement entered into with your participant or stockbroker. If, however, you wish to attend the AGM in person, then you must request your participant or stockbroker timeously to provide you with the necessary authority to attend and vote your shares.

#### **4. Proxies**

Shareholders must ensure that their proxy forms reach the transfer secretaries as indicated in note 2 on page 402 not later than 11:00 on Friday, 18 April 2008.

#### **5. Enquiries**

Any shareholders having difficulties or queries with regard to the AGM or the above may contact the Group Secretary, Sarita Martin, on +27 011 350 4828.

#### **6. Results of the annual general meeting**

The results of the meeting will be posted on Sens as soon as practicably possible after the AGM.

# Explanatory notes to resolutions of the annual general meeting

## CONSIDERATION OF THE GROUP'S AND THE COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (RESOLUTION NUMBER 1 – ORDINARY RESOLUTION)

The directors must present to members at the annual general meeting (AGM) the financial statements of the Group and the Company, incorporating the report of the directors, for the year ended 31 December 2007, together with the report of the auditors contained in this report.

## SANCTION OF PROPOSED REMUNERATION PAYABLE TO NON-EXECUTIVE DIRECTORS FROM 1 MAY 2008 (RESOLUTION NUMBER 2 – ORDINARY RESOLUTION)

Shareholders are requested to consider and, if deemed appropriate, sanction the proposed remuneration payable to non-executive directors with effect from 1 May 2008, as set out below. Full particulars of all fees and remuneration for the past year as well as the process followed by the Group Remuneration and Human Resource Committee (GRHRC) in recommending board fees and remuneration are contained on pages 99 to 115 of this report.

### ABSA GROUP BOARD AND GROUP COMMITTEES (FOR CONFIRMATION/APPROVAL BY ABSA GROUP SHAREHOLDERS)

Category	Note	Current	Proposed annual fee
		annual fee R	payable with effect from 1 May 2008 R
Chairperson	1	3 500 000	3 500 000
Absa Group board member	2 & 3	135 500	143 100
Group Audit and Compliance Committee (GACC) member	4	114 800	133 200
Group Risk and Capital Management Committee (GRCMC) member	5	74 800	133 200
Group Remuneration and Human Resource Committee (GRHRC) member	6	60 000	70 800
Directors' Affairs Committee (DAC) member	7	45 100	48 700
Credit Committee: Large Exposures member	8	45 100	48 700
Group Credit Committee member		1 000 per facility	1 000 per facility
Special board meetings		18 200 per meeting	19 600 per meeting
Special Board Committee meetings (including Board Finance Committee)		11 700 per meeting	12 600 per meeting
Brand and Reputation Committee		11 700 per meeting	12 600 per meeting
Technical Disclosure Committee	9	n/a	3 000 per hour
Acquisitions Committee: Barclays Africa	10	n/a	12 600 per meeting
Fees for ad hoc board-appointed committees other ad hoc consultancy work:			
• Per meeting		11 700 per meeting	12 600 per meeting
• Consulting work		3 000 per hour	3 000 per hour

#### Notes

- (1) The Chairperson's remuneration is on an all-in basis.
- (2) The Deputy Chairperson receives fees equal to 1,5 times the fee payable to a board member.
- (3) Executive directors of Absa Group Limited receive fees, as members of the Absa Group Limited board, equal to the fees payable to a board member (excluding all subcommittee fees).
- (4) The GACC Chairperson receives fees equal to twice the fee payable to a GACC member.
- (5) The GRCMC Chairperson receives fees equal to twice the fee payable to a GRCMC member.
- (6) The GRHRC Chairperson receives fees equal to twice the fee payable to a GRHRC member.
- (7) As the Group Chairperson is the Chairperson of the DAC, this fee is covered by her Group Chairperson's fee.
- (8) As the Group Chairperson is Chairperson of the Credit Committee: Large Exposures this fee is covered by her Group Chairperson's fee.
- (9) The proposal for the Technical Disclosure Committee is new for 2007/8. As this committee meets infrequently it is considered appropriate for the committee members to be remunerated on an hourly basis.
- (10) The proposal for the Acquisitions Committee: Barclays Africa is new for 2007/8.

