Absa Bank Limited shareholder report 2008

Member of the BARCLAYS Group

Absa Bank Limited

Shareholder report

For the year ended 31 December 2008

ABSA

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Absa Bank in 2008

Our business

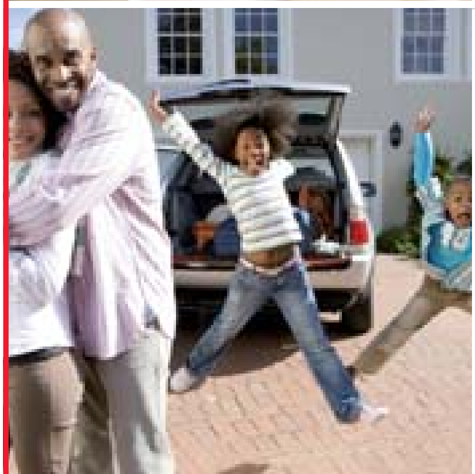
Since its establishment Absa Bank has grown its asset base significantly to R735,0 billion at 31 December 2008. As a large banking group in South Africa, Absa remains at the forefront of the retail banking industry.

In keeping with its strategy of diversification through Absa Corporate and Business Bank (ACBB) and Absa Capital, the Bank also provides services to the corporate, commercial and investment markets in South Africa.

Absa has established itself as a leading corporate citizen in South Africa, addressing the needs of all its stakeholders, with the objective of being relevant to the needs and challenges of our country.

A resilient financial performance

- Headline earnings growth of **3,2%**.
- Attributable earnings of **R8,4 billion**.
- A return on average equity of **21,8%**.
- A cost-to-income ratio of **50,7%**.



Well capitalised

- Tier I capital adequacy ratio of **11,0%**.
- Total capital adequacy ratio of **14,0%**.

Strong brand positioning and CSI leadership

- The number-one banking brand in South Africa (Sunday Times/Ipsos Markinor Top Brands survey).
- Corporate Social Investment Leadership Award 2008 (Sunday Times Top 100 Companies Awards).
- Most caring financial services institution and second most caring company in South Africa (Corporate and Market Research, Corporate Care Check).

Salient features

Year ended 31 December

	2008	2007	Change %
Income statement (Rm)			
Headline earnings[1]	**7 713**	7 476	3,2
Profit attributable to ordinary equity holder of the Bank	**8 390**	7 620	10,1
Balance sheet (Rm)			
Total assets	**734 979**	592 959	24,0
Loans and advances to customers	**512 684**	443 120	15,7
Deposits due to customers	**373 176**	304 877	22,4
Financial performance (%)			
Return on average equity (RoE)	**21,8**	26,4	
Return on average assets (RoA)	**1,17**	1,47	
Operating performance (%)			
Net interest margin on average assets	**3,08**	3,52	
Net interest margin on average interest-bearing assets	**3,58**	3,82	
Impairment losses on loans and advances as a percentage of average loans and advances to customers	**1,19**	0,54	
Non-interest income as a percentage of total operating income	**44,7**	41,5	
Cost-to-income ratio	**50,7**	54,1	
Effective tax rate, excluding indirect taxation	**25,4**	29,2	

Note

[1]*After allowing for **R457 million** (December 2007: R313 million) profit attributable to preference equity holders of the Bank.*

	2008	2007	Change %
Share statistics (million)			
(including "A" ordinary shares)			
Number of shares in issue	**359,1**	337,3	
Weighted average number of shares	**354,6**	337,3	
Weighted average diluted number of shares	**354,6**	337,3	
Share statistics (cents)			
Earnings per share	**2 366,1**	2 259,4	4,7
Diluted earnings per share	**2 366,1**	2 259,4	4,7
Headline earnings per share	**2 175,2**	2 216,4	(1,9)
Diluted headline earnings per share	**2 175,2**	2 216,4	(1,9)
Dividends per ordinary share relating to income for the year	**2 073,6**	789,8	>100,0
Dividend cover (times)	**1,0**	2,8	
Net asset value per share	**11 139**	9 149	21,8
Tangible net asset value per share	**11 058**	9 081	21,8
Capital adequacy (%)[1]			
Absa Bank	**14,0**	12,5	

Note

[1]*December 2007 reflects Basel I numbers as previously published.*

Bank structure

As at 31 December 2008

Absa Bank Limited

Wholly owned subsidiaries

Retail banking

- Absa Wealth
- Retail Bank
- Absa Home Loans
- Absa Card
- Absa Vehicle and Asset Finance

Corporate and commercial banking

- Absa Corporate and Business Bank (ACBB)
- Commercial Asset Finance

Investment banking

- Absa Capital

Associated undertakings and other interests

Banking

- FFS Finance South Africa (Proprietary) Limited (50%)
- MAN Financial Services (S.A.) (Proprietary) Limited (50%)

Other

- Virgin Money South Africa (Proprietary) Limited (50%)
- Sanlam Home Loans (Proprietary) Limited (50%)

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Chairperson's statement

Gill Marcus
Chairperson

The time for credible world leadership

The world has changed dramatically over the past year. 2008 is likely to be remembered as one of the most challenging periods in world economic history, heralding the onset of a global financial crisis of proportions not witnessed since the great depression of the 1930s.

Absa Bank's financial performance

Despite the challenging domestic conditions, Absa Bank produced a credible result. Our wholesale banking businesses remained robust, contributing 58,2% to overall earnings for the year. The strategy to diversify earnings resulted in the decline in the retail business being offset, to some extent, by the strong growth in both Absa Capital (30,4%) and the commercial bank (29,7%).

However, the Bank's performance for the year was characterised by the marked increase in impairments and the number of accounts in arrears and a slowdown in retail banking volume growth. Retail banking, as a result, recorded a 28,7% reduction in earnings.

Looking ahead

The paradigm in which financial service institutions do business has shifted, resulting in an increasingly challenging environment.

But banks cannot carry this burden on their own. Policy support to minimise the social costs of equity destruction is required.

The rapidly changing outlook necessitates that banking institutions remain prudent and conscious of the need to exercise sound corporate governance in the conduct of their affairs. Our strategy in the near-term, therefore, will continue to focus on maintaining profitability, preserving capital and ensuring risk and cost discipline.

The Bank will continue to anticipate and manage its business within the parameters of the evolving testing environment, while enhancing its competitiveness. Diversification will remain core to ensuring that we optimise returns through all points in the economic cycle.

This approach will be informed by the Bank's performance in the challenging environment expected for the year ahead. Conditions facing the South African consumer are expected to remain difficult despite the potential further easing of rates. Business volumes, particularly in the retail banking operations, are expected to decline. Further, arrears and non-performing loans are expected to increase within the retail and commercial banking operations. Absa will continue to implement comprehensive measures to protect the future earnings of the Bank.

South African economic environment

South Africa is not an island. There is no doubt that the global economic conditions will impact domestic growth, especially for commodity producers and exporters. Nevertheless, it is a tribute to the strength of our domestic financial system that, to date, money market activities and inter-bank lending have been largely unaffected owing, in considerable measure, to prudent fiscal policies, firm monetary discipline and a strong regulatory framework.

However, fourth quarter growth for 2008 declined to 1,8%, and the outlook for 2009 remains challenging. The currency experienced heightened volatility arising from the risk aversion associated with emerging markets. This impacted the funding of the current account deficit because of South Africa's vulnerability to significant bond and equity outflows.

While most of 2008 was characterised by rising interest rates and inflation, the latter has begun to fall rapidly and rates have started to ease since December 2008. This trend is expected to continue. Notwithstanding indications of declining inflation and a further easing of interest rates, the domestic economy remains at risk. The spectre of a global recession, emerging market risk aversion, rand volatility and further job losses constitute a growing threat to economic recovery which is expected to remain under pressure during 2009.

The global financial outlook

There has been extensive analysis of the causes of the global economic melt-down. Global banks are severely restricted, with the outlook for economic growth continuing to decline. Policy makers, primarily through the central banks, are providing offsetting balance sheets for toxic assets in order to relieve the banking system and supply the necessary stimulus. The monetary stimulus is being complemented by substantial fiscal stimulus measures in many countries. But the effectiveness of such packages will be impacted by how long the banking system remains largely dysfunctional.

Moreover, managing sovereign risk is now increasingly important, especially as the banks in many developed countries battle to maintain their balance sheets, exacerbating sovereign risk in the broader OECD (Organisation for Economic Co-operation and Development) and emerging market landscape, particularly for newly emerging eastern European countries. This has the potential to create currency instability and a negative trade shock. It is essential to protect bank balance sheets from further capital erosion.

Developed economies have entered a deep recession and emerging markets are also feeling the impact. Overall, the International Monetary Fund (IMF) now projects negative global growth for 2009.

It is most likely that reliance on state intervention, guarantees and central bank liquidity provisioning will dominate the investment landscape for some time to come. Private lending has dropped significantly, while government borrowing has exploded.

There is real concern of a decline in world trade. Furthermore, private capital flows to emerging market countries are also under pressure. The Institute for International Finance projects these financial flows to fall from a high of $929 billion in 2007 to just $165 billion in 2009.

While there is no doubt of the urgent need for a comprehensive review of the regulatory environment, the calls for regulation of all markets, products and participants, without exception, need to be carefully examined. It is not only the regulatory environment that requires attention, but the structure of global finance itself.

However, we should guard against a knee-jerk, rules-based response or over-regulation. The experience of the crisis should be carefully and thoroughly evaluated, lessons learnt and changes made in the light of local circumstances.

Now is the time for bold, cogent and coherent leadership from the developed countries to find ways to stop the free fall in demand, and to reach agreement on common approaches to the recapitalisation of the financial systems, and to restore credibility.

The economic difficulties of today require greater openness of mind and recognition of how important an understanding of the different role of markets, governments and other organisations is. There is the need for co-operative working between the different entities and across boundaries to ensure a more stable economic foundation in the future.

Succession planning, board changes and appreciation

The constant evaluation of existing and new talent, and providing opportunities for personal growth and advancement, are central to Absa’s succession planning and are critical in building a high performance organisation.

The board’s considered focus on appropriate succession planning is designed to ensure the smooth transition of key appointments and to enhance our capabilities, leadership skills and capacity.

In November 2008, the board announced the retirement of Chief Executive Steve Booysen, effective end February 2009. Steve’s career with Absa spanned twenty years with the past five as Chief Executive. His leadership, expertise and commitment brought considerable advantages to the Bank and value to its stakeholders. We are grateful to have benefited from his significant contribution and wish him well for the future.

The board appointed Maria Ramos to succeed Steve as Chief Executive, effective from 1 March 2009. We are indeed fortunate to have the services of such a distinguished and successful businesswoman to guide Absa through the prevailing difficult economic conditions and the next phase of its growth.

Five new non-executive directors have been appointed to the boards of the Absa Group and Absa Bank, namely Thoko Mokgosi-Mwantembe, Brand Pretorius, Mohamed Husain, Antony Jenkins, and Benoît de Vitry d’Avaucourt. We are delighted to have the benefit of their expertise and experience, and look forward to their contribution to the Group and Bank. The latter two appointments are representatives of Barclays, and replace Frits Seegers and Roger Jenkins, to whom we extend our sincere appreciation for their valuable contribution to Absa.

We will also bid farewell to Franklin Sonn at the 2009 annual general meeting. He retires from the board after ten years of distinguished service to Absa. We pay tribute to his invaluable contribution over the years, and wish him well.

I extend my sincere appreciation to my fellow directors and all Absa employees for their incredible determination and commitment throughout a difficult year. Your continued hard work, dedication and unstinting support will enable the Bank to build on firm foundations and help guide us through the troubled waters of 2009.

We recognise that the quality of our people is not only critical to Absa’s success, but is also essential in serving the best interests of our valued customers, shareholders and other stakeholders.

We appreciate the interaction with Barclays, and the opportunities for engagement and sharing of expertise and thinking in these challenging times.

Our customers are the essence of our business and we thank them for their trust, confidence and support. We assure all our stakeholders of our continued dedicated and professional service.

Gill Marcus

Chairperson

20 March 2009

Operational highlights

Introduction

Absa Bank experienced moderate growth of 3,2% in headline earnings to R7 713 million (2007: R7 476 million), owing to difficult trading conditions in 2008. These conditions had an adverse impact on the retail banking operations, which decreased attributable earnings by 28,7% to R3 412 million, from R4 784 million in 2007.

The wholesale banking businesses, however, continued to produce robust operating performances with a contribution of 58,2% (2007: 43,2%) to the Bank's overall earnings for the year, offsetting, to an extent, some of the decline in the retail business.

Earnings growth of 30,4% was achieved in Absa Corporate and Business Bank (ACBB) and 29,7% in Absa Capital.

Profit contribution by business area

Year ended 31 December

	2008 Rm	2007[4] Rm	Change %
Banking operations			
Retail banking[1]	**3 412**	4 784	(28,7)
• Absa Wealth	**27**	46	(41,3)
• Retail Bank	**2 418**	2 324	4,0
• Absa Home Loans	**143**	1 287	(88,9)
• Absa Card	**537**	706	(23,9)
• Absa Vehicle and Asset Finance	**287**	421	(31,8)
Absa Corporate and Business Bank[1]	**2 774**	2 127	30,4
Absa Capital[1]	**1 967**	1 516	29,7
Corporate centre[2]	**691**	(109)	>100,0
Capital and funding centre	**3**	94	(96,8)
Total earnings from business areas	**8 847**	8 412	5,2
Synergy costs (after tax)[3]	**—**	(479)	100,0
Preference equity holders of the Bank	**(457)**	(313)	(46,0)
Profit attributable to ordinary equity holder	**8 390**	7 620	10,1
Headline earnings adjustments	**(677)**	(144)	>(100,0)
Total headline earnings	**7 713**	7 476	3,2

Notes

[1]*African operations have been split between retail banking, Absa Corporate and Business Bank and Absa Capital during the year under review.*

[2]*In the current year, corporate centre includes the profit on Visa initial public offering shares and movement in provisions.*

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

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

– *Commercial Asset Finance was moved from retail banking to Absa Corporate and Business Bank during the year under review.*

– *Repossessed Properties was moved from retail banking to corporate centre during the year under review.*

– *The African operations split is in line with the current business model.*

Operational highlights

Revenue contribution by business area

Year ended 31 December

	2008 Rm	2007[3] Rm	Change %
Banking operations			
Retail banking[1]	**23 217**	20 508	13,2
• Absa Wealth	**309**	246	25,6
• Retail Bank	**13 603**	11 781	15,5
• Absa Home Loans	**4 101**	3 878	5,8
• Absa Card	**2 752**	2 476	11,1
• Absa Vehicle and Asset Finance	**2 452**	2 127	15,3
Absa Corporate and Business Bank[1]	**8 292**	6 934	19,6
Absa Capital[1]	**4 904**	3 574	37,2
Corporate centre[2]	**299**	(480)	>100,0
Capital and funding centre	**(102)**	103	>(100,0)
Total revenue	**36 610**	30 639	19,5

Notes

[1]*African operations have been split between retail banking, Absa Corporate and Business Bank and Absa Capital during the year under review.*

[2]*In the current year, corporate centre includes the profit on Visa initial public offering shares and movement in provisions.*

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

- *Commercial Asset Finance was moved from retail banking to Absa Corporate and Business Bank during the year under review.*
- *Repossessed Properties was moved from retail banking to corporate centre during the year under review.*
- *The African operations split is in line with the current business model.*

Retail banking

Attributable earnings for the retail banking operations decreased by 28,7% to R3 412 million (December 2007: R4 784 million). This decline in earnings resulted from the slowdown in consumer spending, reduced demand for lending products and rising impairments. The Bank's retail banking operations increased its top-line income by 13,2% and contained cost growth to 11,8%. The South African customer base continued to grow, increasing by 11,1% to over 10 million customers.

Customer deposits experienced robust growth during the year. Innovative product offerings, including initiatives such as the online opening of investment product accounts, coupled with competitive pricing, resulted in strong gains in market share. The Bank currently has the largest share of the individual deposit and advances market in South Africa (as per the SA market share statistics BA 900, November 2008).

Transaction volume growth across core products moderated during the year. Digital channels, however, recorded healthy transaction and customer growth. The number of internet banking users increased by 14,0%.

Consumer distress intensified during the year, following the prolonged higher interest rate cycle. In addition, collateral values in respect of vehicle and home loans were subjected to a considerable downward adjustment in the second half of the year as economic conditions deteriorated. The impairment ratio rose from 0,69% in December 2007 to 1,67% for 2008.

During the year under review, the collections process and credit criteria were regularly reviewed. Stricter scorecard criteria, closer attention to affordability and the quality of bureau information, as well as stricter loan-to-value criteria on home loans and vehicle finance, constituted some of the actions taken to manage credit risk. The collections capacity was also enhanced by increasing the number of collectors during the year.

Absa Corporate and Business Bank (ACBB)

ACBB increased its attributable earnings for the year by 30,4% to R2 774 million. While impairments remained low, advance and deposit margins decreased owing to the higher cost of funding experienced during the second half of the year. Equity market volatility, however, resulted in a decline in the value of the listed commercial equity investments, thereby diluting, to an extent, the robust underlying performance of the cluster.

The impairment loss ratio decreased in December 2007 as a result of the material recovery of bad debt in the second half of the year as well as the implementation of strict credit risk management processes.

Non-interest income increased as a result of growth in transaction volumes.

ACBB will continue to provide innovative solutions and service to its customer base. The business is also positioned to leverage off Absa Capital's expertise in structuring complex transactions, and its international syndication and distribution capabilities.

Absa Capital

Absa Capital increased attributable earnings by 29,7% to R1 967 million, from R1 516 million in 2007. This performance was driven by exceptional growth in the Secondary Markets and good growth in the Primary Markets business units. The key factors driving growth have been Absa Capital's operating model and continuous improvement in the technology platform, products and distribution.

The Secondary Markets business continued to improve, leveraging off a strong working relationship with Barclays Capital. The growth in revenue for this business unit is attributable to more effective risk management as well as increased trading volumes from new and existing clients, broadening the product offering, market volatility and the increased demand from clients for risk management products.

The revenue of Primary Markets also showed good growth during the year. Given the current market conditions, the business unit proactively restricted the size of its underwriting positions to distributing more risk upfront. The global credit crisis and the equity market declines have negatively impacted local financing product deal flow. Primary Markets, however, continued to perform well owing to the client-centric business model that delivers comprehensive international and local solutions by leveraging off Barclays Capital's global expertise and capabilities.

The revenue of the Equity Investments and Investor Services business unit increased marginally. Revenue in the Private Equity portfolio was positive in absolute terms, but declined relative to the corresponding period for 2007. This performance was driven by a combination of lower realisations, poor equity market conditions and higher funding costs.

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Introduction

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

As a subsidiary of Barclays, Absa is also required to conform to the regulatory requirements applicable to Barclays. From a governance perspective, the Bank takes cognisance of the international best-practice guidelines set out in the United Kingdom's Combined Code on Corporate Governance.

Compliance with King II

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

Application of the code and approach to corporate governance

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

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

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

Absa's corporate governance standards, which support its overall strategy, are captured, measured and reported in a balanced scorecard.

The interaction between Absa and Barclays takes account of matters such as regulatory, legislative and industry constraints applicable to both Absa and Barclays, as well as the interests of Absa's minority shareholders. It also considers the legal implications of the parent/subsidiary relationship between Absa and Barclays, the fiduciary responsibilities of the Absa and Barclays boards of directors and Absa's corporate governance procedures. The intention is to ensure that Barclays and Absa work together to maximise value for all stakeholders, while complying with regulatory and legislative requirements. The approach is reviewed annually by the Absa board, taking account of recommendations by the Directors' Affairs Committee (DAC).

Boards of directors and board committees

Board composition

Absa Bank has unitary board structures in all its South African companies.

The Absa board has an appropriate balance of executive, non-executive and independent directors. The board comprises 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 non-executive director.

The detailed categorisation of the directors appear on page 34 of this report. As at 31 December 2008, there were 21 directors, of which four were executive, five were non-executive and 12 were considered independent directors.