### **RE-ELECTION OF RETIRING DIRECTORS (RESOLUTION NUMBER 3 – ORDINARY RESOLUTION)**

In line with international best practice, the Company has introduced a requirement in terms of which all directors on the board for longer than nine years are subject to annual re-election by shareholders at the AGM. The directors who retire in terms of the above arrangements at the 2008 annual general meeting are D C Brink and B P Connellan. Both directors are eligible for re-election and have made themselves available for re-election. The board recommends to shareholders their re-election.

Furthermore, one-third of the directors are required to retire at each AGM in terms of the Company's articles of association. These directors may offer themselves for re-election. The board recommends to shareholders the re-election of the following directors who retire by rotation in terms of Article 22.1 of the Company's articles of association and who are eligible for re-election and who have offered themselves for re-election: D C Arnold, J H Schindehütte, F A Sonn and L L von Zeuner. Biographical details of these directors are set out on pages 116 to 124 of this report.

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

### **CONFIRMATION OF APPOINTMENT OF NEW DIRECTORS (RESOLUTION NUMBER 4 – ORDINARY RESOLUTION)**

The appointment by the board of directors of any persons as directors of the Company during the year requires confirmation by shareholders at the first AGM of the Company after the appointment of such persons as directors. S A Fakie, R A Jenkins, R Le Blanc, N P Mageza, G Marcus, E C Mondlane, Jr., T S Munday and B J Willemse were appointed during the year and the board recommends to shareholders that their appointments be confirmed. Biographical details of these directors are set out on pages 116 to 124 and 406 of this report.

### **PLACING OF UNISSUED ORDINARY SHARES UNDER THE CONTROL OF THE DIRECTORS (RESOLUTION NUMBER 5 – ORDINARY RESOLUTION)**

In terms of sections 221 and 222 of the Companies Act, the members of the Company have to approve the placement of the unissued ordinary shares under the control of the directors.

The existing authority granted by the members at the previous AGM on 23 April 2007 expires at the forthcoming AGM, unless renewed. The authority will be subject to the Companies Act, the Banks Act and the Listings Requirements. The aggregate number of ordinary shares able to be allotted and issued in terms of this resolution shall be limited to 5% (five per cent) of the number of ordinary shares in issue at 31 December 2007.

The directors have decided to seek annual renewal of this authority in accordance with best practice. The directors have no current plans to make use of this authority, but are seeking its renewal to ensure that the Company has maximum flexibility in managing the Group's capital resources.

# Explanatory notes to resolutions of the annual general meeting

## REPURCHASE BY THE COMPANY OR ANY SUBSIDIARY OF THE COMPANY OF SECURITIES ISSUED BY THE COMPANY (RESOLUTION NUMBER 6 – SPECIAL RESOLUTION)

The Company's articles of association contain a provision allowing the Company or any subsidiary of the Company to repurchase securities issued by the Company. This is subject to the approval of the members in terms of the Company's articles of association, the Companies Act, the Banks Act and the Listings Requirements. The existing general authority, granted by the members at the previous AGM on 23 April 2007, is due to expire, unless renewed.

The directors are of the opinion that it would be in the best interests of the Company to extend such general authority and thereby allow the Company or any subsidiary of the Company to be in a position to repurchase the securities issued by the Company through the order book of the JSE, should the market conditions and price justify such an action.

The proposed authority would enable the Company or any subsidiary of the Company to purchase up to a maximum of 67 857 308 (sixty seven million eight hundred and fifty seven thousand three hundred and eight) ordinary securities in the ordinary issued share capital of the Company, representing 10% (ten per cent) of the issued ordinary share capital as at 31 December 2007 (reduced from 20% (twenty per cent) in the previous year) with a stated upper limit on the price payable, which reflects the Listings Requirements. Repurchases will be made only after the most careful consideration, where the directors believe that an increase in earnings per share will result and where repurchases are, in the opinion of the directors, in the best interests of the Company and its members.

## AMENDMENT OF THE COMPANY'S ARTICLES OF ASSOCIATION TO ENABLE NOT LESS THAN THREE-FOURTHS (75%) OF THE DIRECTORS TO REMOVE A CO-DIRECTOR FROM THE BOARD OF DIRECTORS (RESOLUTION NUMBER 7 – SPECIAL RESOLUTION)

The Company's articles of association state that a director may be removed from the board if all his/her co-directors pass a resolution to that effect. The proposed change to Article 86.5 will enable the directors to remove a co-director through the passing of such a resolution by not less than three-fourths (75%) of the other directors on the board.

## ABSA GROUP BOARD MEMBERS APPOINTED SUBSEQUENT TO 31 DECEMBER 2007

### S A (SHAUKET) FAKIE (Independent director)

#### Absa board committee memberships

- Group Audit and Compliance Committee
- Group Credit Committee
- Credit Committee: Large Exposures
- Acquisitions Committee: Barclays Africa.

#### Other directorships/trusteeships

Mr Fakie is a member of the following professional bodies: the Independent Regulatory Board of Auditors; the South African Institute of Chartered Accountants; the Australian Institute of Chartered Accountants and the Institute of Public Finance and Audit. He serves as a director on several MTN subsidiary companies in Africa.

#### Skills, expertise and experience:

Mr Fakie was the Auditor General of South Africa for a period of seven years and served as Chairperson of the UN Panel of External Auditors and Secretary General for the Auditor's General Association in the African Continent. He currently serves on the boards of various companies and the executive committees of several community and non-profit organisations. He is a member of the Public Accountants and Auditors Board and is the past Treasurer and Chairperson of the Education Committee at the Association for the Advancement of Black Accountants in Southern Africa. He was also a member of the RDP Sub-Committee at the Western Cape Society of Chartered Accountants and the Education Committee of the Institute of Chartered Accountants in Australia.

Refer to pages 116 to 124 for the Groups's directors as at 31 December 2007.

### B J (JOHAN) WILLEMSE (Independent director)

#### Absa board committee memberships

- Group Risk and Capital Management Committee
- Group Credit Committee
- Credit Committee: Large Exposures.

#### Other directorships/trusteeships

Professor Willemse is the Vice-Chairperson: Agricultural Economics Association of Southern Africa. He is also the Chairperson of the Department of Agricultural Economics at the University of the Free State.

#### Skills, expertise and experience:

As Chief Economist of the South African Agricultural Union, as well as the Maize Board, consulting to Agri business, and as member of the National Agricultural Marketing Council, Professor Willemse gained experience on a wide variety of economic and agricultural issues, including price and marketing policies, broad agricultural policy issues, pricing policies and strategies and international trade and futures markets.



# Form of proxy

## ANNUAL GENERAL MEETING

### Absa Group Limited

Registration number: 1986/003934/06

JSE code: ASA

Issuer code: AMAGB

ISIN code: ZAE000067237

(Absa or the Group)

## NUMBER OF SHARES

TO BE COMPLETED BY CERTIFICATED SHAREHOLDERS AND DEMATERIALIZED SHAREHOLDERS WITH "OWN NAME" REGISTRATION ONLY AND REDEEMABLE CUMULATIVE OPTION-HOLDING PREFERENCE SHAREHOLDERS

I/We

(name(s) in block letters)

of

(address in block letters)

being a member(s) of the Company, entitled to vote and holding \_\_\_\_\_ shares do hereby appoint

or, failing him/her,

the chairperson of the annual general meeting (AGM) as my/our proxy to attend and speak and vote for me/us and on my/our behalf at the AGM of members of the Company to be held in the P W Scales Auditorium, Absa Towers, 160 Main Street, Johannesburg, 2001, on Tuesday, 22 April 2008 at 11:00 and at any adjournment thereof, as follows:

	In favour of <sup>1</sup>	Against <sup>1</sup>	Abstain <sup>1</sup>
1. Resolution to consider the Group and Company financial statements			
2. Resolution to sanction the proposed remuneration of the non-executive directors, payable from 1 May 2008			
3. Resolutions to re-elect retiring directors: D C Arnold			
D C Brink			
B P Connellan			
J H Schindehütte			
F A Sonn			
L L von Zeuner			
4. Resolutions to confirm the appointment of directors appointed between two annual general meetings: S A Fakie			
R A Jenkins			
R Le Blanc			
N P Mageza			
G Marcus			
E C Mondlane, Jr.			
T S Munday			
B J Willemse			
5. Resolution regarding the placing of the unissued shares under the control of the directors			
6. Special resolution regarding the authority for a general repurchase of securities			
7. Special resolution to amend the Company's articles of association to enable not less than 75% of the directors to remove a co-director from the board			

<sup>1</sup>Please indicate with an "X" in the appropriate spaces provided above how you wish your vote to be cast. If no indication is given, the proxy will be entitled to vote or abstain as he/she deems fit.