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, conduct and policy is robust, informed and constructive.

Board procedures and related matters

The board retains full and effective control over all the companies in the Bank and monitors executive management's implementation of approved plans and strategies.

The board meets regularly. Board meetings are scheduled well in advance and include a board forward plan for the year which sets out matters for consideration at each meeting. Additional board meetings, apart from those planned, are convened as circumstances dictate. Where directors are unable to attend a meeting personally, video- and teleconferencing facilities are made available to include them in the proceedings and enable their participation in the discussions, decisions made and conclusions arrived at.

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 documentation is provided to directors in a timely manner and the tabling of documents at board meetings is done only on an exceptional basis. The board agenda and meeting structure have been adapted to focus on strategy, performance monitoring, governance and related matters. This ensures that the board's time and energy are appropriately applied.

The board meets with management annually for two full days to debate and agree Absa's proposed strategy and to consider long-term issues facing Absa, as well as the environment in which the Bank operates.

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 19 to 25 of this report. Reasons for non-attendance are provided to the Chairperson. All directors are advised of the expectation of the Chairperson that they should be present at all meetings.

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 and implemented.

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

Corporate governance statement

The board identifies and monitors key risk areas, key performance areas and non-financial aspects relevant to Absa, supported by board-appointed committees, where applicable. The board also considers a number of key performance indicators, variance reports and industry trends on a quarterly basis. 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 importance of promoting entrepreneurial flair, while continuing to ensure conformance to governance and other compliance requirements is well recognised by the board.

The directors are empowered to obtain independent professional advice, at the Bank's expense, should they deem it necessary.

A board charter has been developed, the salient points of which are set out below:

The Absa board charter

Purpose and objectives

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

Key features

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

Board appointments and succession planning

Non-executive directors on the Absa board are appointed for specific terms in terms of the articles of association 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 of Absa Group Limited, accompanied by appropriate biographical details set out in Absa Group Limited report to shareholders. Non-executive directors are required to retire at the annual general meeting of Absa Group Limited following their 70th birthday.

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

The board, as a whole, selects and appoints directors, including the Chief Executive and executive directors, on recommendation from the DAC, supported, where appropriate, by recommendations of the Group Remuneration and Human Resource Committee (GRHRC).

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

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

Director induction, training and development programmes

Training and orientation workshops are held for both new and existing directors. These workshops cover topics such as Absa's business, corporate governance, fiduciary duties and responsibilities, new laws and regulations and risk management. Directors (particularly new directors) are encouraged to attend development programmes that focus on the duties, responsibilities, powers and potential liabilities of directors. A formal two-day orientation programme with members of management is provided to all newly appointed directors.

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

Director training is scheduled throughout the year. Such training may be provided internally or by external service providers. The internal training programme includes sessions prior to most board meetings, as well as specific sessions for board committee members (which are open to all directors) on relevant specialist topics such as International Financial Reporting Standards (IFRS) and the Basel II Capital Accord (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 other courses focusing on banking topics (such as risk management and the responsibilities of bank directors).

Director participation in the training provided is monitored and assessed.

Corporate governance statement

Independence

The DAC assesses the independence of each Absa director against the criteria set out in King II, the JSE Listings Requirements, the Combined Code and other corporate governance principles. Based on this assessment, the board is of the view that at 31 December 2008, the following directors met these criteria: G Marcus, D C Brink, D C Arnold, B P Connellan, S A Fakie, G Griffin, M W Hlahla, M J Husain, E C Mondlane, Jr, T M Mokgosi-Mwantembe, T S Munday, F A Sonn and B J Willemse.

Board performance assessment

The Chairperson and the Deputy Chairperson perform an annual evaluation of individual non-executive directors. The Chairperson's performance is dealt with by the DAC, whereas that of the Deputy Chairperson is dealt with by the Chairperson and one other member of the DAC. The outcome of the above process is then presented to the DAC to make the appropriate recommendations to the board.

The Absa board as a whole considers the recommendations of the DAC in this regard. 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.

The board also conducts a collective board and committee evaluation on an annual basis. This evaluation is aimed at determining how the board's effectiveness can be improved. The DAC, after consideration of the results of the evaluation, makes recommendations where deemed appropriate to the Absa board for adoption. In addition, the Chairperson and Deputy Chairperson meet with each director individually to discuss matters arising out of the evaluation process.

Board remuneration and share ownership

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

The consolidated directors' emoluments for Absa Bank can be found in note 43.2 of the consolidated financial statements.

Details of the non-cumulative, non-redeemable preference shares held by Absa Bank's directors are set out on page 52 of this report.

Attendance at board meetings

Board meeting attendance (2008)

Director	Appointment	Resignation	Feb	Mar	Jun	Aug	Oct	Nov[1]	Nov[2]	Nov
L N Angel		22 Apr 08	✓	✓	—	—	—	—	—	—
D C Arnold			✓	✓	✓	✓	✓	✓	✓	✓
S F Booysen			✓	✓	✓	✓	✓	✓	R	✓
D C Brink (Deputy Chairperson)			✓	✓	✓	✓	✓	✓	✓	✓
B P Connellan			✓	✓	✓	✓	✓	✓	✓	A
Y Z Cuba			✓	✓	✓	A	✓	✓	✓	✓
S A Fakie	1 Jan 08		—	✓	✓	✓	✓	✓	A	✓
G Griffin			✓	✓	A	✓	A	A	✓	✓
M W Hlahla			✓	✓	✓	✓	✓	✓	A	✓
M J Husain	28 Nov 08		—	—	—	—	—	—	—	✓
R A Jenkins			✓	✓	✓	A	A	A	A	A
L N Jonker		22 Apr 08	✓	✓	—	—	—	—	—	—
R Le Blanc			✓	✓	✓	✓	✓	✓	✓	✓
N P Mageza			✓	✓	✓	✓	✓	✓	✓	✓
G Marcus (Chairperson)			✓	✓	✓	✓	✓	✓	✓	✓
T M Mokgosi-Mwantembe	28 Nov 08		—	—	—	—	—	—	—	✓
E C Mondlane, Jr			✓	A	✓	✓	✓	✓	✓	✓
T S Munday			✓	✓	✓	✓	✓	✓	✓	✓
J H Schindehütte			✓	✓	✓	✓	✓	✓	✓	✓
F F Seegers			A	A	✓	A	✓	✓	✓	✓
T M G Sexwale		9 Jan 08	—	—	—	—	—	—	—	—
F A Sonn			✓	✓	✓	✓	✓	✓	✓	✓
P E I Swartz		11 Mar 08	✓	✓	—	—	—	—	—	—
L L von Zeuner			✓	✓	✓	✓	✓	✓	✓	✓
B J Willemse	1 Jan 08		✓	✓	✓	✓	✓	✓	✓	✓

Legend: ✓ Attendance A Apologies R Recused

Notes
[1] *Board strategy session.*
[2] *Special meeting.*

Messrs S G Pretorius, A Jenkins and B de Vitry and Ms M Ramos were appointed in 2009.

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 are set out on the pages that follow.

The board recognises that it is ultimately accountable and responsible for the performance and affairs of the Bank and that the use of delegated authorities to board committees and management in no way absolves the board and its directors of the obligation to carry out their duties and responsibilities.

The board has delegated specific responsibilities to these committees. All board committees operate under written terms of reference which have been approved by the board. There is transparency and full disclosure from board committees to the board. Committee chairpersons also provide the board with a verbal report on recent committee activities. Board committees are empowered to take independent outside professional advice as and when deemed necessary.

The office of the Company Secretary provides secretarial services to each of the committees.

Corporate governance statement

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

Board committees are subjected to annual evaluation by the board to ascertain their performance and effectiveness.

Although the Absa board still retains overall responsibility for the affairs of the Bank, subsidiary boards play an important role in the Bank's overall governance approach. Absa directors have full access to subsidiary board documentation. The subsidiary boards meet five times a year, usually prior to Absa board meetings.

The Absa board also makes use of ad hoc board committees to deal with specific matters from time to time. These ad hoc committees also operate under written terms of reference.

The board is of the view that the board committees set out on the pages to follow have, during the year under review, effectively discharged their responsibilities as contained in their respective terms of reference.

Group Audit and Compliance Committee (GACC)

Members: D C Arnold (Chairperson), S A Fakie, G Griffin and T S Munday. Y Z Cuba (who is a representative of Batho Bonke) and R Le Blanc (a representative of Barclays) are mandatory attendees of the committee.

Composition and meeting procedures: All the members of the GACC are independent directors (as defined in terms of the Corporate Laws Amendment Act, 2006).

Meetings of the committee are held at least once a quarter and are attended by the Chief Executive, the Financial Director, external and internal auditors, the Compliance Officer and, by invitation, members of executive management, including those involved in risk management, control and finance, and the Chairperson (who is not a member of the committee). All the members of the committee are financially literate.

At every meeting, time is reserved for separate private discussions of committee members only and the committee together with the external auditors and Absa's Chief Internal Auditor. Such private discussions provide an opportunity for committee members, management and the external auditors to communicate privately and candidly. Management is then invited to join the meeting and it proceeds as per the agenda.

The internal and external auditors, as well as the Compliance Officer, have unrestricted access to the Chairperson of 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 principles, monitoring Absa's internal control systems and various compliance-related matters.

Specific responsibilities include:

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

- reviewing and/or approving external audit plans, findings, reports and fees; and
- collaborating with the Group Risk and Capital Management Committee (GRCMC) and considering issues identified by that committee.

Absa's policy on non-audit services, which is reviewed annually by the GACC, sets out in detail which services may or may not be provided by the Bank'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 Financial Director. All non-audit services fees are reported to the chairperson of the GACC on a quarterly basis and a report is included in the meeting pack.

Absa has a formal external auditor evaluation process which is conducted annually. The evaluation process 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 black economic empowerment (BEE) credentials).

Absa also 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. During the period under review, the GACC held several workshops specifically with regard to IFRS.

Group Audit and Compliance Committee (GACC) – Meeting attendance (2008)

Director	Appointment	Feb	Apr	May[1]	Jul	Oct	Nov
D C Arnold (Chairperson)		✓	✓	✓	✓	✓	✓
S A Fakie	4 Apr 08	—	✓	✓	✓	✓	✓
G Griffin		✓	✓	✓	✓	A	✓
T S Munday		✓	✓	✓	✓	✓	✓

Legend: ✓ Attendance A Apologies

Note

[1] *Tri-lateral meeting.*

The membership of the GACC as at the date of this report is as follows: D C Arnold (Chairperson); S A Fakie; G Griffin; M J Husain and T S Munday. Y Z Cuba and A Jenkins are mandatory attendees.

Group Risk and Capital Management Committee (GRCMC)

Members: D C Arnold, G Griffin (Chairperson), M W Hlahla, R Le Blanc, G Marcus, E C Mondlane, Jr, and B J Willemse. P E I Swartz resigned as a member of the committee on 11 March 2008, following his retirement from the board.

Composition and meeting procedures: The GRCMC is chaired by an independent director and consists of a further four independent directors and two non-executive directors. 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 and capital management and to ensure compliance with the requirements of the Banks Act.

The GRCMC's primary 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 key risks and in developing a risk mitigation strategy to ensure 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 matters; and
  - in establishing a process that relates capital to the level of risk undertaken and states capital adequacy goals with respect to risk, taking into account Absa's strategic focus and business plan.

Corporate governance statement

- to annually recommend Absa's risk appetite to the board for approval, and to monitor the actual risk taken on against the board-approved appetite on a quarterly basis;
- to monitor the Bank's emerging risk profiles and report its findings to the board;
- to monitor the level of available capital, both current and projected, and to report to the board on the adequacy of available capital relative to the emerging risk profile of the Bank;
- to review, within the framework of the board-approved principal risks policy, the completeness of the principal risks coverage and the ongoing effectiveness of the framework as implemented by the Bank;
- to review the adequacy and effectiveness of the principal risk 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 (2008)

Director	Resignation	Feb	Feb	Apr	May	Sept	Nov	Nov
D C Arnold		✓	✓	✓	✓	A	✓	✓
G Griffin (Chairperson)		✓	✓	✓	✓	✓	✓	✓
M W Hlahla		A	A	✓	✓	A	✓	✓
R Le Blanc		✓	✓	✓	✓	✓	✓	✓
G Marcus		✓	✓	✓	✓	✓	✓	✓
E C Mondlane, Jr		—	✓	✓	✓	✓	✓	✓
P E I Swartz	11 Mar 08	✓	✓	—	—	—	—	—
B J Willemse		—	✓	✓	✓	✓	✓	✓

Legend: ✓ Attendance A Apologies

The membership of the GRCMC as at the date of this report is as follows: D C Arnold; G Griffin (Chairperson); M W Hlahla; M J Husain; R Le Blanc; G Marcus; E C Mondlane, Jr; T S Munday and B J Willemse.

Directors' Affairs Committee (DAC)

Members: D C Arnold, D C Brink, G Griffin, G Marcus (Chairperson), F F Seegers and F A Sonn. L N Jonker resigned as a member of the committee on 22 April 2008 following his retirement from the board. T M G Sexwale and F F Seegers resigned from the committee on 9 January 2008 and 11 February 2009, respectively, following their resignations from the board.

Composition and meetings: The DAC is chaired by the Chairperson of Absa and the majority of its members are independent directors. Seven meetings were held during the 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;
- recommends the appointment and replacement of the Chief Executive to the board for approval;
- considering current and emerging trends in corporate governance and the Bank's governance systems, as well as benchmarking the Bank'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;
- establishing and maintaining a board continuity programme, encompassing succession planning for the Chief Executive and members of the board;
- conducting an effectiveness evaluation of the Absa board to review its performance in meeting its key responsibilities; and
- annually evaluating the performance of all directors and recommending such report to the board for consideration.

Directors' Affairs Committee (DAC) – Meeting attendance (2008)

Director	Appointment	Resignation	Jan	Apr	Jul	Jul	Aug	Nov	Nov
D C Arnold	12 Feb 08		—	A	✓	✓	✓	✓	✓
D C Brink			✓	✓	✓	A	✓	✓	✓
G Griffin	12 Feb 08		—	✓	A	✓	A	✓	✓
L N Jonker		22 Apr 08	✓	✓	—	—	—	—	—
G Marcus (Chairperson)			✓	✓	✓	✓	✓	✓	✓
F F Seegers		11 Feb 09	✓	✓	✓	A	A	✓	✓
T M G Sexwale		9 Jan 08	—	—	—	—	—	—	—
F A Sonn			✓	✓	✓	✓	✓	✓	✓

Legend: ✓ Attendance A Apologies

The membership of the DAC as at the date of this report is as follows: D C Arnold; D C Brink; G Griffin; M J Husain; R Le Blanc; G Marcus (Chairperson) and F A Sonn.

Group Remuneration and Human Resource Committee (GRHRC)

Members: D C Brink (Chairperson), B P Connellan, G Marcus, F F Seegers and F A Sonn. L N Jonker resigned as a member of the committee on 22 April 2008 following his retirement from the board. F F Seegers resigned from the committee on 11 February 2009, following his resignation from the board.

Composition and meeting procedures: The GRHRC is chaired by an independent director and comprises mainly independent directors. The Chief Executive, the executive responsible for human resources and Absa's Financial Director attend 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.

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

- approving Absa's remuneration philosophy, principles and policy;
- approving the remuneration of the Chief Executive and Executive Committee (Exco) members. In addition, it provides oversight regarding the remuneration of the senior leadership group;
- mandating Exco to negotiate conditions of service with relevant trade unions;
- reviewing the operation of Absa's various incentive plans, including the approval of new incentive plans and the approval of individual incentive plan awards to executive directors and other Exco members;
- succession planning for executive directors and top management, including the Chief Executive, other executive directors and other strategic positions/roles, together with the DAC;
- evaluating the performance of the Chief Executive and reviewing the evaluation of the performance of Exco members;
- evaluating employment and human resources retention strategies;
- evaluating employment equity and transformation in Absa at all levels; and
- advising on human resource-related BEE issues, Financial Sector Charter (FSC) scoring and other relevant BEE scoring.

In executing its responsibilities, the GRHRC is empowered to engage independent external consultants.

Group Remuneration and Human Resource Committee (GRHRC) – Meeting attendance (2008)

Director	Resignation	Jan	Apr	Jun	Sep	Sep	Nov	Nov[1]
D C Brink (Chairperson)		✓	✓	✓	✓	✓	✓	✓
B P Connellan		✓	✓	✓	✓	✓	✓	✓
L N Jonker	22 Apr 08	✓	✓	—	—	—	—	—
G Marcus		✓	✓	✓	✓	✓	✓	✓
F F Seegers	11 Feb 09	✓	✓	A	✓	✓	✓	✓
F A Sonn		✓	A	✓	✓	✓	✓	✓

Legend: ✓ Attendance A Apologies

Note

[1]*Meeting with DAC.*

The membership of the GRHRC as at the date of this report is as follows: D C Brink (Chairperson); B P Connellan; B de Vitry; A Jenkins; G Marcus; T M Mokgosi-Mwantembe and F A Sonn.

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Group Credit Committee

Members, composition and meeting procedures: The committee consists of four independent directors (D C Brink, B P Connellan, G Marcus and T S Munday), of which at least two are required to form a quorum for facility decisions. Certain members of executive management and risk management also attend meetings of the committee. The committee meets regularly as required.

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

As of 1 January 2009, the functions of the Group Credit Committee have been adopted by the Concentration Risk Committee, and therefore the Group Credit Committee has been disbanded.

Concentration Risk Committee (formerly the Credit Committee: Large Exposures)

Members: S F Booysen, D C Brink, B P Connellan, Y Z Cuba, S A Fakie, G Marcus (Chairperson), T S Munday, J H Schindehütte and B J Willemse. S F Booysen resigned from the committee on 28 February 2009.

Composition and meeting procedures: The committee comprises six independent directors, one non-executive director, the Chief Executive and the Financial Director. Specific members of management such as the Group Executive: Credit and the Group Executive: Risk, attend meetings in an ex officio capacity.

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

The board resolved that, as from December 2008, this committee would meet on an ad hoc basis as required. Four such meetings were held in December 2008.

Concentration Risk Committee – Meeting attendance (2008)

Director	Appointment	Resignation	Apr	Jul	Sep	Nov
S F Booysen		28 Feb 09	✓	✓	✓	✓
D C Brink			✓	✓	✓	✓
B P Connellan			✓	✓	✓	✓
Y Z Cuba	10 Apr 08		✓	✓	✓	✓
S A Fakie	10 Apr 08		✓	✓	✓	✓
G Marcus (Chairperson)			✓	✓	✓	✓
T S Munday			✓	✓	✓	✓
J H Schindehütte			A	✓	✓	✓
B J Willemse			✓	✓	✓	✓

Legend: ✓ Attendance A Apologies

Board Finance Committee (BFC)

Members: D C Arnold, D C Brink, Y Z Cuba, R A Jenkins, G Marcus (Chairperson) and T S Munday. R A Jenkins resigned as a member of the committee on 11 February 2009, following his resignation from the board.

Composition and meeting procedures: The Board Finance Committee is chaired by the Chairperson of Absa, who is an independent director as are the majority of the members of this committee. This committee 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. Nine meetings were held in 2008.

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 Absa'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 (2008)

Director	Resignation	Jan	Feb	Mar	May	Jul	Aug	Aug	Oct	Nov
D C Arnold		✓	✓	✓	✓	✓	✓	✓	✓	✓
D C Brink			✓	✓	✓	✓	✓	A	✓	✓
Y Z Cuba		A	✓	A	✓	A	A	A	✓	✓
R A Jenkins	11 Feb 09	✓	✓	✓	A	A	A	A	A	✓
G Marcus (Chairperson)		✓	✓	✓	✓	✓	✓	✓	✓	✓
T S Munday		A	✓	✓	✓	✓	✓	✓	✓	✓

Legend: ✓ Attendance A Apologies

The membership of the BFC as at the date of this report is as follows: D C Arnold; D C Brink; B P Connellan; Y Z Cuba; B de Vitry; G Marcus (Chairperson) and T S Munday.