A member of the Company entitled to attend and vote at the abovementioned meeting is entitled to appoint a proxy or proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the Company.

Signed at \_\_\_\_\_ on \_\_\_\_\_ 2008

Full name(s)

(in block letters)

Signature(s)

Assisted by (guardian) \_\_\_\_\_ Date \_\_\_\_\_ 2008

If signing in a representative capacity, see note 4 on page 408.

# Form of proxy

## NOTES TO FORM OF PROXY

1. If two or more proxies attend the AGM, then that person attending the AGM whose name appears first on the proxy form and whose name is not deleted shall be regarded as the validly appointed proxy.
2. The chairperson of the AGM may reject or accept a form of proxy which is completed and/or received other than in accordance with these notes.
3. Any alteration to this proxy form, other than a deletion of alternatives, must be initialled by the signatories.
4. Documentary evidence establishing the authority of a person signing the proxy form in a representative or other legal capacity must be attached to this form of proxy, unless previously recorded by the Company or the transfer secretaries or waived by the chairperson of the AGM.
5. A minor must be assisted by his/her parent or guardian, unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
6. In order to be effective, proxy forms must be delivered to the transfer secretaries, Computershare Investor Services (Proprietary) Limited, at 70 Marshall Street, Johannesburg, 2001, or be posted to PO Box 61051, Marshalltown, 2107, so as to reach this address not later than 11:00 on Friday, 18 April 2008.
7. The delivery of a duly completed proxy form shall not preclude any member or his/her duly authorised representative from attending the AGM and speaking and voting thereat instead of the proxy.
8. Where there are joint holders of shares:
  - 8.1. any one holder may sign the form of proxy; and
  - 8.2. the vote of the senior shareholder (for that purpose seniority will be determined by the order in which the names of the shareholders appear in the Company's register) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholders.
9. Shareholders holding dematerialised shares (without "own name" registration) who wish to attend the AGM must contact their participant or stockbroker, who will furnish them with the necessary authority to attend the AGM. Alternatively, such shareholders must instruct their participant or stockbroker as to how they wish to vote in this regard. This has to be done in terms of the agreement entered into between such shareholders and their participant or stockbroker.

# Administration<sup>1</sup>

## CONTROLLING COMPANY

### Absa Group Limited

Reg No 1986/003934/06

#### Registered office

3rd Floor, Absa Towers East  
170 Main Street  
Johannesburg, 2001  
*Postal address:* PO Box 7735  
Johannesburg, 2000  
*Telephone:* 011 350 4000  
*Telefax:* 011 350 4009  
*e-mail:* groupsec@absa.co.za

#### Board of directors

G Marcus (Chairperson)  
D C Brink (Deputy Chairperson)  
S F Booysen<sup>2</sup> (Group Chief Executive)  
L N Angel  
D C Arnold  
B P Connellan  
Y Z Cuba  
S A Fakie  
G Griffin  
M W Hlahla  
R A Jenkins (British)  
L N Jonker  
R Le Blanc (British)  
N P Mageza<sup>2</sup>  
E C Mondlane, Jr. (Mozambican)  
T S Munday  
J H Schindehütte<sup>2</sup>  
F F Seegers (Dutch)  
F A Sonn  
L L von Zeuner<sup>2</sup>  
B J Willemse

#### Transfer secretaries

### Computershare Investor Services (Proprietary) Limited

70 Marshall Street  
Johannesburg, 2001  
*Postal address:* PO Box 61051  
Marshalltown, 2107  
*Telephone:* 011 370 5000  
*Telefax:* 011 370 5271/2

#### ADR depositary

### The Bank of New York Mellon

101 Barclay Street, 22W  
New York, NY, 10286  
*Telephone:* 001 212 815 2248

#### Auditors

PricewaterhouseCoopers Inc.  
Ernst & Young Inc.