Executive directors and the Executive Committee (Exco)

There are four executive directors on the board of Absa and a number of executive directors on the boards of the Bank's main subsidiaries. Executive directors are required to retire from the board (as executive directors) on reaching the age of 60.

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

Exco, established and chaired by the Chief Executive, comprises the 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, monitoring of performance and the consideration of Bank policies.

The board has delegated specific authorities to the Chief Executive. Board-approved authorities, including signing resolutions to the Chief Executive, are reviewed annually or as circumstances dictate.

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

Risk management

Absa's risk management approach is set out in the board-approved principal risks policy, which identifies 18 principal risks currently facing the Bank. A five-step process for managing the risks is set out in the policy. Each risk type is managed in terms of a risk control framework and policies applicable to that risk area. Details on the approach, policies, methodology and risk governance structure are set out in the Absa Group Limited's risk management report which will be published on the Group's website in due course.

Regulatory compliance

The board of directors is appointed by the shareholders of the Bank to lead, control and monitor the business of the Bank and to provide effective corporate governance. The board, through the Chief Executive, delegates the authority to the 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.

Internal control

The directors are responsible for ensuring that Absa maintains adequate records which disclose, with reasonable accuracy, the financial performance and position of the Bank. In the case of a bank 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 the standards and management implements systems of internal control comprising policies, standards, systems and information, to assist in:

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

Absa's internal audit function and the external auditors independently appraise the adequacy and effectiveness of the internal controls. The GACC, with extensive input from the internal and external auditors, plays a major role in assisting the directors in satisfying themselves regarding the adequacy and effectiveness of the accounting systems, records and internal controls. The directors' report on this aspect is contained in the statement on the responsibility of directors for annual financial statements on page 48 of this report.

Share dealings

Details of directors' dealings in Absa Bank non-cumulative, non-redeemable preference 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 Exco members are disclosed to the GRHRC.

Company Secretary

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

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

Going concern

The board has considered and recorded the facts and assumptions on which it relies to conclude that the business will continue as a going concern in the financial year ahead. The board considers this aspect at both 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 the directors for the consolidated financial statements on page 48 of this report.

Organisational integrity and the code of ethics

Management ensures that there is appropriate focus on preventing losses arising from unethical behaviour. In Absa, through various risk control procedures, the effects of unethical behaviour are minimised. Absa has appointed the executive responsible for human resources as the ethics officer. 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 monitored by Absa's compliance function.

Absa's code of ethics is periodically refined, taking into account the changing environment, input from various interested parties and stakeholders in the organisation.

Management demonstrates its commitment to the code 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. Absa has an independently operated helpline known as "Tip-Offs Anonymous" to facilitate the reporting of possible fraudulent, corrupt or unethical behaviour in the Bank. This line is available 24 hours per day, seven days a week.

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

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

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

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

Absa's reputation

Absa has a Brand and Reputation Committee to protect and enhance the Absa brand and reputation in line with Absa's belief that its reputation for integrity, professionalism and as a good corporate citizen is a key driver of economic value. The committee considers and provides guidance to the Chief Executive and the board on matters that impact Absa's reputation and also advises on the appropriate actions that should be taken to maintain robust ethical business practices.

Absa has also formulated a reputation risk policy as an element of the brand risk control framework, which provides a mechanism to refer concerns regarding potential reputational risk issues to designated individuals for attention.

Owing to the increasing importance of brand and reputation issues within Absa, the board has resolved to constitute the Brand and Reputation Committee as a board committee as from 2009.

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 sustainability reporting. The GRI guidelines represent the most advanced international standard for sustainability reporting and Absa seeks to align its reporting with these standards.

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. Therefore, Absa has developed six themes to facilitate sustainable value creation for all its stakeholders.

The six core themes that underpin Absa's sustainability endeavours are:

- Economic value creation – growing the business and delivering stakeholder value.
- Caring financial services company – adding value to the communities Absa operates in; creating a positive, supportive, healthy and diverse working environment; minimising Absa's direct economic impact; maintaining fair and equitable relationships with suppliers, and aligning business to national priorities.
- Customer centricity – increasing the understanding of Absa's products and services; increasing access to banking products and services, and increasing service and advocacy levels.
- Employment equity and transformation – ensuring that Absa's employees, customers and suppliers represent the demographics of South Africa.
- Corporate reputation – remaining the leading financial services brand; being recognised as an ethical company and as a company that maintains high standards of corporate governance.
- Stakeholder engagement – creating an in-depth understanding of all Absa's stakeholders and identifying material stakeholder issues.

Corporate governance statement

Financial Sector Charter (FSC) and Code of Good Practice (CoGP)

The FSC is a sector initiative to address the imperatives of broad-based black economic empowerment in the financial services industry. It provides a framework for implementing the principles outlined in the BEE Act. The FSC is a voluntary agreement within the financial services industry and the intention has been to have the codes gazetted as a sector code. Absa is a signatory to the FSC and is committed to the process of aligning the FSC with the CoGP, where appropriate. The FSC provides an interim measuring tool of progress made by the sector when engaging with other stakeholders, particularly 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 policy is to embed the requirements of the FSC into normal operations throughout Absa.

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

Absa's 2008 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 in the FSC scorecard. Absa scored 94,13 points out of a possible 98 points. (The 2007 scores were audited independently.)

In addition to this, Absa remains focused on delivering the identified initiatives in order to reach the Codes of Good Practice (CoGP) BEE recognition level. Absa Group Limited has reached Level 4 (unaudited) in 2008, which means that Absa's suppliers can claim the full 100 cents in every rand spent.

Stakeholder communications and relationships

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

Absa recognises the need for full, equal and timely disclosure to all shareholders, as prescribed by the Listings Requirements 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 Absa's website, www.absa.co.za, to achieve this.

Democracy support

Absa believes that the principle of multi-party 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 engagement and expression of new ideas.

The Absa board annually approves the policy and budget for the Democracy Support Programme. In the 2008 financial year, R2,6 million (2007: R2,4 million) was distributed to qualifying political parties. Selection and participation is guided by verified provisions of the Independent Electoral Commission. 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 gives donations to national offices of all political parties who have three or more seats in the National Assembly. All democracy support donations are publicly declared.

Funding allocations are effected at the beginning of each calendar year, except in an election year when, in the interests of inclusiveness and impartiality, funding is only effected after the election. This policy is reviewed by the board as and when required.

Looking ahead

The draft Code of Governance Principles for South Africa – 2009, better known as King III, was released by the King Committee on 25 February 2009. Absa is, to a large extent, already compliant with principles now espoused in King III.

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 Act, No 37 of 2002 (FAIS). 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 increasingly more-stringent regulatory environment impacting the financial services sector constantly challenges banks to comply with regulatory requirements. Furthermore, Absa Bank 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 Bank's licence to perform financial services related activities.

The year under review

The Compliance function focused on the continued embedment of the anti-money laundering controls and policies, the implementation of a themes-based monitoring approach and the influencing of the regulatory changes in respect of the Financial Advisory and Intermediary Services Act (FAIS). 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 Absa Bank complies with the international regulatory requirements governing the Barclays Group.

Compliance governance

Although management is responsible for managing compliance risk in the business units, Absa Group Compliance assists management to discharge this duty. 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, bank-wide monitoring and forms the centre of expertise regarding legislation and policies impacting Absa Bank. 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.

Key compliance focus areas

Absa Bank's key compliance focus areas in 2008 were as follows:

- anti-money laundering and international sanctions implementation;
- improved compliance risk monitoring;

- the further embedment of the National Credit Act;
- the identification of new regulatory requirements;
- employee awareness relating to regulatory requirements; and
- combating unethical behaviour.

Anti-money laundering (AML) and sanctions environment

Highlights during 2008 have been the implementation of the requirements to manage Politically Exposed Person (PEP) relationships across all operating environments and the appointment of key staff.

Absa conducts ongoing reviews on the AML and sanctions-related control environments. This provides key insights into Absa's control environment for dealing with money laundering and sanctions risk. Remediation of all findings receives precedence and is tracked to resolution.

Absa applies anti-money laundering and sanctions standards to meet its multi-jurisdictional operation requirements.

Improved compliance risk monitoring

The Absa Group Compliance function continued to improve its existing methodology by implementing a themes-based monitoring approach as opposed to the pure regulatory requirement focused approach. The new approach enables the compliance officer to translate compliance findings into a language understood by business. As a result, the remediation of findings is more effective.

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. The focus during 2008 was on the monitoring of the controls implemented during 2007 to ensure compliance with the Act.

Absa takes 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 Bank 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, Absa Bank supports the industry-wide establishment of the Code of Credit Conduct, which aims to combat consumers' over-indebtedness.

Absa Bank, as far as possible, provides documentation in plain and understandable language. Absa recently received approval for its language proposal from the National Credit Regulator, as required by the NCA.

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 Absa Bank conducts business, the Bank has a New Regulatory Requirement Forum, which focuses on scanning and evaluating the entire regulatory landscape per business area in the Bank, as well as for the Bank 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.

Employee awareness through the Employee Compliance Conduct Guide (ECCG)

Through the ECCG and the associated attestation process, Absa Bank employees are made aware of the most pertinent compliance-related policies and behaviours expected.

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 employees.

Combating unethical behaviour

As part of Absa'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. Absa's ethics policy was implemented as a control to address this specific risk. Absa Bank 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 Absa's 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 being discriminated against as a result of the disclosure, 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.

Communication with regulators

The Contact with Regulators policy provides a framework that guides ad hoc contact with any financial services regulatory authority relevant to Absa Bank, 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.

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. In line with the recent economic turmoil internationally and the collapse of several international banks, there is an even greater emphasis on the significance of the Basel II framework worldwide.

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.

Financial Advisory and Intermediary Services Act (FAIS)

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 Bank was represented as a member of the FAIS committee of the Banking Association and as such provided input to the proposed legislation.

Looking ahead

A few new developments that will impact on Absa Bank are in the process of being finalised. The most important of these are those relating to consumer protection, the new Companies Act and the FAIS 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.

New Companies Act

The proposed new Companies Act is expected to be promulgated in 2009. The new Companies Bill is aimed at simplifying the registration of companies, encouraging entrepreneurship and high standards of corporate governance, balancing the rights and obligations of shareholders and directors and also to encourage the efficient and responsible management of a company. It further provides for increased liabilities for directors in respect of breaches of fiduciary duty or for any direct or indirect loss, damage or costs sustained by the company as a result thereof.

Financial Advisory and Intermediary Services Act

The FSB published new Fit and Proper requirements during October 2008. The requirements will be applicable to all representatives entering the financial services sector as well as transitional arrangements for current representatives. The aim of the requirements is to ensure professionalism in the industry. These requirements will be effective from 2010 and require substantial amendments in the training and oversight of key individuals and representatives.

The Bank board

Introduction

The Absa Bank board has been reconstituted over the part two years in an effort to achieve greater diversity and balance. The majority of the directors are independent, including the Chairperson. As at 31 December 2008, there were 21 directors, of which four were executive, five were non-executive and 12 were considered to be independent.

The year under review

The Absa Bank board's composition changed during the year under review as follows:

- The appointment of B J Willemse and S A Fakie on 1 January 2008.
- The resignation of T M G Sexwale on 9 January 2008.
- The resignation of P E I Swartz on 11 March 2008.
- The retirement of L N Angel and L N Jonker on 22 April 2008.
- The appointment of T M Mokgosi-Mwantembe and M J Husain on 28 November 2008.

Board membership

The Absa Bank board comprised the following directors as at 31 December 2008:

Independent non-executive directors – D C Arnold, D C Brink (Deputy Chairperson), B P Connellan, S A Fakie, G Griffin, M W Hlahla, M J Husain, G Marcus (Chairperson), T M Mokgosi-Mwantembe, T S Munday, F A Sonn and B J Willemse.

Non-executive directors – Y Z Cuba, R A Jenkins[1,4], R Le Blanc[1], F F Seegers[2,4] and E C Mondlane, Jr[3].

Executive directors – S F Booysen (Chief Executive)[5], N P Mageza, J H Schindehütte and L L von Zeuner.

Note

Further changes to the board composition have been effected in 2009, namely the appointment of S G Pretorius and M Ramos as well as B de Vitry and A Jenkins, who replaced R A Jenkins and F F Seegers.

Board committee membership as at 31 December 2008

Committee	Members
Group Audit and Compliance Committee (GACC)	D C Arnold (Chairperson), S A Fakie, G Griffin and T S Munday
Group Risk and Capital Management Committee (GRCMC)	D C Arnold, G Griffin (Chairperson), M W Hlahla, R Le Blanc[1], G Marcus, E C Mondlane, Jr[3] and B J Willemse (M J Husain was appointed to this committee in February 2009)
Directors' Affairs Committee (DAC)	D C Arnold, D C Brink, G Griffin, G Marcus (Chairperson), F F Seegers[2,4] and F A Sonn (M J Husain was appointed to this committee in February 2009)
Group Remuneration and Human Resource Committee (GRHRC)	D C Brink (Chairperson), B P Connellan, G Marcus, F F Seegers[2,4] and F A Sonn (T M Mokgosi-Mwantembe was appointed to this committee in February 2009)
Group Credit Committee (GCC)	D C Brink, B P Connellan, G Marcus and T S Munday
Concentration Risk Committee (previously Credit Committee: Large Exposures)	S F Booysen[5], D C Brink, B P Connellan, Y Z Cuba, S A Fakie, G Marcus (Chairperson), T S Munday, J H Schindehütte and B J Willemse
Board Finance Committee	D C Arnold, D C Brink, Y Z Cuba, R A Jenkins[1,4], G Marcus (Chairperson) and T S Munday

Notes

[1]*British.* [2]*Dutch.* [3]*Mozambican.* [4]*Resigned on 11 February 2009.* [5]*Resigned on 28 February 2009.*

Absa Bank board biographical details as at 31 December 2008

D C (Des) Arnold

Age: 68

Qualifications:

• CA(SA)

• FCMA

• AMP

Independence:

Independent director

Year appointed

2003

Absa board committee memberships

- Group Audit and Compliance Committee (Chairperson)
- Group Risk and Capital Management Committee
- Directors' Affairs Committee
- Board Finance 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 and a trustee of the Absa Group Retirement Fund. He is a director of Absa Group Limited.

Skills, expertise and experience

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

Mr Arnold is a 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 is also an honorary life member of SAICA. He has represented SAICA on the Financial and Management Accounting Committee of IFAC.

S F (Steve) Booysen

Age: 46

Qualifications:

• DCom (Acc)

• CA(SA)

Title:

Chief Executive

Independence:

Executive director

Year appointed

2004

Absa board committee memberships

- Concentration Risk Committee (previously Credit Committee: Large Exposures)
- Attends various other board committee meetings ex officio

Other directorships/trusteeships

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

Skills, expertise and experience

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

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

Dr Booysen resigned from the Absa Bank board on 28 February 2009.

The Bank board

D C (Dave) Brink

Age: 69
Qualifications:
- MSc Eng (Mining)
- Diploma in Business Administration
- Graduate Diploma in Company Direction

Title:
Deputy Chairperson
Independence:
Independent director

Year appointed

1992

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

Other directorships/trusteeships
Mr Brink is a director of Sappi Limited, where he is lead director and a member of the audit committee and nominations and governance committee and Chairperson of the compensation committee. He is a trustee of the Absa Foundation and Chairperson of the Absa Group Retirement Fund. He is also a Co-Chairperson of the Business Trust, a director of the National Business Initiative and Vice-President of the South African Institute of Directors. Mr Brink is a director of Steinhoff International Holdings Limited, where he is Chairperson of the audit committee. He is the Deputy Chairperson of Absa Group Limited.

Skills, expertise and experience
Mr Brink joined Murray & Roberts Limited in 1970 after eight years in the gold industry with Anglo American Corporation of South Africa Limited. He was appointed Chief Executive Officer of Murray & Roberts Holdings Limited in 1986 and Chairperson in 1994. Mr Brink was the Chief Executive Officer of Sankorp Limited from 1994 to 1997. Between 1994 and 2007, he was a director of both BHP Billiton Limited and BHP Billiton Plc, where he was Chairperson of the sustainability committee and a member of the audit committee.

B P (Brian) Connellan

Age: 68
Qualifications:
- CA(SA)

Independence:
Independent director

Year appointed

1994

Absa board committee memberships
- Group Remuneration and Human Resource Committee
- Group Credit Committee
- Concentration Risk Committee (previously Credit Committee: Large Exposures)

Other directorships/trusteeships
Mr Connellan is a director of Absa Group Limited, Illovo Sugar 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.

Y Z (Yolanda) Cuba

Age: 31
Qualifications:
- BCom (Stats)
- BCom (Hons) (Acc)
- CA(SA)

Independence:
Non-executive director

Year appointed

2006

Absa board committee memberships
- Group Audit and Compliance Committee (mandatory attendee)
- Concentration Risk Committee (previously Credit Committee: Large Exposures)
- Board Finance Committee

Other directorships/trusteeships

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

Skills, expertise and experience

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

S A (Shauket) Fakie

Age: 55
Qualifications:
- BCom
- CA(SA)

Independence:
Independent director

Year appointed

2008

Absa board committee memberships
- Group Audit and Compliance Committee
- Concentration Risk Committee (previously Credit Committee: Large Exposures)

Other directorships/trusteeships

Mr Fakie is a director of Absa Group Limited and 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. He was also the Secretary General for the Auditors-General Association on the African continent.

He currently serves on the boards of various companies and the executive committees of several community and non-profit organisations. He was the 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 subcommittee at the Western Cape Society of Chartered Accountants and the Education Committee of the Institute of Chartered Accountants in Australia.

The Bank board

G (Garth) Griffin

Age: 59
Qualifications:
- BSc
- FIA
- FASSA

Independence:
Independent director

Year appointed

2001

Absa board committee memberships
- Group Risk and Capital Management Committee (Chairperson)
- Group Audit and Compliance Committee
- Directors' Affairs Committee

Other directorships/trusteeships
He is a director of Absa Group Limited, Swiss Re Life and Swiss Re Africa, is the 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, at which time he was Managing Director responsible for Old Mutual's worldwide asset management and unit trust businesses, as well as all activities outside South Africa.

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 and Citadel Holdings Limited. 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.

M W (Monhla) Hlahla

Age: 45
Qualifications:
- BA (Hons) (Economics)
- MA (Urban and Regional Planning)

Independence:
Independent director

Year appointed

2005

Absa board committee memberships
- Group Risk and Capital Management Committee

Other directorships/trusteeships
Ms Hlahla is a director of Absa Group Limited, non-executive director of Air Traffic and Navigation Services and the Industrial Development Corporation.

Skills, expertise and experience
Ms Hlahla completed her bachelors and masters degrees in the United States of America, where she also worked at the Coalition for Woman's Economic Development in Los Angeles, a provider of micro loans to women 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.

M J (Mohamed) Husain

Age: 48

Qualifications:

• BProc

Independence:

Independent director

Year appointed

2008

Absa board committee memberships

- Group Risk and Capital Management Committee (as from February 2009)
- Directors' Affairs Committee (as from February 2009)

Other directorships/trusteeships

Mr Husain is a director of Absa Group Limited, the past President and member of the Law Society of the Northern Provinces, Chairperson of the Attorneys Insurance Indemnity Fund, President-Elect of the international Commonwealth Lawyers Association, trustee of the Wits Law School Endowment Appeal, Member of Eskom's board tender committee and Chairperson of the remuneration committee of the Law Society of South Africa.

Mr Husain is an attorney and director of Knowles Husain Lindsay Incorporated and a director of KLH Investments (Proprietary) Limited.

Skills, expertise and experience

Mr Husain has been an attorney for approximately 24 years during which time he has represented a diverse range of clients in commercial and corporate litigation, insolvency law and administrative law. He was one of the advisers to the Constitution Assembly on the drafting of the final Constitution. He has acted as a judge of the High Court. He is listed in various international legal publications, including a listing as Best Lawyer: Litigation (South Africa). He has presented papers on a wide range of legal issues at several international law conferences.