#### Group Secretary

S Martin  
*e-mail:* sarita.martin@absa.co.za

#### Sponsor

### Merrill Lynch South Africa (Proprietary) Limited

(Member of the Merrill  
Lynch Group)  
138 West Street, Sandown  
Sandton, 2196  
*Postal address:* PO Box 651987  
Benmore, 2010  
*Telephone:* 011 305 5555  
*Telefax:* 011 305 5610

## BANKING

Absa Bank Limited and its  
operating divisions

### Absa Bank Limited

Reg No 1986/004794/06

#### Registered office

3rd Floor, Absa Towers East  
170 Main Street  
Johannesburg, 2001  
*Postal address:* PO Box 7735  
Johannesburg, 2000  
*Telephone:* 011 350 4000  
*Telefax:* 011 350 4009  
*e-mail:* groupsec@absa.co.za

#### Board of directors

G Marcus (Chairperson)  
D C Brink (Deputy Chairperson)  
S F Booysen<sup>2</sup> (Group Chief Executive)  
L N Angel

D C Arnold  
B P Connellan  
Y Z Cuba  
S A Fakie  
G Griffin  
M W Hlahla  
R A Jenkins (British)  
L N Jonker  
R Le Blanc (British)  
N P Mageza<sup>2</sup>  
E C Mondlane, Jr. (Mozambican)  
T S Munday  
J H Schindehütte<sup>2</sup>  
F F Seegers (Dutch)  
F A Sonn  
L L von Zeuner<sup>2</sup>  
B J Willemse

#### Absa Capital

Absa Towers North  
180 Commissioner Street  
Johannesburg, 2001  
*Postal address:* PO Box 2863  
Johannesburg, 2000  
*Telephone:* 011 350 4000  
*Telefax:* 011 350 3064  
*e-mail:* abcap@absa.co.za

#### Absa Card

Volkskas Centre, 230 Van der Walt  
Street, Pretoria, 0002  
*Postal address:* PO Box 3915  
Pretoria, 0001  
*Telephone:* 012 317 0000  
*Telefax:* 012 317 0127  
*e-mail:* contactcard@absa.co.za

#### Absa Corporate and Business Bank

Absa Towers, 160 Main Street  
Johannesburg, 2001  
*Postal address:* PO Box 7735  
Johannesburg, 2000  
*Telephone:* 011 350 4000  
*Telefax:* 011 350 5247  
*e-mail:* oscarg@absa.co.za

<sup>1</sup>As at March 2008.

<sup>2</sup>Executive in the Absa Group.

# Administration

## **Absa Debtor Finance**

### **(Proprietary) Limited**

Reg No 1990/001207/07  
Debtor Finance House, 3 West  
Street, Houghton, 2041  
*Postal address:* PO Box 7735  
Johannesburg, 2000  
*Telephone:* 011 221 6444  
*Telefax:* 011 333 3884  
*e-mail:* sharonp@absa.co.za

## **Absa Home Loans**

9 Lothbury Street  
Auckland Park, 2092  
*Telephone:* 0860 111 007  
*Telefax:* 011 276 5111  
*e-mail:* home@absa.co.za

## **Absa Islamic Banking**

61 Empire Road, Absa Investment  
Campus, Block E, Parktown  
Johannesburg, 2193  
*Telephone:* 011 551 4530  
*Telefax:* 011 551 4521  
*e-mail:* islamicbanking@absa.co.za

## **Absa Micro Lending**

2nd Floor, Absa Building  
278 Thirteenth Road  
Erand Gardens, Midrand, 1685  
*Postal address:* PO Box 7735  
Johannesburg, 2000  
*Telephone:* 011 697 8000  
*Telefax:* 011 697 8023  
*e-mail:* lawrence.twigg@absa.co.za

## **Absa Private Bank**

Ground Floor, Block A  
65 Empire Road, Parktown, 2193  
*Postal address:* PO Box 67  
Auckland Park, 2006  
*Telephone:* 011 480 5200  
*Telefax:* 011 480 5273  
*e-mail:* privatebank@absa.co.za