R A (Roger) Jenkins

Age: 53

Qualifications:

• BA (Economics)

• Member of the Institute of Bankers (ACIB, DipFS)

Independence:

Non-executive director

Year appointed

2007

Absa board committee memberships

- Board Finance Committee

Other directorships/trusteeships

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

Skills, expertise and experience

Mr Jenkins 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 the establishment of Barclays Futures and was the manager of the Overseas Investment Group. In 1987, he 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 and in 1994 he joined Barclays to head up Structured Capital Markets.

Mr Jenkins resigned from the Absa Bank board on 11 February 2009.

The Bank board

R (Robert) Le Blanc

Age: 52
Qualifications:
• MSc
• MBA
Independence:
Non-executive director

Year appointed

2007

Absa board committee memberships

- Group Audit and Compliance Committee (mandatory attendee)
- Group Risk and Capital Management Committee

Other directorships/trusteeships

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

Skills, expertise and experience

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

N P (Peter) Mageza

Age: 54
Qualifications:
• ACCA
Independence:
Executive director

Year appointed

2007

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). He is a director of Absa Group Limited.

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 Executive Committee in 2003.

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

G (Gill) Marcus

Age: 59

Qualifications:

• BCom

Title:

Chairperson

Independence:

Independent director

Year appointed

2007

Absa board committee memberships

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

Other directorships/trusteeships

Ms Marcus is a non-executive director of Gold Fields Limited and the Millennium Labour Council and a member of the Auditor-General's Advisory Board and Independent Board for the Regulation of Auditors (term ends 31 March 2009). She was appointed as Chairperson of the Rhodes Scholarship Fund in January 2009. She is the Chairperson of Absa Group Limited.

Skills, expertise and experience

Ms 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.

Ms 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.

T M (Thoko) Mokgosi-Mwantembe

Age: 47

Qualifications:

• BSc

• MSc (Medical Chemistry)

• Dip (Education)

Independence:

Independent director

Year appointed

2008

Absa board committee memberships

- Group Remuneration and Human Resource Committee (as from February 2009)

Other directorships

Mrs Mokgosi-Mwantembe is a director of Absa Group Limited, Knorr-Bremse (SA) (Proprietary) Limited, Yebo Yethu and Paracon Holdings Limited.

Skills, expertise and experience

Mrs Mokgosi-Mwantembe started her career as Product Manager for Glaxo (1989 – 1994) and Merck, Sharp and Dohme (1994 – 1996). She was employed in various positions at Telkom from 1996 to 2001 (including Managing Executive: Consumer Sales and Marketing). She was appointed as Divisional Managing Director of Siemens Telecommunications (Proprietary) Limited from 2001 to 2004. In March 2004, she was afforded the opportunity to take on the role of Chief Executive Officer of Alcatel South Africa.

From November 2004 to the end of October 2008, Mrs Mokgosi-Mwantembe was the Chief Executive Officer of Hewlett-Packard and achieved significant growth for the organisation. She is currently the Chief Executive Officer of the recently-established Kutana Investment Group.

The Bank board

E C (Eduardo) Mondlane, Jr

Age: 51

Qualifications:
- Political Science Extension Student UCLA

Independence:
Non-executive director

Year appointed

2007

Absa board committee memberships
- Group Risk and Capital Management Committee

Other directorships/trusteeships

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

Skills, expertise and experience

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

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

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

T S (Trevor) Munday

Age: 59

Qualifications:
- BCom

Independence:
Independent director

Year appointed

2007

Absa board committee memberships
- Group Audit and Compliance Committee
- Concentration Risk Committee (previously Credit Committee: Large Exposures)
- Group Credit Committee
- Board Finance Committee
- Brand and Reputation Committee (subcommittee of the Group Exco) (Chairperson)

Other directorships/trusteeships

Mr Munday is a director of Absa Group Limited, Reunert 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.

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 Limited on 1 July 2005. He retired from his executive responsibilities at Sasol on 31 December 2006.

J H (Jacques) Schindehütte

Age: 49

Qualifications:
- BCom (Hons)
- CA(SA)
- HDip Tax

Independence:
Executive director

Year appointed

2005

Absa board committee memberships
- Concentration Risk Committee (previously Credit Committee: Large Exposures)
- Attends various other board committee meetings ex officio

Other directorships/trusteeships

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

Skills, expertise and experience

Mr Schindehütte 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: Finance during 1999. He was appointed as an executive director in January 2005.

F F (Frits) Seegers

Age: 50

Qualifications:
- Masters degrees in engineering and finance

Independence:
Non-executive director

Year appointed

2006

Absa board committee memberships
- Group Remuneration and Human Resource Committee
- Directors' Affairs Committee

Other directorships/trusteeships

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

Skills, expertise and experience

Mr Seegers is Chief Executive Officer of Barclays Global Retail and Commercial Banking. He joined Barclays in July 2006 after 17 years at Citigroup, where he was the Chief Executive Officer of the Global Consumer Group with a remit covering all retail operations in Europe, the Middle East and Africa. Prior to this he was the Chief Executive Officer of Consumer Banking for Asia Pacific, covering eleven consumer markets. Under his leadership, this region was the fastest growing business of Citigroup.
Mr Seegers resigned from the Absa Bank board on 11 February 2009.

The Bank board

F A (Franklin) Sonn

Age: 69
Qualifications:
• BA (Hons)
• PTD
• FIAC
Independence:
Independent director

Year appointed

1999

Absa board committee memberships

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

Other directorships/trusteeships

Dr Sonn is Chairperson of Airports Company South Africa Limited (ACSA), African Star Ventures (Proprietary) Limited, Imalivest (Proprietary) Limited, Xinergistix Limited, Kwezi V3 Engineers (Proprietary) Limited, JIA Piazza (Proprietary) Limited, the holding company for the InterContinental Johannesburg O.R. Tambo Airport Hotel, and Ekapa Mining (Proprietary) Limited. He is a director of Absa Group Limited, Sappi Limited, Steinhoff International Holdings Limited, Macsteel Service Centres SA (Proprietary) Limited, Metropolitan Holdings Limited, Metropolitan Life Limited, RGA Reinsurance Company of South Africa Limited, RGA SA Holdings (Proprietary) Limited, Esor Limited and Pioneer Food Group (Proprietary) Limited. He serves as a member of the Nelson Mandela Foundation Advisory Board and World Wide Fund for Nature South Africa. He is also the Chancellor of the University of the Free State, Executive in Residence at the University of Cape Town's Graduate School of Business and a patron of Child Welfare South Africa.

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.

L L (Louis) von Zeuner

Age: 47
Qualifications:
• BEcon
Independence:
Executive director

Year appointed

2004

Absa board committee memberships

- None, but attends various board committee meetings ex officio

Other directorships/trusteeships

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

Skills, expertise and experience

Mr von Zeuner'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 an executive director in September 2004.

B J (Johan) Willemse

Age: 54

Qualifications:

- BCom
- BCom (Hons) (Economics)
- MCom (Economics)
- PhD (Agricultural Economics)

Independence:

Independent director

Year appointed

2008

Absa board committee memberships

- Group Risk and Capital Management Committee
- Concentration Risk Committee (previously 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 and an elected trustee of the University of the Free State provident fund. He is a director of Absa Group Limited.

Skills, expertise and experience

As Chief Economist of the South African Agricultural Union (SAAU), as well as the Maize Board, consulting to Agri business, and as member of the National Agricultural Marketing Council (NAMC), 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. Professor Willemse currently consults to major agricultural businesses in South Africa on agricultural business strategy and markets.

Contents

Financial statements

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 49, 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 the consolidated and separate financial statements that fairly present the state of the affairs of Absa Bank Limited and its subsidiaries (the Bank) and of the Company at the end of the financial year and the net income and cash flows for the year, and other information contained in this report.

To enable the directors to meet these responsibilities:

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

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

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

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

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

It is the responsibility of the independent auditors to report on the consolidated and separate financial statements. Their report to the members of the Bank and Company is set out on page 49 of this report.

Approval of financial statements

The directors' report and the financial statements of the Bank and the Company, which appear on pages 50 to 239, were approved by the board of directors on 7 February 2009 and are signed by:

G Marcus
Chairperson

S F Booysen
Chief Executive

Johannesburg
7 February 2009

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

In accordance with the provisions of the Companies Act, No 61 of 1973 (as amended), of South Africa, I certify that, in respect of the year ended 31 December 2008, 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
7 February 2009

Independent auditors' report to the members of Absa Bank Limited

Report on the financial statements

We have audited the Bank and Company financial statements of Absa Bank Limited (Company), which comprise the directors' report, the balance sheet and the consolidated balance sheet as at 31 December 2008, 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 50 to 239 excluding the sections marked as "unaudited" in notes 56.4 and 58.2.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank and of the Company as at 31 December 2008, and their financial performance and their cash flows for the year then ended in accordance with IFRS, and in the manner required by the Companies Act, No 61 of 1973 (as amended), of South Africa.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: T Winterboer
Registered Auditor

Ernst & Young Inc.

Ernst & Young Inc.
Director: E van Rooyen
Registered Auditor

Johannesburg
7 February 2009

Directors' report

General information and nature of activities

The Bank, which has preference shares listed on the JSE Limited, is incorporated and domiciled in South Africa and provides retail, commercial, corporate and investment banking services. The Bank operates primarily in South Africa and employs over 33 000 people. The address of the Bank's registered office is 170 Main Street, Johannesburg, 2001.

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

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

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

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

The consolidated and separate financial statements were approved for issue by the board of directors on 7 February 2009.

Bank results

Main business and operations

Headline earnings for the year amounted to R7 713 million (2007: R7 476 million) and headline earnings per share of 2 175,5 cents (2007: 2 216,4 cents). Earnings (profit attributable to the ordinary equity holder) for the year amounted to R8 390 million (2007: R7 620 million) and earnings per share of 2 366,1 cents (2007: 2 259,4 cents).

Headline earnings were derived from the following activities:

	Year ended 31 December	
	2008 Rm	2007 Rm
Retail banking	**3 412**	4 784
• Absa Wealth	**27**	46
• Retail Bank	**2 419**	2 324
• Absa Home Loans	**143**	1 287
• Absa Card	**536**	706
• Absa Vehicle and Asset Finance	**287**	421
Absa Corporate and Business Bank	**2 774**	2 127
Absa Capital	**1 967**	1 516
Corporate centre	**691**	(109)
Capital and funding centre	**3**	94
Total earnings from business areas	**8 847**	8 412
Synergy costs (after tax)[1]	**—**	(479)
Profit attributable to preference equity holders	**(457)**	(313)
Profit attributable to ordinary equity holder	**8 390**	7 620
Headline earnings adjustment	**(677)**	(144)
Total headline earnings	**7 713**	7 476

Note

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

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:

- Commercial Asset Finance was moved from retail banking to Absa Corporate and Business Bank; and
- Properties in Possession was moved from retail banking to the corporate centre.

Subsidiaries, associates and joint ventures

The interests in subsidiaries, associates and joint ventures are set out in note 43 to the financial statements.

Directors

The directors of the Company during the year and to the balance sheet date are as follows:

G Marcus (Chairperson)

D C Brink[5] (Deputy Chairperson)

S F Booysen[1] (Chief Executive)

L N Angel (resigned on 22 April 2008)

D C Arnold

B P Connellan[5]

Y Z Cuba

S A Fakie (appointed on 1 January 2008)

G Griffin

M W Hlahla

M J Husain (appointed on 28 November 2008)

R A Jenkins[2]

L N Jonker (resigned on 22 April 2008)

R Le Blanc[2]

N P Mageza[1]

T M Mokgosi-Mwantembe (appointed on 28 November 2008)

E C Mondlane, Jr.[4]

T S Munday

J H Schindehütte[1]

F F Seegers[3]

T M G Sexwale (resigned on 9 January 2008)

F A Sonn[5]

P E I Swartz (resigned on 11 March 2008)

L L von Zeuner[1]

B J Willemse (appointed on 1 January 2008)

Notes

[1]*Executive director.*

[2]*British.*

[3]*Dutch.*

[4]*Mozambican.*

[5]*Has been on the board for more than nine years.*

Directors' report

Re-election of retiring directors

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

In line with international best practice, Absa Group Limited has introduced a requirement in terms of which all directors on the board for longer than nine years are subject to annual re-election by shareholders at the AGM. The directors who retire in terms of the above arrangement at the 2009 AGM are D C Brink and B P Connellan. Both directors are eligible for re-election and have made themselves available for re-election.

Furthermore, one-third of the directors are required to retire at each AGM in terms of Absa Group Limited's articles of association and may offer themselves for re-election. The directors who retire in terms of the above arrangement at the 2009 AGM are: Y Z Cuba, G Griffin, M W Hhlahla, R Le Blanc, N P Mageza and T S Munday. The Absa Group board recommends the re-election of these directors.

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			
	2008		2007	
	Direct	**Indirect**	Direct	Indirect
Present directors				
S F Booysen[1] (Chief Executive)	**—**	**11 000**	—	11 000
D C Arnold	**400**	**—**	400	—
B P Connellan	**300**	**—**	300	—
N P Mageza[1]	**—**	**140**	—	140
L L von Zeuner[1]	**562**	**—**	562	—
Past directors				
L N Jonker[2]	**n/a**	**n/a**	300	—
T M G Sexwale[3]	**n/a**	**n/a**	1 000	—
	1 262	**11 140**	2 562	11 140

Notes

[1]*Executive director.*

[2]*Resigned as a director on 22 April 2008.*

[3]*Resigned as a director on 9 January 2008.*

There has been no change in the interest of directors between the balance sheet date and 7 February 2009.

Acquisitions

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

Equity accounted associates and/or joint ventures

- Absa Bank Limited acquired a further 4,0% interest in Ambit Properties Limited, a property loan stock company, increasing its shareholding to 34,6%, at a cost of R90 million during the year.
- Absa Bank Limited made an additional contribution to maintain its 50,0% interest in Integrated Processing Solutions (Proprietary) Limited, a cheque processing company, at a cost of R11 million on 1 November 2008.
- Absa Bank Limited acquired a 27,5% interest in Pinnacle Point Group Limited, a property development company, at a cost of R931 million on 9 December 2008.
- Absa Bank Limited acquired an additional 17,2% interest in Sekunjalo Investments Limited, an investment holding company, at a cost of R39 million during December 2008. The Bank's shareholding is now 27,2%.

Associates designated at fair value through profit or loss

- Absa Bank Limited acquired a 30,0% interest in Cherry Vanilla Investments (Proprietary) Limited, a retirement village, at a cost of R35 million on 12 December 2008.
- Absa Bank Limited acquired a 33,0% interest in Culemborg Investment Properties (Proprietary) Limited, a residential property development company, at a cost of R120 million on 3 December 2008.
- Absa Bank Limited acquired a 30,0% interest in Mall on 14th Avenue (Proprietary) Limited, a property development company, at a cost of R30 on 27 February 2008.
- Absa Bank Limited acquired a 50,0% interest in Pacific Heights 196 (Proprietary) Limited, a property development company, at a cost of R155 million during the year.
- Absa Bank Limited acquired a 33,0% interest in Retail Africa Wingspan Investments (Proprietary) Limited, a property fund company, at a cost of R193 million on 13 October 2008.

Subsidiaries

- Absa Bank Limited obtained control over Asset Backed Collaterised Securities (Proprietary) Limited (Abacas) from 1 July 2008, and hence started to consolidate the entity from 2008 as evaluated in terms of SIC 12.
- Absa Bank Limited has a 92,5% interest in the IFU Property Fund. The Bank is deemed to have control over the fund from 2008 and the investment has been consolidated.
- Absa Bank Limited acquired an additional 50,0% interest in Ngwenya River Estate (Proprietary) Limited, a residential property investment company, increasing its shareholding to 100,0% at a cost of R36 million. This acquisition is subject to South African Reserve Bank (SARB) approval.
- Absa Bank Limited acquired an additional 50,0% interest in The Ballito Junction Development (Proprietary) Limited, a retail property development company, increasing its shareholding to 100,0% at a cost of R6 million.

Disposals

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

- Absa Bank Limited sold its shares in Campus on Rigel (Proprietary) Limited to a third party on 21 January 2008.
- Absa Bank Limited transferred its share in Maravedi Group (Proprietary) Limited to Absa Group Limited on 1 January 2008.
- Absa Bank Limited sold its shares in Absa Development Company Holdings (Proprietary) Limited to Absa Group Limited on 1 January 2008 at book value.

Refer to notes 12 and 50 for additional information on the above acquisitions and disposals.

Special resolutions

The following special resolutions were passed by Absa Bank Limited:

- Authority for a share buy-back: Each year the Bank passes a resolution at the annual general meeting to repurchase shares in terms of section 85 of the Companies Act, when suitable situations arise.
- Authority to empower directors to remove a co-director from the board: A resolution was passed in terms of section 62 of the Companies Act to enable the Company's directors to remove a co-director through the signing of a resolution to that effect by not less than 75% of the other directors on the board.

Directors' report

Secretary

The secretary of the Company is S Martin. Her contact details are as follows:

3rd Floor, Absa Towers East
170 Main Street
Johannesburg, 2001
Telephone: 011 350 4828
Telefax: 011 350 4009
e-mail: sarita.martin@absa.co.za

Directors' and officers' interest in contracts

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

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

Authorised and issued share capital

Authorised

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

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

Issued

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

- On 17 March 2008, 21 768 707 "A" ordinary shares at R183,75 per share, being R0,01 par value and R183,74 share premium.

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

- 302 609 359 ordinary shares of R1,00 each.
- 56 444 764 "A" ordinary shares of R0,01 each.
- 4 944 839 non-cumulative, non-redeemable preference shares of R0,01 each.

Directors' emoluments

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

Dividends

- On 19 February 2008, a dividend of 323,8 cents per ordinary share was declared to the ordinary shareholder registered on 14 March 2008.
- On 19 February 2008, a dividend of 4 436,0 cents per preference share was declared to preference shareholders registered on 14 March 2008.
- On 7 August 2008, a dividend of 322,2 cents per ordinary share was declared to the ordinary shareholder registered on 29 August 2008.
- On 7 August 2008, a dividend of 4 797,5 cents per preference share was declared to preference shareholders registered on 29 August 2008.
- On 9 February 2009, a dividend of 429,6 cents per ordinary share was declared to the ordinary shareholder registered on 6 March 2009. This dividend is payable on 9 March 2009.
- On 9 February 2009, a dividend of 4 734,5 cents per preference share was declared to preference shareholders registered on 6 March 2009. This dividend is payable on 9 March 2009.

Events subsequent to balance sheet date

- S G Pretorius was appointed as a director of the Absa Bank Limited board with effect from 1 January 2009.