## **Absa Vehicle and Asset Finance**

Absa Towers, 160 Main Street  
Johannesburg, 2001  
*Postal address:* PO Box 8842  
Johannesburg, 2000  
*Telephone:* 011 350 4000  
*Telefax:* 011 350 5373  
*e-mail:* vehiclefinance@absa.co.za

## **Retail Bank**

Absa Towers, 160 Main Street  
Johannesburg, 2001  
*Postal address:* PO Box 7735  
Johannesburg, 2000  
*Telephone:* 011 350 4000  
*Telefax:* 011 350 4411  
*e-mail:* louisvz@absa.co.za

## **FINANCIAL SERVICES AND INSURANCE**

Absa Financial Services Limited and its  
major subsidiaries

### **Absa Financial Services Limited**

Reg No 1969/009007/06

### **Registered office**

Absa Towers East, 170 Main Street  
Johannesburg, 2001  
*Postal address:* PO Box 7735  
Johannesburg, 2000  
*Telephone:* 011 350 4227  
*Telefax:* 011 350 3946  
*e-mail:* williel@absa.co.za

### **Board of directors**

S F Booysen<sup>1</sup>  
W T Lategan<sup>1</sup>  
N P Mageza<sup>1</sup>  
L L von Zeuner<sup>1</sup>  
G Griffin<sup>1</sup>  
D W P Hodnett<sup>1</sup>

### **Absa Brokers**

**(Proprietary) Limited**  
Reg No 1970/002732/07

## **Life broking**

267 Kent Avenue, Randburg, 2194  
*Postal address:* PO Box 3540  
Randburg, 2125  
*Telephone:* 011 289 0600  
*Telefax:* 011 289 0740  
*e-mail:* peter.todd@absa-ib.co.za

## **Short-term broking**

267 Kent Avenue, Randburg, 2194  
*Postal address:* PO Box 3992  
Randburg, 2125  
*Telephone:* 011 289 0600  
*Telefax:* 011 289 0740  
*e-mail:* peter.todd@absa-ib.co.za

## **Absa Consultants and Actuaries (Proprietary) Limited**

Reg No 1961/001434/07  
Fourways Golf Park, Mowbray  
Building, Roos Street, Fourways  
*Postal address:* PO Box 4167  
Fourways, 2055  
*Telephone:* 011 224 9000  
*Telefax:* 011 467 8442  
*e-mail:* jgrobler@absa.co.za

## **Absa Fund Managers Limited**

Reg No 1991/000881/06  
65 Empire Road, Parktown, 2193  
*Postal address:* PO Box 6115  
Johannesburg, 2000  
*Telephone:* 011 480 5000  
*Telefax:* 011 480 5440  
*e-mail:* alan.miller@absa.co.za

## **Absa Health Care Consultants (Proprietary) Limited**

Reg No 1983/008344/07  
2nd Floor, Absa Building  
1263 Heuwel Avenue  
Centurion, Pretoria, 0157  
*Postal address:* PO Box 10285  
Centurion, 0046  
*Telephone:* 012 674 8800  
*Telefax:* 012 663 8673  
*e-mail:* louisjb@absa.co.za

**Absa Insurance  
Company Limited**

Reg No 1992/001737/06  
21 Kruis Street  
Johannesburg, 2001  
*Postal address:* PO Box 421  
Johannesburg, 2000  
*Telephone:* 011 330 2111  
*Telefax:* 011 331 7414  
*e-mail:* coenraad@absa.co.za

**Absa Investment Management  
Services (Proprietary) Limited**

Reg No 1980/002425/07  
1 Woodmead Drive, Block 6  
Woodmead Estate, 2128  
*Postal address:* PO Box 974  
Johannesburg, 2000  
*Telephone:* 011 259 0111  
*Telefax:* 011 259 0051/2  
*e-mail:* aims@absa.co.za

**Absa Life Limited**

Reg No 1992/001738/06  
21 Kruis Street  
Johannesburg, 2001  
*Postal address:* PO Box 421  
Johannesburg, 2000  
*Telephone:* 011 330 2265  
*Telefax:* 011 331 1312  
*e-mail:* coenraad@absa.co.za