Auditors

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

Code of Corporate Practices and Conduct

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

Consolidated balance sheet

As at 31 December

	Note	BANK 2008 Rm	2007[1] Rm
Assets			
Cash, cash balances and balances with central banks	2	**16 568**	15 069
Statutory liquid asset portfolio	3	**33 019**	22 957
Loans and advances to banks	4	**43 559**	52 691
Trading portfolio assets	5	**72 929**	25 876
Hedging portfolio assets	5	**3 139**	725
Other assets	6	**8 066**	5 002
Current tax assets	7	**—**	168
Loans and advances to customers	8	**512 684**	443 120
Loans to Absa Group companies	10	**18 990**	15 338
Investments	11	**15 191**	6 574
Investments in associates and joint ventures	12	**2 071**	905
Intangible assets	13	**291**	228
Investment property	14	**385**	—
Property and equipment	15	**5 512**	4 258
Deferred tax assets	16	**80**	48
Non-current assets held-for-sale	51	**2 495**	—
Total assets		**734 979**	592 959
Liabilities			
Deposits from banks	17	**60 043**	65 167
Trading portfolio liabilities	18	**68 120**	22 947
Hedging portfolio liabilities	18	**1 080**	2 226
Other liabilities and sundry provisions	19	**9 427**	10 113
Current tax liabilities	7	**322**	56
Deposits due to customers	20	**373 176**	304 877
Debt securities in issue	21	**159 042**	134 023
Loans from Absa Group companies	22	**3 946**	5 900
Policyholder liabilities under insurance contracts	23	**—**	67
Borrowed funds	24	**12 143**	9 796
Deferred tax liabilities	16	**2 609**	2 259
Non-current liabilities held-for-sale	51	**408**	—
Total liabilities		**690 316**	557 431
Equity			
Capital and reserves			
Attributable to equity holders of the Bank:			
Ordinary share capital	25	**303**	303
Ordinary share premium	25	**9 415**	5 415
Preference share capital	25	**1**	1
Preference share premium	25	**4 643**	4 643
Other reserves	26	**3 939**	1 583
Retained earnings		**26 339**	23 557
		44 640	35 502
Minority interest		**23**	26
Total equity		**44 663**	35 528
Total equity and liabilities		**734 979**	592 959

Note

[1]*Reclassified (refer to note 1.23).*

Consolidated income statement

For the year ended 31 December

	Note	BANK 2008 Rm	2007[1] Rm
Net interest income		**20 239**	17 915
Interest and similar income	27	**73 164**	52 213
Interest expense and similar charges	28	**(52 925)**	(34 298)
Impairment losses on loans and advances	9	**(5 627)**	(2 207)
Net interest income after impairment losses on loans and advances		**14 612**	15 708
Net fee and commission income		**11 720**	10 155
Fee and commission income	29	**12 367**	10 729
Fee and commission expense	29	**(647)**	(574)
Gains and losses from banking and trading activities	30	**3 407**	1 564
Gains and losses from investment activities	31	**91**	108
Other operating income	32	**1 153**	897
Operating income before operating expenses		**30 983**	28 432
Operating expenditure		**(19 196)**	(17 286)
Operating expenses	33	**(18 577)**	(16 584)
Other impairments	34	**11**	(58)
Indirect taxation	35	**(630)**	(644)
Share of retained earnings from associates and joint ventures	12	**65**	67
Operating profit before income tax		**11 852**	11 213
Taxation expense	36	**(3 005)**	(3 277)
Profit for the year		**8 847**	7 936
Attributable to:			
Ordinary equity holder of the Bank		**8 390**	7 620
Preference equity holders of the Bank		**457**	313
Minority interest		**—**	3
		8 847	7 936
• basic earnings per share (cents)	37	**2 366,1**	2 259,4
• diluted earnings per share (cents)	37	**2 366,1**	2 259,4

Note

[1]*Reclassified (refer to note 1.23).*

Consolidated statement of changes in equity

For the year ended 31 December

	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at 1 January 2008	**337 286**	**303**	**5 415**	**1**	**4 643**
Movement in regulatory general credit risk reserve	—	—	—	—	—
Movement in available-for-sale reserve and/or cash flow hedging reserve	—	—	—	—	—
Amount removed from equity and recognised in the income statement	—	—	—	—	—
Deferred tax	—	—	—	—	—
Fair value gains and losses	—	—	—	—	—
Foreign currency translation effects	—	—	—	—	—
Acquisition of subsidiary	—	—	—	—	—
Share of associates' and joint ventures' retained earnings	—	—	—	—	—
Disposals of associates and joint ventures – release of reserves	—	—	—	—	—
Profit for the year	—	—	—	—	—
Shares issued	21 768	0	4 000	—	—
Contribution to Share Incentive Trust	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Dividends declared	—	—	—	—	—
Balance at 31 December 2008	**359 054**	**303**	**9 415**	**1**	**4 643**

	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at 1 January 2007	337 286	303	5 415	1	2 991
Movement in regulatory general credit risk reserve	—	—	—	—	—
Movement in available-for-sale reserve and/or cash flow hedging reserve	—	—	—	—	—
Amount removed from equity and recognised in the income statement	—	—	—	—	—
Deferred tax	—	—	—	—	—
Fair value gains and losses	—	—	—	—	—
Foreign currency translation effects	—	—	—	—	—
Other reserve movements	—	—	—	—	—
Share of associates' and joint ventures' retained earnings	—	—	—	—	—
Profit for the year	—	—	—	—	—
Shares issued	—	—	—	0	1 658
Less: Costs incurred	—	—	—	—	(6)
Net acquisitions	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Dividends declared	—	—	—	—	—
Balance at 31 December 2007 as previously reported	337 286	303	5 415	1	4 643
Reclassification (refer to note 1.23)	—	—	—	—	—
Reclassified balance at 31 December 2007	337 286	303	5 415	1	4 643
Notes	25	25	25	25	25

Note

All movements are reflected net of taxation (refer to note 16).

BANK

2008 Regulatory general credit risk reserve Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Associates and joint ventures Rm	Retained earnings Rm	Minority interest Rm	Total Rm
431	**58**	**(893)**	**150**	**1 425**	**156**	**256**	**23 557**	**26**	**35 528**
(431)	—	—	—	—	—	—	431	—	—
—	(92)	2 668	—	—	—	—	—	—	2 576
—	85	1 636	—	—	—	—	—	—	1 721
—	66	(1 032)	—	—	—	—	—	—	(966)
—	(243)	2 064	—	—	—	—	—	—	1 821
—	—	—	(4)	—	—	—	—	—	(4)
—	—	—	—	—	—	—	—	10	10
—	—	—	—	—	—	65	(65)	—	—
—	—	—	—	—	—	11	—	—	11
—	—	—	—	—	—	—	8 847	—	8 847
—	—	—	—	—	—	—	—	—	4 000
—	—	—	—	—	—	—	(61)	—	(61)
—	—	—	—	—	139	—	42	—	181
—	—	—	—	—	(42)	—	42	—	—
—	—	—	—	—	181	—	—	—	181
—	—	—	—	—	—	—	(6 412)	(13)	(6 425)
—	**(34)**	**1 775**	**146**	**1 425**	**295**	**332**	**26 339**	**23**	**44 663**

2007 Regulatory general credit risk reserve Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Associates and joint ventures Rm	Retained earnings Rm	Minority interest Rm	Total Rm
50	(3)	(353)	203	1 425	167	193	18 334	—	28 726
381	—	—	—	—	—	—	(381)	—	—
—	61	(540)	—	—	—	—	—	—	(479)
—	61	1 064	—	—	—	—	—	—	1 125
—	(33)	221	—	—	—	—	—	—	188
—	33	(1 825)	—	—	—	—	—	—	(1 792)
—	—	—	(53)	—	—	—	—	—	(53)
—	—	—	—	—	—	—	—	(2)	(2)
—	—	—	—	—	—	85	(85)	—	—
—	—	—	—	—	—	—	7 933	3	7 936
—	—	—	—	—	—	—	—	—	1 658
—	—	—	—	—	—	—	—	—	(6)
—	—	—	—	—	—	—	—	25	25
—	—	—	—	—	(11)	—	86	—	75
—	—	—	—	—	(86)	—	86	—	—
—	—	—	—	—	75	—	—	—	75
—	—	—	—	—	—	—	(2 352)	—	(2 352)
431	58	(893)	150	1 425	156	278	23 535	26	35 528
—	—	—	—	—	—	(22)	22	—	—
431	58	(893)	150	1 425	156	256	23 557	26	35 528
26	26	26	26	26	26	26			

Consolidated cash flow statement

For the year ended 31 December

	Note	BANK 2008 Rm	BANK 2007 Rm
Cash flow from operating activities			
Interest, fee and commission income		**82 554**	62 809
Interest, fee and commission expense		**(51 051)**	(35 027)
Net trading and other income		**9 553**	2 028
Cash payments to employees and suppliers		**(17 328)**	(16 094)
Income taxes paid		**(3 301)**	(3 930)
Cash flow from operating profit before changes in operating assets and liabilities		**20 427**	9 786
Net increase in trading and hedging portfolio assets		**(50 624)**	(8 563)
Net increase in loans and advances to customers		**(72 586)**	(78 172)
Net increase in other assets		**(13 989)**	(44 142)
Net decrease in insurance contracts		**(67)**	(8)
Net increase in trading and hedging portfolio liabilities		**44 017**	7 776
Net increase in amounts due to customers and banks		**49 801**	115 854
Net increase in other liabilities		**23 729**	2 184
Net cash generated from operating activities		**708**	4 715
Cash flow from investing activities			
Purchase of property and equipment	15	**(2 119)**	(1 683)
Proceeds from sale of property and equipment		**197**	104
Purchase of intangible assets	13	**(155)**	(165)
Acquisition of subsidiaries, net of cash	50.1	**(40)**	17
Disposal of subsidiaries, net of cash	50.2	**—**	36
Acquisition of associates and joint ventures, net of cash	12.5	**(1 060)**	(148)
Net decrease/(increase) in investments		**1 954**	(2 378)
Net cash utilised from investing activities		**(1 223)**	(4 217)
Cash flow from financing activities			
Issue of ordinary shares		**4 000**	—
Issue of preference shares		**—**	1 652
Proceeds from borrowed funds		**1 886**	1 725
Dividends paid		**(6 412)**	(2 352)
Net cash (utilised)/generated from financing activities		**(526)**	1 025
Net (decrease)/increase in cash and cash equivalents		**(1 041)**	1 523
Cash and cash equivalents at the beginning of the year		**5 023**	3 498
Effect of exchange rate movements on cash and cash equivalents		**(1)**	2
Cash and cash equivalents at the end of the year	48	**3 981**	5 023

1. Summary of significant accounting policies

The significant 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.

New standards, interpretations and amendments to published standards and interpretations effective in 2008

Amended IAS 39 – Financial Instruments: Recognition and Measurement and IFRS 7 – Financial Instruments: Disclosures

These amendments permit an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available-for-sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. The Bank has not reclassified any of its financial instruments in terms of these amendments during the current period and consequently the impact of these amendments on the Bank is not considered to be significant.

IFRS 8 – Operating Segments

IFRS 8 – *Operating Segments* introduces the “management approach” to segment reporting. IFRS 8 was early adopted by the Bank and requires a change in the presentation and disclosure of segment information based on the internal reports regularly reviewed by the Bank’s chief operating decision-maker (CODM) in order to assess each segment’s performance and to allocate resources to them. This change had a minor effect on the Bank’s current segment reporting:

- Market segments have always been reported in line with the internal reporting to the Executive Committee (Exco). However, head office activities and intersegmental eliminations, which have always been reported in the “Other” segment, will now be reported separately. The Bank has also reclassified market segments to be more in line with the management of these segments:
  - Commercial Asset Finance was moved from retail banking to Absa Corporate and Business Bank; and
  - Properties in Possession was moved from retail banking to corporate centre.

  The change has no effect on the profit and loss of the Bank, and comparative information has been restated to reflect the above.
- Disclosures on geographical segments have been limited as these are not reported to the CODM and therefore not considered reportable segments in terms of IFRS 8. The Bank now only distinguishes between business conducted in South Africa, rest of Africa and other foreign countries. Previously the Bank has reported on the business conducted in South Africa, rest of Africa, Europe and Asia.

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 impact of this interpretation on the Bank is not considered to be significant.

IFRIC 12 – Service Concession Arrangements

IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services.

This interpretation is not relevant to the Bank’s operations and has no impact on the reported profits or financial position of the Bank.

IFRIC 14 – The Limit on a Defined Benefit Asset and Minimum Funding Requirements

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

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 and assumptions. It also requires management to exercise its judgement in the process of applying the Bank'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 policies have been consistently applied to all the years presented, unless otherwise stated.

1.2 Use of estimates, assumptions and judgements

The preparation of financial information requires the use of estimates and assumptions about future conditions. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future may differ from those current estimates reported. The areas involving a higher degree of judgement or complexity, 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 estimation uncertainties are set out in the notes to the financial statements.

1.3 Consolidation

The consolidated financial statements include those of Absa Bank Limited and all its subsidiaries, associates, special purpose entities and joint ventures. Accounting policies applied by all entities within the Bank are consistent with those of Absa Bank Limited.

1.3.1 Subsidiaries

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

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

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

When control is obtained in successive share purchases, each significant transaction is accounted for separately and the identifiable assets, liabilities and contingent liabilities are stated at fair value when control is obtained.

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

1.3.2 Investments in associates and joint ventures

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

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

Investments in associates and joint ventures that are not deemed to be part of the Bank's venture capital activities are held at cost plus equity-accounted earnings less any accumulated impairment. The Bank's investment includes goodwill. The carrying values of associates and joint ventures are reassessed at each reporting date for impairment. Impairment of an associate or joint venture is evidenced by a significant or prolonged decline in fair value below cost and when the recoverable amount is the highest of value-in-use and fair value less cost to sell.

The results of associates and joint ventures are accounted for according to the equity method, based on their most recent audited financial statements. If the most recent available audited financial statements are for an accounting period that ended no more than three months prior to the Bank's year-end, these are adjusted in respect of material adjustments between their reporting date and the Bank's reporting date. The Bank's share of its post-acquisition profits or losses is recognised in the income statement and the Bank's interest in the post-acquisition reserves of associates and joint ventures is treated as non-distributable reserves in the Bank's financial statements. When the Bank's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Bank has an obligation or has made payments on behalf of the investee.

Unrealised gains on transactions between the Bank and its associates and joint ventures are eliminated to the extent of the Bank's interest in the entities.

When the financial statements of an associate and joint venture are prepared on a different reporting date to that of the Bank, adjustments are made for the effects of significant transactions or events that occurred between that date and the date of the Bank's financial statements.

Investments in entities that form part of venture capital activities of the Bank have been designated at fair value through profit and loss and disclosed under "Investments". 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*.

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

After application of the equity method, the Bank determines whether it is necessary to recognise an additional impairment loss on the Bank's investment in its associates and joint ventures. The Bank determines at each balance sheet date whether there is objective evidence that the investment in associate or joint venture is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the amount in the income statement.

1.3.3 Transactions with minority interests

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

1.3.4 Special purpose entities

The Bank may enter into transactions with special purpose entities (SPEs). An SPE is consolidated on the same basis as subsidiaries as set out in 1.3.1 above, if, based on an evaluation of the substance of the relationship with the Bank and the SPE's risk and rewards, the Bank concludes that it controls the SPE. Control exists when the Bank has the power to govern the financial and operating policies of entities so as to obtain benefits from its activities.

SPEs controlled by the Bank are established under terms that:

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

1.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM has been identified as the Chief Executive (CE) who makes strategic decisions.

The Bank has identified its reportable segments based on a combination of products and services offered to customers, external revenue, and the location of the markets served. The segments also reflect how the Bank's businesses are managed and reported to the CODM. The following summary describes the operations in each of the Bank's reportable segments:

- Absa Wealth: Offers wealth solutions to South Africa's high net worth and ultra-high net worth individuals.
- Absa Home Loans: Offers innovative residential property-related ownership solutions to the Bank's target market segments.
- Absa Card: Provides the full range of Visa and MasterCard products, merchant services and world-class customer services to a broad spectrum of the market.
- Absa Vehicle and Asset Finance (AVAF): Offers customised vehicle and asset finance products (ranging from the financing of manufacturing and mining equipment, leases, office automation and financing of private vehicles) and services to customers. AVAF also offers vehicle management solutions (such as fleet management and administration) to these markets and fleet partners.
- Retail Bank: Offers a comprehensive range of banking products and services to the South African affluent, middle and lower income segment of the market and small businesses.
- Absa Corporate and Business Bank (ACBB): Provides a comprehensive range of banking products and services to corporates, medium and large businesses.
- Absa Capital: Provides investment banking services to the corporate, government and institutional investor segments.
- Other: Consists of various non-banking activities and includes investment income earned by the London branch, Isle of Man and Corporate Real Estate Services (CRES).

Information regarding the operation of each reportable segment is disclosed in the notes to the financial statements. Performance is measured based on segment profit before income tax. Segment profit is measured as management believes that such information is useful in evaluating the results of certain segments relative to other entities that operate within the financial services industry.

The Bank's segments report their profit or loss and their assets and liabilities based on the Bank's accounting policies. All transactions between the segments are conducted on an arm's length basis. Internal charges and transfer pricing adjustments are reflected in the performance of each business.

1.5 Foreign currencies

1.5.1 Functional and presentation currency

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in South African rand, which is the Company's functional and presentation currency.

1.5.2 Foreign currency translations

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

- The assets and liabilities of foreign subsidiary companies are translated at the closing exchange rates ruling at the balance sheet date. Income statement items in respect of foreign entities are translated at the appropriate weighted average exchange rate for the period, where these approximate actual rates. Gains and losses arising on translation are transferred to non-distributable reserves (foreign currency translation reserve) as a separate component of equity.
- On consolidation, exchange differences arising on the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement in "Operating expenses" or "Other operating income".

1.5.3 Foreign currency transactions

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

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

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

1.6 Earnings per share

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

1.7 Financial instruments

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

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

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

1.7.1 Held-to-maturity

Held-to-maturity investments are non-derivative instruments with fixed or determinable payments and a fixed maturity where the Bank has a positive 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 at each reporting date.

The Bank does not have a positive intention to hold to maturity an investment in a financial asset with a fixed maturity if:

- the Bank intends to hold the financial asset for an undefined period;
- the Bank stands ready to sell the financial asset in response to market interest rates or risks, liquidity needs, changes in availability of and the yield on alternative investments, changes in financing sources and terms or changes in foreign currency risk; or
- the issuer has a right to settle the financial asset at an amount significantly below its amortised cost.

If the Bank fails to keep these investments to maturity, other than for specific circumstances defined by the Bank, it will be required to reclassify the entire class as available-for-sale. The investments would then have to be measured at fair value and not amortised cost.

1.7.2 Financial instruments at fair value through profit or loss

This category has three subcategories: derivatives, financial instruments held for trading and those financial instruments designated at fair value through profit or loss at inception.

Financial instruments classified as held for trading

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.

These financial instruments are disclosed in the balance sheet as “Trading portfolio assets or liabilities” and are initially measured at fair value, with transaction costs recognised immediately in 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.

Financial instruments designated at fair value through profit or loss

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 at initial recognition, and are so designated by management. The Bank may only designate financial instruments at fair value through profit or loss when the designation results in more relevant information, as follows:

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

- The Bank can also designate at fair value through profit or loss if it relates to a contract containing one or more embedded derivatives that significantly modify the cash flows resulting from that contract.

The fair value designation, once made, is irrevocable. Measurement is initially at fair value, with transaction costs taken directly to the income statement. Subsequently, the fair value is remeasured, and gains and losses from changes therein are recognised in “Gains and losses from banking and trading activities” and “Gains and losses from investment activities”, depending on the nature of the instrument, unless disclosing such fair value movements in another income statement line would eliminate an accounting mismatch.

Derivatives

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). All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives held for trading are included in “Gains and losses from banking and trading activities”.

1.7.3 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.

This category of financial assets is initially recognised at fair value, which represents the consideration given, plus transaction costs and is subsequently carried at fair value. The fair value adjustments which represent gains and losses, net of applicable taxes, are reported in shareholders’ equity (available-for-sale reserve) 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 on available-for-sale instruments calculated using the effective interest rate method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Bank’s right to receive payment is established.

Available-for-sale assets are regularly assessed for impairment. In assessing whether or not impairment has occurred, consideration is given to, inter alia, whether or not there has been a significant or prolonged decline in the fair value of the security below its cost. Factors considered in determining whether there has been a significant or prolonged decline in the equity instrument below its cost include:

- the length of time and the extent to which fair value has been below cost;
- the severity of the reduced fair value;
- the cause of the reduced fair value and the financial condition and near-term prospects of the issuer;
- activity in the market of the issuer which may indicate adverse credit conditions; and
- the Bank’s ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

Factors considered in determining whether there has been a significant or prolonged decline in debt instruments below their costs are the same as those mentioned in note 1.7.7 below.

If impairment is assessed to have occurred, the cumulative gain or loss that has been previously recognised directly in equity is removed from equity and is recognised in the income statement. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as all other financial assets. If, in a subsequent period, the fair value of a debt instrument 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 shall be reversed, with the amount of the reversal recognised in the income statement. Reversals of impairment of equity instruments are not recognised in the income statement; increases in the fair value of equity instruments after impairment are recognised directly in equity.

1.7.4 Loans and receivables

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

After initial measurement, loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any transaction costs on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in “Interest and similar income” in the income statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of an identified or unidentified impairment methodology.

Once a loan has been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

1.7.5 Embedded derivatives

Certain financial instruments contain both a derivative and non-derivative host component. In such cases the derivative component is termed an embedded derivative.

An embedded derivative is only separated 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 of the embedded derivative 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.
- The combined contract is not held for trading or designated at fair value through profit or loss.

1.7.6 Financial liabilities

Financial liabilities are measured at amortised cost, except for trading liabilities and liabilities designated at fair value, which are held at fair value through profit or loss. The fair value of a financial liability with a demand feature (eg a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

1.7.7 Impairment of assets at amortised cost

An impairment assessment of assets at amortised cost is performed at each reporting date.

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

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

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

Loans and receivables are stated net of identified and unidentified impairments.

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

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

- Significant financial difficulty of the issuer or obligor.
- A breach of contract, such as a default or delinquency in interest or principal payments.

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

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses that group 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 impairment 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 a provision account and the amount of the impairment loss is recognised in the income statement. If a loan receivable 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.

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 of obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

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

Loans or other receivables, together with the associated allowance, are written off when there is no realistic prospects of future recovery and all collateral has been realised or has been transferred to the Bank.

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

Identified impairment

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

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

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

Unidentified impairment

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

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

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

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

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

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

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

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

1.7.8 Renegotiated loans

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would otherwise not consider. These loans are not considered to be past due after renegotiations but are treated as new loans after the loan has performed for a specified period. These loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

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 once the customer demonstrates the ability to make contractual payments for a specific period. 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.

1.7.9 Derecognition of financial assets

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

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

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

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

1.7.10 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same tender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

1.7.11 Fair value

Some of the Bank's financial instruments are carried at fair value through profit or loss such as those held for trading, designated by management under the fair value option and non-cash flow hedging derivatives.

Other non-derivative financial assets may be designated as available-for-sale.

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

The method of determining the fair value of financial instruments can be analysed into the following categories:

(a) Unadjusted quoted prices in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis.

(b) Valuation techniques using market observable inputs. Such techniques may include:
- using recent arm's length market transactions;
- reference to the current fair value of similar instruments; and
- discounted cash flow analysis, pricing models or other techniques commonly used by market participants.

(c) Valuation techniques, as described in (b) above, for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as "day one profit and loss", is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

The valuation techniques in (b) and (c) use inputs such as interest rate yield curves, equity prices, commodity and currency prices/yields, volatilities of underlyings and correlations between inputs. The models used in these valuation techniques are calibrated against industry standards, economic models and to observed transaction prices where available.

The following summary sets out those instruments which use inputs where it may be necessary to use valuation techniques as described previously.

Debt securities, treasury and other eligible bills, and equities

These instruments are valued based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, where available. Where unavailable, fair value is determined by reference to quoted market prices for similar instruments or, in the case of certain mortgage-backed securities and unquoted equities, valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs.

Investments

The investments category includes debt and equity securities, whose fair value is determined using the same procedures described above.

Also included in investments are non-public investments, which include investments in venture capital organisations. The fair value of these investments is determined using appropriate valuation methodologies which, dependent on the nature of the investment, may include discounted cash flow analysis, enterprise value comparisons with similar companies and price:earnings comparisons. For each investment the relevant methodology is applied consistently over time.

Derivatives

Derivative contracts can be exchange traded or traded over-the-counter (OTC). OTC derivative contracts include forward, swap and option contracts related to interest rates, bonds, foreign currencies, equity prices and commodity prices or indices on these assets. Fair value of derivatives are obtained from quoted market prices, dealer price quotations, discounted cash flow and option pricing models.

Loans and receivables

The fair value of loans and receivables is estimated using discounted cash flow models, applying either market rates where applicable or, where the counterparty is a bank, rates currently offered by other financial institutions for placings with similar characteristics.

Deposits and borrowed funds

The fair value of deposits and borrowed funds is determined by discounting expected cash flows using the appropriate discount rate for the applicable maturity.

1.7.12 Scrip lending

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

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

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

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

1.7.13 Hedge accounting

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

At the inception of a hedge relationship, the Bank formally designates and documents the hedge relationship to which the Bank wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

The Bank assesses on an ongoing basis whether the hedge has been highly effective. A hedge is regarded as highly effective only when offsetting changes in fair value or cash flows attributable to the hedged risk during the period are within a range of between 80% and 125%.

Hedge accounting is discontinued when a derivative is not highly effective as a hedge, is sold, terminated, exercised or where the forecast transaction is no longer highly probable to occur. The same applies if the hedged item is sold or repaid. Instruments that have been designated as hedging instruments are reported on a separate line on the balance sheet at each reporting date.

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

Fair value hedges

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

Any ineffectiveness is recognised immediately in "Gains and losses from banking and trading activities" in the income statement. When hedge accounting ceases, any adjustment 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 the cash flow hedging reserve in shareholders' equity. Any ineffective portion of the hedging instrument is immediately recognised in the income statement in "Gains and losses from banking and trading activities". When the cash flows that the hedging instrument 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.

When hedge accounting ceases, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

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.

1.7.14 Offsetting

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

1.7.15 Repurchase and reverse repurchase agreements

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

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

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

1.7.16 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 or loss. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

1.7.17 Loan commitments

The Bank enters into commitments to lend to its customers subject to certain conditions. Such loan commitments are made either for a fixed period, or are cancellable by the Bank subject to notice conditions. Provision is made for undrawn loan commitments to be provided at below-market interest rates and for similar facilities if it is probable that the facility will be drawn and result in recognition of an asset at an amount less than the amount advanced.

1.7.18 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee was given. Other than where the fair value option is applied, subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement any fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date.

Any increase in the liability relating to guarantees is recognised in the income statement. Any liability remaining is recognised in the income statement when the guarantee is discharged, cancelled or expires.

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 future date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as an 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

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

1.9.1 Net interest income

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading, designated at fair value through profit or loss or available-for-sale (other than financial instruments used to economically hedge the Bank's interest rate risk), are recognised in "Net interest income" in the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates the cash flows considering all contractual terms of the financial instrument 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 and includes the following:

- Origination fees relating to the creation or acquisition of a financial asset which may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instruments, preparing and processing documents and closing the transaction.
- Origination fees received on issuing financial liabilities measured at amortised cost.
- Commitment fees received by the Bank to originate a loan and the commitment fee received is regarded as compensation for an ongoing involvement with the acquisition of the financial instrument.

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

Interest is 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 through profit or loss

Net income from financial instruments designated at fair value through profit or loss (other than those used to economically hedge the Bank's interest rate risk) includes all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value through profit or 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. Net income from instruments used to economically hedge the Bank's interest rate risk that are designated at fair value through profit or loss, are recognised in "Net interest income" in the income statement, unless moving the fair value adjustments would offset a mismatch in "Gains and losses from banking and trading activities".

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 loans and advances. Finance charges are recognised as "Interest and similar income" in the income statement over the term of the lease using the net investment method (before tax) which reflects a constant periodic rate of return.

1.9.4 Net fee and commission income

Fee and commission income

The Bank earns fee and commission income from customers for: credit and bank cards; transaction-processing fees; advisory, equity and underwriting services; lending and deposit-related transactions, such as loan commitments, standby letters of credit, and other deposit and loan servicing activities; investment management-related fees.

Fee income is accounted for as follows:

- Fee and commission income that are integral to the effective interest rate on a financial instrument is included in the measurement of the effective interest rate.
- Income earned on the execution of a significant act is recognised as revenue when the act is completed. Loan syndication fees are recognised as revenue when the syndication has been completed or the syndication is probable and the Bank has retained no part of the loan package for itself or has retained a part of the same effective interest rate as other participants. The commission on the allotment of shares to a customer is recognised when the shares have been allotted. Placement fees for arranging a loan between a borrower and an investor is recognised when the loan has been arranged.
- Income earned from the provision of services is recognised as revenue as the services are provided (ie investment or asset management, portfolio and other management advisory and service fees).

Fee and commission expense

Fee and commission expense relate to expenses that are directly linked to the production of fee and commission income and also includes transaction and service fees, which are expensed as the services are received. Fee and commission expense that are integral to the effective interest rate on a financial instrument is included in the measurement of the effective interest rate.

Trust and other fiduciary activities

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

1.9.5 Gains and losses from derivative and trading portfolio 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, commodities and other market variables. Gains or losses on assets or liabilities reported in the trading portfolio are included in the income statement under “Gains and losses from banking and trading activities”, together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

1.9.6 Dividends on equity instruments

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

1.9.7 Sale of assets under construction

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

1.9.8 Rental income

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease where the lease is an operating lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease on a straight-line basis.

1.10 Commodities

Commodities, where the Bank has a shorter-term trading intention, are carried at fair value less cost to sell in accordance with the broker-trader exception in IAS 2.

The fair value for commodities is determined primarily using data derived from the markets on which the underlying commodities are traded.

1.11 Intangible assets

1.11.1 Goodwill

Goodwill is initially measured at cost, being the excess of the cost of the business combination over the Bank’s share in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities. 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. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is capitalised and reviewed annually for impairment or more frequently when there are indications that impairment may have occurred. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank’s cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

The first step of the impairment review process requires the identification of independent operating units, by dividing the Bank’s business into as many largely independent income streams as is reasonably practical. The goodwill is then allocated to these independent operating units. The first step of this allocation is based on the areas of the business expected to benefit from the synergies derived from the acquisition. The second step reflects the allocation of the net assets acquired to the operating units 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 its fair value less cost to sell and its 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, these calculations are usually based on discounting expected cash flows at the Bank’s weighted average cost of capital, the determination of which requires the exercise of judgement.

Where goodwill forms part of a cash-generating unit and of the operation within that unit is disposed of, the goodwill associated with the operation disposed of, is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss in respect of goodwill is recognised in the income statement and is not reversed.

Goodwill on acquisition of associates and joint ventures is included in the carrying amount of these investments. Gains and losses on the disposal of such an entity include the carrying amount of the goodwill relating to the entity sold.

1.11.2 Computer software, customer lists and other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Computer software development activities involve a plan or design for the production of new or substantially improved software. Development expenditure is capitalised only if development costs can be measured reliably, completion of the development of the software is technically and commercially feasible, the Bank can demonstrate that the intangible asset will be used to generate future economic benefits, the Bank intends to and has sufficient resources to complete development and to use the asset and the Bank can demonstrate the ability to use or sell the intangible asset. The expenditure capitalised includes the cost of materials, staff costs and overhead costs that are directly attributable to preparing the software for intended use. Other development expenditure which does not meet the above requirements, is recognised in the income statement as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses. Computer software development costs recognised as assets are amortised over their estimated useful lives.

Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Customer lists and other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. The value of intangible assets, acquired in a business combination, is generally determined using income approach methodologies such as the discounted cash flow method.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life, is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in “Operating expenses”.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

A summary of policies applied to the Bank's intangible assets is as follows:

	Customer lists	Development costs	Other
Useful lives	Finite	Finite	Finite
Amortisation method used	Amortised over the period of the expected future cash flows on a basis that reflect the pattern in which future economic benefits are expected to be received from the asset.	Amortised over the period of the expected use from the related project on a straight-line basis.	Amortised over the period of the expected future cash flows on a basis that reflect the pattern in which future economic benefits are expected to be received from the asset.
Internally generated or acquired	Acquired	Internally generated	Acquired
Annual amortisation rate	8% – 20%	33%	10%

1.12 Property and equipment

1.12.1 Property and equipment not subject to lease agreements

Property and equipment is initially recognised at cost. It is subsequently measured at cost, less accumulated depreciation and/or accumulated impairment losses, if any. Subsequent costs and additions are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs 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 a straight-line basis to write down their cost to their residual values over their estimated useful lives.

The Bank uses the following annual rates in calculating depreciation:

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

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

Property under construction is initially measured at cost. Cost includes the cost of the land and construction costs to date.

All borrowing costs are expensed in the period they occur.

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.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement within "Other operating income" in the year the asset is derecognised. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end, and adjusted prospectively if appropriate.

1.12.2 Property and equipment subject to lease agreements

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets, or the arrangement conveys a right to use the asset.

Finance leases

Leases where the Bank as lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of minimum lease payments. Lease payments are apportioned 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. Assets leased under operating leases are not recognised on the Bank's balance sheet, while payments made are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease on a straight-line basis.

1.12.3 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value with any changes therein recognised in the income statement.

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Bank's investment property at year-end. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the 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.

Valuations reflect, when appropriate: the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness; the allocation of maintenance and insurance responsibilities between the Bank and the lessee; and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices and, when appropriate, counter-notices have been served validly and within the appropriate time.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting treatment.

Investment properties are derecognised when either they have been disposed of or when he investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

1.12.4 Reclassification to investment property

Property that is being constructed for future use as investment property is accounted for as property and equipment until construction or development is complete, at which time it is remeasured at fair value and reclassified as investment property. Any gains or losses arising on remeasurement is recognised in the income statement.

1.13 Repossessed properties

Repossessed properties acquired in exchange for loans as part of an orderly realisation are reported in "Other assets", when the risks and rewards of the properties have been transferred to the Bank.

The property acquired is recorded at the lower of its fair value (less costs to sell) and the carrying amount of the loan (net of impairment allowance) at the date of exchange. No depreciation is charged in respect of these properties. Any subsequent writedown of the acquired property to fair value less costs to sell is recognised in the income statement, in "Other impairments". Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative writedown, is also recognised in "Other impairments".

Gains or losses on disposal of repossessed properties are reported in "Other operating income" or "Operating expenditure".

1.14 Constructed assets held-for-resale

Constructed assets held-for-resale are initially recognised at cost and subsequently measured at the lower of cost and net realisable value. Cost includes the cost of the land and construction costs to date. Construction assets held-for-sale are disclosed as "Other assets" in the balance sheet.

1.15 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. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Immediately before classification as held-for-sale, the assets (or components of a disposal group) are remeasured in accordance with the Bank's accounting policies. Thereafter the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to reduce goodwill and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, employee and benefit assets, which continue to be measured in accordance with the Bank's accounting policies.

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

Property and equipment and intangible assets, once classified as held-for-sale, are not depreciated or amortised.

1.16 Impairment of property, equipment and intangible assets

At each reporting date, or more frequently where events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount, 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 in- or outflows to be obtained or incurred 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.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

1.17 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.

1.18 Provisions

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting 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 existence of the Bank's possible obligations depends on uncertain future events beyond the Bank's control or when the Bank has a present obligation that is not probable or which the Bank is unable to measure reliably.

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

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

1.19 Employee benefits

1.19.1 Post-retirement benefits

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

Defined benefit structures

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

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Bank nor can they be paid directly to the Bank. Fair value is based on market price information and, in the case of quoted securities is the published bid price. The value of any plan asset recognised is restricted to the sum of any past-service costs not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The Absa Group Pension Fund's assets belong to the fund's members. The Bank has no intention to utilise the surplus fund assets to reduce future contributions. Consequently, these assets are not recognised on the Bank's balance sheet.

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

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

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Defined contribution structures

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

Contributions to any defined contribution plan are expensed as incurred.

Short-term benefits

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

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

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

1.19.2 Share-based compensation

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

Employee services settled in equity instruments

The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options determined at the grant date, excluding the impact of any non-market vesting conditions (ie profitability). Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable or the number of shares that the employee will ultimately receive. This estimate of the number of options that are expected to become exercisable is revised at each reporting 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 non-market 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.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification. This expense will be expensed over the remaining vesting period of the award.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

Employee services settled in cash

The fair value of the amount payable to employees in terms of a cash-settled share-based payment is recognised as an expense, with a corresponding increase in liabilities, over the vesting period. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff cost 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 or Monte Carlo simulations. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

1.20 Taxation

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

1.20.1 Current taxation

The current tax liability or asset is the expected tax payable or recoverable, using tax rates and tax laws enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

1.20.2 Deferred taxation

Deferred income tax is provided, 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 reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principle temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward, and in relation to acquisitions, on the difference between the fair values of net assets acquired and their tax bases. The rates enacted or substantially enacted at the reporting 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 income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the difference will not reverse in the foreseeable future.

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

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.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

1.20.3 Secondary tax on companies

The liability to pay dividends is only recognised once the dividends are declared.

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

1.20.4 Value-added tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT, except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense items as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

1.21 Treasury shares

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

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

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

1.22 Managed funds and trust activities

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

1.23 Reclassifications

			2007	
		As previously reported	Reclassi-fications	Reclassified balance
Balance sheet	Note	Rm	Rm	Rm
Loans to Absa Group companies	1.23.2	9 438	5 900	15 338
Investments	1.23.1	6 109	465	6 574
Investments in associates and joint ventures	1.23.1	1 370	(465)	905
Loans from Absa Group companies	1.23.2	—	(5 900)	(5 900)
Other reserves	1.23.1	1 605	(22)	1 583
Retained earnings	1.23.1	23 535	22	23 557
Income statement				
Fee and commission income	1.23.3	10 620	109	10 729
Gains and losses from banking and trading activities	1.23.1	1 536	28	1 564
Other operating income	1.23.3	1 006	(109)	897
Share of retained earnings from associates and joint ventures	1.23.1	85	(18)	67
Taxation expense	1.23.1	(3 267)	(10)	(3 277)

1.23.1 Commercial Property Finance (CPF) investment in associates and joint ventures

During the 2007 financial year, Absa Corporate and Business Bank launched the CPF division. The CPF division's aim is to identify and invest in property developments by obtaining an equity investment in the identified company and/or provide financing. The investment portfolio was previously classified as investments in associates as the equity investment generally ranges between 20% and 50% of the company's issued equity.

During 2008, these investments were reclassified from investments in associates to unlisted investments being measured at fair value through profit or loss according to the scope exclusion for venture capital organisations in IAS 28 – *Investments in Associates* and IAS 31 – *Interests in Joint Ventures*.

The value of the investments reclassified from the investments in associates category to the unlisted investments category was R465 million.

1.23.2 Intergroup loans

Intergroup loans receivable were previously reported net of intergroup loans payable. During the year these two balances were reported separately and the comparatives have been restated accordingly.

1.23.3 Intergroup service fees

Intergroup service fees were previously reported as part of other operating income. These service fees have been reclassified to net fee and commission income in the current year. Prior year figures have been restated accordingly.

1.24 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations issued are not yet effective for the year ended 31 December 2008 and have not been applied in preparing these consolidated financial statements:

- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Bank's 2009 consolidated financial statements and will constitute a change in accounting policy for the Bank. In accordance with the transitional provisions, the Bank will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Bank's 2009 consolidated financial statements.
- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Bank's 2009 consolidated financial statements, is not expected to have a material impact on the consolidated financial statements.
- Revised IAS 1 *Presentation of Financial Statements* (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. The amendment also requires two sets of comparative numbers to be provided for the financial position in any year where there has been a restatement or reclassification of balances. Revised IAS 1, which becomes mandatory for the Bank's 2009 consolidated financial statements, will not affect the financial position or results of the Bank but will introduce some changes to the presentation of the consolidated financial statements.
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a *pro rata* share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Bank's 2009 consolidated financial statements, with retrospective application required, are not expected to have a material impact on the consolidated financial statements.
- Revised IFRS 3 *Business Combinations* (2008) incorporates the following changes that are likely to be relevant to the Bank's operations:
  - The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
  - Contingent consideration will be measured at fair value, with subsequent changes therein recognised in the income statement.
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in the income statement.
  - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Bank's 2010 consolidated financial statements, is expected to affect the Bank's accounting for business combinations that arise after the effective date.

- Amended IAS 27 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Bank in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Bank loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in the income statement. The amendments to IAS 27, which become mandatory for the Bank's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements as the Bank is already applying these principles when accounting for transactions with minorities.