**Absa Mortgage Fund Managers  
(Proprietary) Limited**

Reg No 1988/003537/07  
3rd Floor, Absa Towers East  
170 Main Street  
Johannesburg, 2001  
*Postal address:* PO Box 7735  
Johannesburg, 2000  
*Telephone:* 011 350 4000  
*e-mail:* groupsec@absa.co.za

**Absa Trust Limited**

Reg No 1915/004665/06  
65 Empire Road, Parktown, 2193  
*Postal address:* PO Box 223  
Auckland Park, 2006  
*Telephone:* 011 480 5000  
*Telefax:* 011 480 5193  
*e-mail:* willieg@absa.co.za

**Other Group subsidiaries,  
associated undertakings and other  
interests**

**Absa Asset Management  
(Proprietary) Limited**

Reg No 1997/017903/07  
Park Ridge Office Park, Block A  
65 Empire Road, Parktown, 2193  
*Postal address:* PO Box 61320  
Marshalltown, 2107  
*Telephone:* 011 480 5335  
*Telefax:* 011 480 5351  
*e-mail:* errol.shear@absa.co.za

**Absa Development Company  
Holdings (Proprietary) Limited**

Reg No 1968/001326/07  
Block E, Flora Park Office Park  
cnr Ontdekkers and Conrad  
Roads, Florida, 1710  
*Postal address:* PO Box 1132  
Johannesburg, 2000  
*Telephone:* 011 671 7300  
*Telefax:* 011 674 1217  
*e-mail:* luthando.vutula@absa.co.za

**Absa Manx Insurance Company  
Limited (Isle of Man)**

Reg No 077950C  
3rd Floor, St George's Court  
Upper Church Street, Douglas  
Isle of Man IM1 1EE  
*Telephone:*  
0044 1624 692 411/425

**Absa Portfolio Managers  
(Proprietary) Limited**

Reg No 1954/001116/07  
3rd Floor, Absa Towers East  
170 Main Street  
Johannesburg, 2001  
*Postal address:* PO Box 5438  
Johannesburg, 2000  
*Telephone:* 011 350 4000  
*e-mail:* groupsec@absa.co.za

**Absa Stockbrokers  
(Proprietary) Limited  
(member of the JSE Limited)**

Reg No 1973/010798/07  
Park Ridge Office Park, Block A  
65 Empire Road, Parktown, 2193  
*Postal address:* PO Box 61320  
Marshalltown, 2107

**Dealing department**

*Telephone:* 011 647 0892  
*Telefax:* 011 647 0877

**Settlement department**

*Telephone:* 011 647 0819  
*Telefax:* 011 647 0828  
*e-mail:* equitiesadmin@absa.co.za

**Absa Syndicate Investments  
Holdings Limited  
(United Kingdom)**

Reg No 2869701  
32 Threadneedle Street  
London, EC2R 8AY  
*Telephone:* 0044 207 763 6165

**Absa Trading and Investment  
Solutions Holdings Limited**

Reg No 1989/017358/06  
3rd Floor, Absa Towers East  
170 Main Street  
Johannesburg, 2001  
*Postal address:* PO Box 7735  
Johannesburg, 2000  
*Telephone:* 011 350 4000  
*e-mail:* groupsec@absa.co.za

# Administration

## AllPay Consolidated Investment Holdings (Proprietary) Limited

Reg No 1993/003751/07  
3rd Floor, Absa Towers East  
170 Main Street  
Johannesburg, 2001  
Postal address: PO Box 5438  
Johannesburg, 2000  
Telephone: 011 532 2185  
Telefax: 011 532 2180  
e-mail: thandekam@absa.co.za

## Banco Comercial Angolano (Angola)

83 A Avenida Comandante Valódia,  
Luanda  
Postal address: Caixa Postal 6900  
Luanda, Angola  
Telephone: 00 244 222 448842/8/9  
Telefax: 00 244 222 449516  
e-mail: gerald.jordaan@bca.co.ao/  
hernani.cambinda@  
bancocomercialangolano.net