- Amendment to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Bank's 2009 consolidated financial statements, with retrospective application. The amendment is not expected to have any impact on the consolidated financial statements.
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarifies that inflation may only be hedged in instances where changes in inflation are contractually specified portions of cash flows of a recognised financial instrument. It also clarifies that an entity is permitted to designate purchased or net purchased options as a hedging instrument in a hedge of a financial or non-financial item and to improve effectiveness, an entity is allowed to exclude the time value of money from the hedging instrument.

The amendment, which becomes mandatory for the Bank's 2010 consolidated financial statements, is not expected to have a material impact on the consolidated financial statements.

- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements* allow first-time adopters of IFRS 1 to use a deemed cost option for determining the cost of an investment in a subsidiary, associate or joint venture.

This amendment will not impact the Bank as the Bank adopted IFRS in full in the financial year ending 31 December 2005. Consequently, IFRS 1 is no longer appropriate.

- IFRIC 15 *Agreement for the Construction of Real Estate*, becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have a significant impact on the consolidated financial statements of the Bank.
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*, becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Bank the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. IFRIC 16 will not have a significant impact on the consolidated financial statements of the Bank.
- IFRIC 17 *Distributions of Non-cash Assets to Owners*, becomes effective for financial years beginning on or after 1 July 2009. The interpretation is to be applied prospectively and clarifies that:
  - A dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity.
  - An entity should measure the dividend payable at the fair value of the net assets to be distributed.
  - An entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.
  - An entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation.

  IFRIC 17 will not have a significant impact on the consolidated financial statements of the Bank.
- As part of its first annual improvements project, the International Accounting Standards Board (IASB) has issued its first edition of annual improvements. The annual improvements project aims to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement.

The current year's improvements becomes mandatory for the Bank's 2009 consolidated financial statements. There are no significant changes in the current year's improvements that will affect the Bank.

	BANK 2008 Rm	BANK 2007 Rm
2. Cash, cash balances and balances with central banks		
Balances with the South African Reserve Bank (SARB)	**12 626**	10 396
Coins and bank notes	**3 942**	4 673
	16 568	15 069
Portfolio analysis		
Loans and receivables		
Balances with the SARB	**12 626**	10 396
Coins and bank notes	**3 942**	4 673
	16 568	15 069
3. Statutory liquid asset portfolio		
Land Bank bills	**492**	492
Republic of South Africa (RSA) government bonds	**19 156**	13 024
Reverse repurchase agreements (refer to note 41)	**4 100**	—
SARB debentures	**1 814**	—
Treasury bills	**7 457**	9 441
	33 019	22 957
Portfolio analysis		
Available-for-sale	**12 669**	9 933
Land Bank bills	**492**	492
RSA government bonds	**2 906**	—
SARB debentures	**1 814**	—
Treasury bills	**7 457**	9 441
Available-for-sale instruments in fair value hedging relationship		
RSA government bonds	**12 077**	10 341
Designated at fair value through profit or loss	**8 273**	2 683
Reverse repurchase agreements	**4 100**	—
RSA government bonds	**4 173**	2 683
	33 019	22 957

RSA government bonds, SARB debentures and Treasury bills valued at R3 470 million (2007: R2 829 million) have been pledged with the SARB. The related liability for the pledged assets, which is disclosed in "Deposits from banks", bears interest at the SARB repurchase rate.

	BANK 2008 Rm	BANK 2007 Rm
4. Loans and advances to banks		
Other loans and advances to banks	**26 312**	23 384
Reverse repurchase agreements (refer to note 41)	**17 247**	29 307
	43 559	52 691
Portfolio analysis		
Designated at fair value		
Reverse repurchase agreements	**7 168**	10 992
Loans and receivables	**36 391**	41 699
Other loans and advances to banks	**26 312**	23 384
Reverse repurchase agreements	**10 079**	18 315
	43 559	52 691

Loans with variable rates are R26 053 million (2007: R22 213 million) and fixed rates are R17 506 million (2007: R30 478 million).

Included above are loans and advances with the Bank's ultimate parent company of R13 636 million (2007: R13 209 million). Refer to note 43 for the full disclosure of related party transactions.

Included above are loans and advances to banks with a carrying value of R2 462 million (2007: R68 million) that have been pledged as security, which excludes reverse repurchase agreements as disclosed in note 41. The amounts pledged is the required threshold of cash collateral based on specific arrangements with different counter parties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

	BANK 2008 Rm	BANK 2007 Rm
5. Trading and hedging portfolio assets		
Commodities	**517**	465
Debt instruments	**5 178**	2 206
Derivative assets (refer to note 59.3)	**65 466**	21 757
Commodity derivatives	**4 722**	2 172
Credit derivatives	**343**	41
Equity derivatives	**2 322**	2 487
Foreign exchange derivatives	**32 050**	7 245
Interest rate derivatives	**26 029**	9 812
Equity instruments	**304**	108
Money market assets	**1 464**	1 340
Total trading portfolio assets	**72 929**	25 876
Hedging portfolio assets (refer to note 59.3)	**3 139**	725
	76 068	26 601
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**2 530**	5
Derivatives designated as fair value hedging instruments	**609**	720
Held for trading	**72 412**	25 411
Debt instruments	**5 178**	2 206
Derivative assets	**65 466**	21 757
Equity instruments	**304**	108
Money market assets	**1 464**	1 340
Non-financial instruments	**517**	465
	76 068	26 601

Included above are derivative positions with the Bank's ultimate parent company of R15 672 million (2007: R4 707 million). Refer to note 43 for the full disclosure of related party transactions.

Trading portfolio assets with a carrying value of R5 178 million (2007: R3 199 million) have been pledged as security (refer to note 41).

These assets are pledged for the duration of the respective agreements.

	BANK 2008 Rm	BANK 2007 Rm
6. Other assets		
Accounts receivable and prepayments	**5 334**	2 824
Deferred costs	**27**	25
Inventories	**365**	632
Settlement accounts and collateral placed	**2 340**	1 521
	8 066	5 002
Portfolio analysis		
Loans and receivables	**7 435**	4 043
Accounts receivable	**5 095**	2 522
Settlement accounts and collateral placed	**2 340**	1 521
Non-financial assets	**631**	959
	8 066	5 002

Included above are settlement accounts with the Bank's ultimate parent company of R228 million (2007: R245 million). Refer to note 43 for the full disclosure of related party transactions.

Included in accounts receivable and prepayments are assets with a carrying value of R546 million (2007: R400 million), that have been pledged as security in the form of cash collateral on derivative transactions.

	BANK 2008 Rm	BANK 2007 Rm
7. Current tax		
Current tax assets		
Amount due from revenue authorities	**—**	168
Current tax liabilities		
Amount due to revenue authorities	**322**	56

	BANK 2008 Rm	BANK 2007 Rm
8. Loans and advances to customers		
Cheque accounts	**26 120**	19 597
Client liabilities under acceptances	**121**	108
Corporate overdrafts and specialised finance loans	**10 306**	5 907
Credit cards	**15 040**	13 827
Foreign currency loans	**11 775**	11 143
Instalment credit agreements (refer to note 8.1)	**64 869**	58 089
Gross advances	**80 967**	74 791
Unearned finance charges	**(16 098)**	(16 702)
Loans granted under resale agreements (Carries) (refer to note 41)	**7 072**	8 233
Loans to associates and joint ventures (refer to note 12.2)	**9 193**	7 495
Microloans	**3 423**	2 642
Mortgages	**299 450**	263 111
Other advances	**5 277**	2 642
Overnight finance	**11 146**	12 636
Personal loans	**18 154**	16 862
Preference shares	**9 375**	9 877
Wholesale overdrafts	**29 860**	16 432
	521 181	448 601
Impairment losses on loans and advances (refer to note 9)	**(8 497)**	(5 481)
	512 684	443 120
Portfolio analysis		
Designated at fair value through profit or loss	**10 848**	13 029
Loans granted under resale agreements (Carries)	**1 543**	3 040
Loans to associates and joint ventures	**1 017**	—
Mortgages	**4 134**	6 661
Other advances	**565**	—
Wholesale overdrafts	**3 589**	3 328
Loans and receivables	**510 333**	435 572
	521 181	448 601

8.1 Instalment credit agreements

Maturity analysis

BANK 2008	Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
Less than one year	**24 138**	**(4 711)**	**19 427**
Between one and five years	**55 081**	**(11 002)**	**44 079**
More than five years	**1 748**	**(385)**	**1 363**
	80 967	**(16 098)**	**64 869**

2007	Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
Less than one year	21 249	(4 345)	16 904
Between one and five years	52 554	(12 132)	40 422
More than five years	988	(225)	763
	74 791	(16 702)	58 089

	BANK 2008 Rm	2007 Rm
8. Loans and advances to customers *(continued)*		
8.1 Instalment credit agreements *(continued)*		

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

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

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

Unguaranteed residual values of instalment credit agreements at the balance sheet date are estimated at R5 768 million (2007: R6 537 million).

The accumulated allowance for uncollectable lease payments receivable included in the allowance for impairments at the balance sheet date is R861 million (2007: R616 million).

9. Impairment losses on loans and advances

	2008 Rm	2007 Rm
Balance at the beginning of the year	**5 481**	4 595
Amounts written off during the year	**(2 574)**	(1 460)
Interest on impaired assets (refer to note 27)	**(521)**	(272)
	2 386	2 863
Impairments raised during the year (refer to note 9.1)	**6 111**	2 618
Balance at the end of the year (refer to note 8)	**8 497**	5 481
Comprising:		
Identified impairments	**7 215**	3 518
Unidentified impairments	**1 282**	1 963
	8 497	5 481

9.1 Income statement charge for impairment losses on loans and advances

	2008 Rm	2007 Rm
Impairments raised during the year	**6 111**	2 618
Identified impairments	**6 792**	2 339
Unidentified impairments	**(681)**	279
Recoveries of loans and advances previously written off	**(484)**	(411)
	5 627	2 207

10. Loans to Absa Group companies

	2008 Rm	2007 Rm
Fellow subsidiaries	**17 649**	14 208
Holding company	**1 341**	1 130
	18 990	15 338
Portfolio analysis		
Loans and receivables	**18 990**	15 338

	BANK	
	2008 Rm	2007 Rm

11. Investments

	2008 Rm	2007 Rm
Debt instruments	**7 709**	724
Listed equity instruments	**1 723**	1 129
Unlisted equity and hybrid instruments	**5 759**	4 721
	15 191	6 574
Directors' valuation and market value		
Directors' valuation of unlisted equity and hybrid instruments	**5 759**	4 721
Market value of debt instruments	**7 709**	724
Market value of listed equity instruments	**1 723**	1 129
	15 191	6 574
Portfolio analysis		
Available-for-sale (refer to note 11.1)	**2 457**	494
Debt instruments	**1 625**	68
Listed equity instruments	**422**	1
Unlisted equity and hybrid instruments	**410**	425
Designated at fair value	**12 734**	6 080
Debt instruments	**6 084**	656
Listed equity instruments	**1 301**	1 128
Unlisted equity and hybrid instruments	**5 349**	4 296
	15 191	6 574

Included above are investments with the Bank's ultimate parent company of R435 million (2007: Rnil). Refer to note 43 for the full disclosure of related party transactions.

11.1 Available-for-sale investments

	2008 Rm	2007 Rm
Carrying value at the beginning of the year	**494**	415
Cost plus fair value movements	**537**	458
Impairment[1]	**(43)**	(43)
Movement in investments	**1 964**	79
Acquisitions and disposals	**1 588**	325
Fair value movements	**376**	(246)
Movement in impairments (refer to note 34)	**(1)**	—
Carrying value at the end of the year	**2 457**	494
Cost plus fair value movements	**2 501**	537
Impairment[1]	**(44)**	(43)

Note

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

Certain comparatives have been reclassified (refer to note 1.23).

12. Investments in associates and joint ventures

	2008 Rm	2007 Rm
Listed investments	**1 704**	594
Unlisted investments	**367**	311
	2 071	905

12.1 Movement in carrying amount

	2008 Rm	2007 Rm
Balance at the beginning of the year as previously reported	**1 370**	601
Reclassification to investments (refer to note 1.23)	**(465)**	(199)
Reclassified balance at the beginning of the year	**905**	402
Share of current year's retained income	**65**	67
Share of current year's income before taxation	**121**	141
Taxation on current income	**(56)**	(48)
Dividends received	**—**	(26)
Net movement in the cost of investments of associates and joint ventures (refer to note 12.4)	**1 087**	419
Amount recognised in liabilities for the Bank's share of losses	**14**	17
Balance at the end of the year	**2 071**	905

	BANK 2008 Rm	2007 Rm
12. Investments in associates and joint ventures *(continued)*		
12.2 Analysis of carrying amount		
Listed investments		
Shares at cost	**1 635**	555
Share of post-acquisition reserves	**69**	39
	1 704	594
Unlisted investments		
Shares at cost	**94**	97
Share of post-acquisition reserves	**273**	214
Share of non-distributable reserves	**242**	197
Amount recognised in liabilities for the Bank's share of losses	**31**	17
	367	311
Other commercial loans to associates and joint ventures included in "Loans and advances to customers" amounted to R9 193 million (2007: R7 495 million). Refer to note 8 for further details.		
12.3 Valuation		
Directors' valuation of unlisted investments	**367**	311
Market value of listed investments	**1 576**	568
	1 943	879
12.4 Net movement in the cost of investments in associates and joint ventures		
The following acquisitions were concluded during the current year, at cost:		
Ambit Properties Limited	**90**	n/a
During the year, the Bank acquired an additional 4,0% interest in Ambit Properties Limited.		
Integrated Processing Solutions (Proprietary) Limited	**11**	n/a
On 1 November 2008, the Bank made an additional contribution to maintain its 50,0% interest in Integrated Processing Solutions (Proprietary) Limited.		
Pinnacle Point Group Limited	**931**	n/a
On 9 December 2008, the Bank acquired a 27,5% interest in Pinnacle Point Group Limited.		
Sekunjalo Investments Limited	**59**	n/a
During the year, the Bank acquired an additional 17,2% interest in Sekunjalo Investments Limited at a cost of R39 million. Sekunjalo Investments Limited was previously recognised as an investment at a carrying amount of R20 million. The Bank's shareholding is now 27,2%.		
Balance carried forward	**1 091**	n/a

	BANK 2008 Rm	BANK 2007 Rm
12. Investments in associates and joint ventures *(continued)*		
12.4 Net movement in the cost of investments in associates and joint ventures *(continued)*		
Balance brought forward	**1 091**	n/a
The following acquisitions were concluded during the previous year, at cost:		
Ambit Properties Limited	**n/a**	412
During the previous year, the Bank acquired an additional 9,3% interest in Ambit Properties Limited.		
Maravedi Group (Proprietary) Limited	**n/a**	7
On 20 November 2007, the Bank acquired an additional interest in Maravedi Group (Proprietary) Limited.		
The following disposals were concluded during the current year:		
Maravedi Group (Proprietary) Limited		
On 1 January 2008, the Bank sold its share in Maravedi Group (Proprietary) Limited.	**(4)**	n/a
The following disposals were concluded during the previous year:		
Ambit Properties Limited	**n/a**	(0)
On 16 July 2007, the Bank sold a share in Ambit Properties Limited to a third party.		
Axial Finance (Proprietary) Limited	**n/a**	(0)
On 16 February 2007, the Bank sold its share in Axial Finance (Proprietary) Limited to a third party.		
The following associate has been recognised as a subsidiary during the previous year:		
Ambit Management Services (Proprietary) Limited	**n/a**	(0)
Net movement in the cost of investments in associates and joint ventures (refer to note 12.1)	**1 087**	419
12.5 Details of the purchase consideration on net assets acquired on the aforementioned acquisitions are as follows:		
Cash paid	**1 060**	148
Elimination of profits to the extent of interest in Ambit Properties Limited	**—**	(32)
Property and equipment	**11**	303
Transfer from investments	**20**	—
	1 091	419
12.6 Details of the consideration received on net assets disposed of on the aforementioned disposals are as follows:		
Transferred to parent company	**(4)**	—

For further information on the Bank's associates and joint ventures, refer to note 43.

Certain comparatives have been reclassified (refer to note 1.23).

13. Intangible assets

BANK

	2008 Cost Rm	2008 Accumulated amortisation and/or impairments Rm	2008 Carrying value Rm	2007 Cost Rm	2007 Accumulated amortisation and/or impairments Rm	2007 Carrying value Rm
Computer software development costs	**460**	**(330)**	**130**	327	(226)	101
Goodwill	**165**	**(4)**	**161**	131	(4)	127
	625	**(334)**	**291**	458	(230)	228

Reconciliation of intangible assets

2008	Opening balance Rm	Additions Rm	Amortisation Rm	Impairment charge Rm	Closing balance Rm
Computer software development costs	**101**	**133**	**(103)**	**(1)**	**130**
Goodwill	**127**	**34**	**—**	**—**	**161**
	228	**167**	**(103)**	**(1)**	**291**

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

Included in the above additions are acquisitions through business combinations of R12 million (2007: Rnil), refer to note 50.

BANK

	2008 Rm	2007 Rm
Composition of goodwill		
Absa Vehicle Management (Proprietary) Limited	**112**	112
Ambit Management Services (Proprietary) Limited	**37**	15
The Ballito Junction Development (Proprietary) Limited	**12**	—
	161	127

14. Investment property

	2008 Rm	2007 Rm
Balance at the beginning of the year	**—**	—
Additions through business combinations (refer to note 50)	**392**	—
Change in fair value (refer to note 33)	**(7)**	—
Balance at the end of the year	**385**	—

Investment property comprises a number of properties that are leased to third parties for either commercial or residential use. Each of the leases contains an initial rental period ranging between six months to three years, depending on the use of the building being leased. Subsequent renewals are negotiated with the lessee. No contingent rentals are charged.

15. Property and equipment

BANK

	2008			2007		
	Cost Rm	**Accumulated depreciation and/or impairments Rm**	**Carrying value Rm**	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm
Computer equipment	**3 951**	**(2 585)**	**1 366**	3 870	(2 473)	1 397
Freehold property	**1 753**	**(172)**	**1 581**	1 634	(154)	1 480
Furniture and other equipment	**4 186**	**(1 735)**	**2 451**	2 942	(1 701)	1 241
Leasehold property	**491**	**(377)**	**114**	491	(351)	140
Motor vehicles	**3**	**(3)**	**—**	3	(3)	—
	10 384	**(4 872)**	**5 512**	8 940	(4 682)	4 258

Reconciliation of property and equipment

	2008				
	Opening balance Rm	**Additions Rm**	**Disposals Rm**	**Depreciation Rm**	**Closing balance Rm**
Computer equipment	**1 397**	**443**	**(13)**	**(461)**	**1 366**
Freehold property	**1 480**	**213**	**(83)**	**(29)**	**1 581**
Furniture and other equipment	**1 241**	**1 548**	**(64)**	**(274)**	**2 451**
Leasehold property	**140**	**—**	**—**	**(26)**	**114**
	4 258	**2 204**	**(160)**	**(790)**	**5 512**

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

Included in the above additions are acquisitions through business combinations of R85 million (2007: Rnil), refer to note 50.

Freehold property is officially revalued every three years by both external and internal valuers. The most recent valuation was performed during December 2007 and indicated that the fair value of the freehold property amounts to R1 712 million.

Leasehold property and computer equipment with a carrying value of R46 million (2007: R36 million) are encumbered under finance leases (refer to note 19).