## Barclays Bank Mozambique S.A. (Mozambique)

Avenida 25 de Setembro No 1184  
Maputo, Mozambique  
Telephone: 00 258 21 427685/351700  
Telefax: 00 258 21 323470  
e-mail: pauln@barclays.co.mz

## Meeg Bank Limited

Reg No 1976/060115/06  
5th Floor, Absa Building, cnr Oxford  
and Gladstone Streets  
85 Oxford Street, East London Eastern  
Cape, 5201  
Postal address: PO Box 429  
East London, 5200  
Telephone: 043 702 9600  
Telefax: 043 702 9700  
e-mail: dz@meegbank.co.za

## National Bank of Commerce Limited (Tanzania)

Mezzanine Floor, NBC House Sokoine  
Drive, Dar es Salaam  
Postal address: PO Box 1863  
Dar es Salaam, Tanzania  
Telephone: 00 255 222 110959  
Telefax: 00 255 222 112887  
e-mail: nbcltd@nbctz.com

## Provincial advisory boards

### Eastern and Southern Cape

B P Erasmus (Chairperson)  
D D Tabata  
D R Bruce  
B C Qupe  
J Schewitz  
M Tom

### Free State

E M Makotoko (Chairperson)  
K M Charwood  
P C Luttig

### Gauteng

L I Weil (Chairperson)  
P J Muller (Vice-chairperson)  
H P Africa  
S Dakile-Hlongwane  
B Mogale  
Y A Moti  
J J Sauer

### Gauteng North

D J de Villiers (Chairperson)  
S Adendorff  
F B de Vos  
D Motlatla  
N R Mistry  
S Vil-Nkomo

### KwaZulu-Natal

N A Gasa (Chairperson)  
W D Howie  
K Makan  
L Moloji  
D Myeni  
N T Oosthuizen  
S J Sibeko

## Mpumalanga

N M Phosa (Chairperson)  
J J Claassen  
J J Maritz  
N P Mazibuko  
H van der Merwe

## Northern Cape

P Crouse (Chairperson)  
J S Marais  
R E Modise  
C P van den Heever  
M S Wookey

## Limpopo

S N Mahomed (Chairperson)  
I I Bower (Vice-chairperson)  
T F Pretorius  
H Ramaphosa  
L Thembe  
P G A Vorster

## North West

I Klynsmith (Chairperson)  
M Kropman (Vice-chairperson)  
J P du Preez  
R K Mokitime  
S Roopa  
G van der Merwe

## Western Cape

Vacant (Chairperson)  
Z Combi  
C du Toit  
A Floris  
M Isaacs  
P Krawitz  
G Mallinick  
S Young

# Other contact information

## SHAREHOLDER CONTACT INFORMATION

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

### Absa Group Investor Relations

*Telephone:* +27 11 350 6008

*Telefax:* +27 11 350 6487

*e-mail:* [ir@absa.co.za](mailto:ir@absa.co.za)

### Absa Group Secretariat

*Telephone:* +27 11 350 4828

*Telefax:* +27 11 350 4009

*e-mail:* [groupsec@absa.co.za](mailto:groupsec@absa.co.za)

## OTHER CONTACTS

### Group Media Relations

*Telephone:* +27 11 350 5768

### Group Legal Services

*Telephone:* +27 11 350 4313

### Head office switchboard

*Telephone:* +27 11 350 4000

## CUSTOMER SUPPORT

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

*Actionline:* 0800 414 141

*Absa call centre:* 0860 008 600 or (+27) 011 276 4000

*Customer relationship e-mail:* [actionline@absa.co.za](mailto:actionline@absa.co.za)

*General e-mail enquiries:* [absa@absa.co.za](mailto:absa@absa.co.za)

Customers are encouraged to first approach the specific branch, area or line manager if a dispute arises.

## REPORTING FRAUD OR CORRUPTION

Absa has a dedicated telephone line to facilitate reporting possible fraud and corruption in the Absa Group. This line is available 24 hours a day, seven days a week and is open to the general public and Absa employees.

Calls may be made anonymously. They will not be recorded and no attempt will be made to determine the telephone number of the caller. The fraud and corruption hotline is 0860 557 557.