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

	BANK 2008 Rm	BANK 2007 Rm
16. Deferred tax		
16.1 Reconciliation of net deferred tax liability		
Balance at the beginning of the year	**2 211**	2 070
Deferred tax asset (released)/raised on STC credits (refer to note 16.4)	**(31)**	12
Acquisitions/disposals of subsidiaries (refer to note 50)	**(27)**	—
Deferred tax on amounts charged directly to equity	**966**	(188)
Available-for-sale investments	**(66)**	33
Fair value measurement	**(90)**	15
Transfer to income statement	**24**	18
Cash flow hedges	**1 032**	(221)
Fair value measurement	**574**	(530)
Transfer to income statement	**458**	309
Income statement charge (refer to note 36)	**(541)**	331
Tax effect of translation and other differences	**(49)**	(14)
Balance at the end of the year	**2 529**	2 211
16.2 Deferred tax liability/(asset)		
Tax effects of temporary differences between tax and book value for:		
Accruals and provisions	**3 416**	2 262
Gains on investments	**(257)**	(161)
Impairment of advances	**(962)**	(447)
Lease and rental debtor allowances	**512**	559
Other differences	**—**	(6)
Property allowances	**(100)**	52
Deferred tax liability	**2 609**	2 259
Deferred tax asset	**(80)**	(48)
Deferred tax asset – normal	**(39)**	(38)
Deferred tax asset – STC (refer to note 16.4)	**(41)**	(10)
Net deferred tax liability	**2 529**	2 211

16.3 Future tax relief

The Bank has estimated tax losses of R1 million (2007: Rnil), for which a R4 million (2007: Rnil) deferred tax asset has been raised.

The above figures exclude tax losses and reversing temporary differences of Rnil (2007: Rnil) for which deferred tax assets have been raised.

	2008 Rm	2007 Rm
Balance at the beginning of the year	**—**	6
Operating losses incurred/(utilised)	**5**	(6)
Movement in temporary differences	**(4)**	—
Balance at the end of the year	**1**	—

	BANK 2008 Rm	2007 Rm
16. Deferred tax *(continued)*		
16.4 Secondary taxation on companies (STC)		
Accumulated STC credits	**410**	92
Deferred tax asset raised (refer to note 16.2)	**41**	10
Raised at 10,0%	**41**	6
Raised at 12,5%	**—**	4
Movement in deferred tax asset for the year (refer to note 16.1)	**31**	(12)

If the total reserves of R30 278 million (2007: R25 140 million) as at the balance sheet date were to be declared as dividends, the secondary tax impact at a rate of 10,0% (2007: 10,0%) would be R3 028 million (2007: R2 514 million).

17. Deposits from banks

	2008 Rm	2007 Rm
Call deposits	**7 299**	16 299
Fixed deposits	**2 228**	1 296
Foreign currency deposits	**6 119**	749
Other deposits	**16 623**	18 220
Repurchase agreements (refer to note 41)	**27 774**	28 603
	60 043	65 167
Portfolio analysis		
Designated at fair value through profit or loss	**9 002**	10 663
Financial liabilities at amortised cost	**51 041**	54 504
	60 043	65 167

Deposits with variable rates are R30 041 million (2007: R35 268 million) and fixed rates are R30 002 million (2007: R29 899 million).
Included above are deposits with the Bank's ultimate parent company of R14 615 million (2007: R16 254 million). Refer to note 43 for the full disclosure of related party transactions.

18. Trading and hedging portfolio liabilities

	2008 Rm	2007 Rm
Derivative liabilities (refer to note 59.3)	**67 838**	22 043
Commodity derivatives	**4 619**	2 183
Credit derivatives	**322**	14
Equity derivatives	**4 116**	1 560
Foreign exchange derivatives	**32 141**	7 748
Interest rate derivatives	**26 640**	10 538
Short sold positions	**282**	904
Total trading portfolio liabilities	**68 120**	22 947
Hedging portfolio liabilities (refer to note 59.3)	**1 080**	2 226
	69 200	25 173
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**285**	1 626
Derivatives designated as fair value hedging instruments	**795**	600
Held for trading	**68 120**	22 947
Derivative liabilities	**67 838**	22 043
Short sold positions	**282**	904
	69 200	25 173

Included above are derivative positions with the Bank's ultimate parent company of R15 373 million (2007: R5 496 million). Refer to note 43 for the full disclosure of related party transactions.

	BANK 2008 Rm	2007 Rm
19. Other liabilities and sundry provisions		
Accruals	**88**	31
Audit fee accrual	**26**	23
Creditors	**4 573**	4 445
Deferred income	**378**	587
Liabilities under finance leases (refer to note 19.1)	**828**	884
Provisions (refer to note 19.2)	**2 324**	2 731
Settlement balances	**906**	1 217
Share-based payment liability (refer to note 49)	**304**	195
	9 427	10 113
Portfolio analysis		
Designated at fair value	**304**	233
Financial liabilities at amortised cost	**6 852**	6 562
Non-financial liabilities	**2 271**	3 318
	9 427	10 113

Included above are settlement accounts with the Bank's ultimate parent company for R284 million (2007: R121 million). Refer to note 43 for the full disclosure of related party transactions.

19.1 Liabilities under finance leases

BANK 2008	Minimum lease payments due Rm	Interest Rm	Principal Rm
Less than one year	**268**	**(132)**	**136**
Between one and two years	**229**	**(110)**	**119**
Between two and three years	**235**	**(87)**	**148**
Between three and four years	**262**	**(55)**	**207**
Between four and five years	**193**	**(21)**	**172**
More than five years	**47**	**(1)**	**46**
	1 234	**(406)**	**828**

2007	Minimum lease payments due Rm	Interest Rm	Principal Rm
Less than one year	230	(148)	82
Between one and two years	252	(130)	122
Between two and three years	223	(108)	115
Between three and four years	231	(86)	145
Between four and five years	257	(55)	202
More than five years	240	(22)	218
	1 433	(549)	884

Under the terms of the lease, no contingent rentals are payable. Refer to note 15 for details of property subject to finance leases.

19. Other liabilities and sundry provisions *(continued)*

19.2 Provisions

BANK

	2008				
	Leave pay provision Rm	Redundancy and restructuring provision Rm	Staff bonus and incentive provision Rm	Sundry provisions Rm	Total Rm
Balance at the beginning of the year	**478**	**—**	**1 512**	**741**	**2 731**
Additions	**210**	**3**	**1 440**	**216**	**1 869**
Amounts used	**(280)**	**—**	**(1 655)**	**(341)**	**(2 276)**
Balance at the end of the year	**408**	**3**	**1 297**	**616**	**2 324**

	2007				
	Leave pay provision Rm	Redundancy and restructuring provision Rm	Staff bonus and incentive provision Rm	Sundry provisions Rm	Total Rm
Balance at the beginning of the year	420	—	1 224	491	2 135
Additions	223	—	1 422	368	2 013
Amounts used	(165)	—	(1 134)	(118)	(1 417)
Balance at the end of the year	478	—	1 512	741	2 731

Provisions expected to be recovered or settled within no more than 12 months after the balance sheet date were R1 695 million (2007: R1 399 million). Sundry provisions are made with respect to commissions, clawbacks, warranties and litigation claims.

A portion of the staff bonus and incentive provision is subject to an equity-settled share-based payment arrangement, the amount of which is determined after year-end.

BANK

	2008 Rm	2007 Rm
20. Deposits due to customers		
Call deposits	**62 055**	45 726
Cheque account deposits	**96 311**	94 776
Credit card deposits	**2 051**	2 173
Fixed deposits	**123 752**	101 925
Foreign currency deposits	**10 034**	8 330
Liabilities to clients under acceptances	**121**	108
Notice deposits	**7 148**	6 863
Other deposits	**12 504**	8 591
Repurchase agreements with non-banks (refer to note 41)	**2 217**	1 115
Saving and transmission deposits	**56 983**	35 270
	373 176	304 877
Portfolio analysis		
Designated at fair value	**11 419**	11 465
Financial liabilities at amortised cost	**361 757**	293 412
	373 176	304 877

	BANK 2008 Rm	BANK 2007 Rm
21. Debt securities in issue		
Abacas – Commercial paper issued and floating rate notes	**6 640**	—
Floating rate notes	**55 832**	35 949
Negotiable certificates of deposit	**69 260**	75 925
Other debt securities in issue	**23 487**	14 939
Promissory notes	**3 823**	7 210
	159 042	134 023
Portfolio analysis		
Designated at fair value		
Other debt securities in issue	**5 890**	3 764
Financial liabilities at amortised cost	**142 428**	121 938
Abacas – Commercial paper issued and floating rate notes	**6 640**	—
Floating rate notes	**55 832**	35 949
Negotiable certificates of deposit	**69 012**	75 925
Other debt securities in issue	**7 121**	2 854
Promissory notes	**3 823**	7 210
Hedged item in fair value hedging relationship	**10 724**	8 321
Negotiable certificates of deposit	**248**	—
Other debt securities in issue	**10 476**	8 321
	159 042	134 023
22. Loans from Absa Group companies		
Fellow subsidiaries	**3 946**	5 900
Portfolio analysis		
Financial liabilities at amortised cost	**3 946**	5 900
23. Policyholder liabilities under insurance contracts		
Maintenance contracts accounted for as insurance contracts	**—**	67

		BANK	
		2008 Rm	2007 Rm

24. Borrowed funds

24.1 Subordinated callable notes

The subordinated debt instruments listed below qualify as secondary capital in terms of the Banks Act, No 94 of 1990 (as amended).

Interest rate	Final maturity date	2008 Rm	2007 Rm
14,25%	22 March 2014	**3 100**	3 100
10,75%	26 March 2015	**1 100**	1 100
8,75%	1 September 2017	**1 500**	1 500
8,10%	27 March 2020	**2 000**	2 000
8,80%	7 March 2019	**1 725**	1 725
Three-month JIBAR + 0,75%	26 March 2015	**400**	400
Three-month JIBAR + 0,97%	31 March 2018	**1 080**	—
Three-month JIBAR + 1,00%	31 March 2018	**179**	—
Three-month JIBAR + 1,09%	31 March 2018	**361**	—
Three-month JIBAR + 1,20%	31 March 2018	**266**	—
Accrued interest		**378**	297
Fair value adjustment[1]		**54**	(326)
		12 143	9 796

Note

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

The 14,25% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 22 March 2009. Interest is paid semi-annually in arrear on 22 March and 22 September of each year, provided that the last date for payment shall be 22 March 2009. If Absa Bank Limited does not exercise the redemption option, 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 8,75% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 1 September 2012. Interest is paid semi-annually in arrear on 1 March and 1 September of each year, provided that the last date for payment shall be 1 September 2012. If Absa Bank Limited does not exercise the redemption option, interest is payable thereafter at a floating rate of three-month JIBAR plus 1,13% quarterly in arrear on 1 March, 1 June, 1 September and 1 December.

24. Borrowed funds *(continued)*

24.1 Subordinated callable notes *(continued)*

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

The 8,80% fixed rate 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.

The three-month JIBAR plus 0,75% 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 three-month JIBAR plus 0,97% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 31 March 2013. Interest is paid semi-annually in arrear on 31 March and 30 September of each year, provided that the last date for payment shall be 31 March 2013. If Absa Bank Limited does not exercise the redemption option, then the floating rate payable after 31 March 2013 reprices from three-month JIBAR plus 0,97% to three-month JIBAR plus 1,47% quarterly in arrear on 31 March, 30 June, 30 September and 31 December.

The three-month JIBAR plus 1,00% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 31 March 2013. Interest is paid semi-annually in arrear on 31 March and 30 September of each year, provided that the last date for payment shall be 31 March 2013. If Absa Bank Limited does not exercise the redemption option, then the floating rate payable after 31 March 2013 reprices from three-month JIBAR plus 1,00% to three-month JIBAR plus 1,50% quarterly in arrear on 31 March, 30 June, 30 September and 31 December.

The three-month JIBAR plus 1,09% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 31 March 2013. Interest is paid semi-annually in arrear on 31 March and 30 September of each year, provided that the last date for payment shall be 31 March 2013. If Absa Bank Limited does not exercise the redemption option, then the floating rate payable after 31 March 2013 reprices from three-month JIBAR plus 1,09% to three-month JIBAR plus 1,59% quarterly in arrear on 31 March, 30 June, 30 September and 31 December.

The three-month JIBAR plus 1,20% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 31 March 2013. Interest is paid semi-annually in arrear on 31 March and 30 September of each year, provided that the last date for payment shall be 31 March 2013. If Absa Bank Limited does not exercise the redemption option, then the floating rate payable after 31 March 2013 reprices from three-month JIBAR plus 1,20% to three-month JIBAR plus 1,70% quarterly in arrear on 31 March, 30 June, 30 September and 31 December.

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.

In accordance with the Bank's articles of association, the borrowing powers of the Bank are unlimited.

	BANK	
	2008 Rm	2007 Rm
Portfolio analysis		
Designated at fair value through profit or loss	**671**	—
Financial liabilities at amortised cost	**4 917**	4 951
Hedged item in fair value hedging relationship	**6 555**	4 845
	12 143	9 796

	BANK	
	2008 Rm	2007 Rm

25. Share capital and premium

25.1 Ordinary share capital

	2008 Rm	2007 Rm
Authorised		
320 000 000 (2007: 320 000 000) ordinary shares of R1,00 each	**320**	320
250 000 000 (2007: 250 000 000) "A" ordinary shares of R0,01 each	**3**	3
	323	323
Issued		
302 609 359 (2007: 302 609 359) ordinary shares of R1,00 each	**303**	303
56 444 764 (2007: 34 676 057) "A" ordinary shares of R0,01 each	**0**	0
	303	303
Total issued capital		
Share capital	**303**	303
Share premium	**9 415**	5 415
	9 718	5 718

Unissued shares

The unissued shares are under the control of the directors subject to a limit of 5% of issued ordinary share capital as at the balance sheet date, in terms of a general authority to allot and issue them on such terms and conditions and at such times as they deem fit. This authority expires at the forthcoming Absa Group Limited annual general meeting.

Shares issued during the year

On 17 March 2008, 21 768 707 "A" ordinary shares were issued by Absa Bank Limited at R183,75 per share, being R0,01 per value and R183,74 share premium.

All shares issued by the Bank are paid in full.

25.2 Preference share capital – listed

	2008 Rm	2007 Rm
Authorised		
30 000 000 (2007: 30 000 000) non-cumulative non-redeemable preference shares of R0,01 each	**1**	1
Issued		
4 944 839 (2007: 4 944 839) non-cumulative non-redeemable preference shares of R0,01 each	**1**	1
Total issued capital		
Share capital	**1**	1
Share premium	**4 643**	4 643
	4 644	4 644

25. Share capital and premium *(continued)*

25.2 Preference share capital – listed *(continued)*

The preference shares have a dividend rate of 63% of the prime overdraft lending rate. The holders of such shares shall not be entitled to voting rights unless a declared preference dividend remains in arrear and unpaid after six months from the due date thereof, or a resolution of the Company is proposed which directly affects the rights attached to the non-redeemable preference shares or the interest of the holders thereof.

Shares issued during the previous year

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

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

26. 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.

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 or impaired, in which case the cumulative amount recognised in equity is released to the income statement.

Cash flow hedging reserve

The cash flow hedging 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.

Associates' and joint ventures' reserves

The associates' and joint ventures' reserves comprise the Bank's share of its associates' and/or joint ventures' reserves.

Regulatory general credit risk reserve

Total impairments, consisting of identified and unidentified impairments, calculated in terms of IAS 39 – *Financial Instruments: Recognition and Measurement*, should exceed the provisions calculated for regulatory purposes. Should this not be the case, the additional general credit risk reserve 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 is transferred to share capital and/or share premium. If the options lapse after vesting, the related reserve is transferred to retained earnings. If the options lapse before vesting, the related reserve is reversed through the income statement.

	BANK 2008 Rm	BANK 2007 Rm
27. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	**71**	110
Fair value adjustments on hedging instruments	**(2 234)**	(547)
Investments	**593**	894
Loans and advances to banks	**3 953**	1 819
Other loans and advances to banks	**2 322**	869
Reverse repurchase agreements	**1 631**	950
Loans and advances to customers	**66 116**	48 100
Cheque accounts	**3 575**	2 475
Corporate overdrafts and specialised finance loans	**1 102**	650
Credit cards	**2 772**	2 134
Foreign currency loans	**745**	653
Instalment credit agreements	**9 384**	7 288
Interest on impaired financial assets (refer to note 9)	**521**	272
Loans granted under resale agreements	**662**	504
Loans to associates and joint ventures	**181**	107
Microloans	**1 029**	317
Mortgages	**37 588**	27 683
Other advances[1]	**1 427**	929
Overnight finance	**1 438**	1 147
Personal loans	**3 044**	2 649
Preference shares	**1 118**	1 056
Wholesale overdrafts	**1 530**	236
Other interest and hedging income	**600**	181
Statutory liquid asset portfolio	**4 065**	1 656
	73 164	52 213
Portfolio analysis		
Fair value adjustments on hedged items		
Statutory liquid asset portfolio (refer to note 59.2)	**1 156**	(343)
Fair value adjustments on hedging instruments	**(2 234)**	(547)
Cash flow hedges (refer to note 59.2)	**(1 301)**	(1 004)
Fair value hedges (refer to note 59.2)	**(933)**	457
Interest on financial assets held at amortised cost	**73 355**	49 573
Interest on financial assets designated at fair value	**887**	3 530
Debt instruments	**299**	894
Loans and advances	**299**	1 360
Statutory liquid asset portfolio	**289**	1 276
	73 164	52 213

Note

[1]*Includes items such as interest on factored debtors' books.*

Included above is interest received from the Bank's ultimate parent company of R1 018 million (2007: R94 million). Refer to note 43 for the full disclosure of related party transactions.

	BANK 2008 Rm	BANK 2007 Rm
28. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	**1 789**	796
Debt securities in issue	**18 506**	10 905
Deposits due to customers	**31 834**	20 646
Call deposits	**7 095**	4 075
Cheque account deposits	**5 695**	4 580
Credit card deposits	**75**	63
Fixed deposits	**13 010**	8 675
Foreign currency deposits	**965**	1 266
Notice deposits	**585**	470
Other deposits	**1 299**	384
Saving and transmission deposits	**3 110**	1 133
Deposits from banks	**1 100**	1 235
Call deposits	**658**	658
Fixed deposits	**160**	261
Other	**282**	316
Fair value adjustments on hedging instruments	**(830)**	560
Interest incurred on finance leases	**148**	156
Other interest	**378**	—
	52 925	34 298
Portfolio analysis		
Fair value adjustments on hedged items (refer to note 59.2)	**818**	(417)
Borrowed funds	**368**	(241)
Debt securities in issue	**450**	(176)
Fair value adjustments on hedging instruments (refer to note 59.2)		
Fair value hedges	**(830)**	560
Interest paid on financial liabilities designated at fair value	**1 666**	—
Debt securities in issue	**706**	—
Deposits due to customers	**960**	—
Interest paid on financial liabilities held at amortised cost	**51 271**	34 155
Borrowed funds	**1 421**	1 037
Debt securities in issue	**17 350**	11 081
Deposits from banks	**1 100**	1 235
Deposits due to customers	**30 874**	20 646
Interest incurred on finance leases	**148**	156
Other interest	**378**	—
	52 925	34 298

Included above is interest paid to the Bank's ultimate parent company of R259 million (2007: R250 million). Refer to note 43 for the full disclosure of related party transactions.

	BANK	
	2008 Rm	2007 Rm

29. Net fee and commission income

	2008 Rm	2007 Rm
Fee and commission income		
Asset management and other related fees	**72**	87
Credit-related fees and commissions	**10 846**	9 473
Credit cards	**1 570**	1 543
Cheque accounts	**2 990**	2 536
Electronic banking	**3 013**	2 657
Other	**1 168**	942
Saving accounts	**2 105**	1 795
External administration fees	**255**	192
Insurance commission received	**384**	346
Other fees and commissions	**98**	88
Trust and other fiduciary services	**712**	543
Project finance fees	**687**	515
Portfolio and other management fees	**17**	16
Unit and property trust income	**8**	12
	12 367	10 729
Fee and commission expense	**(647)**	(574)
	11 720	10 155

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

29.1 Included above is net fees and commissions linked to financial instruments not at fair value

	2008 Rm	2007 Rm
Fee and commission income		
Credit cards	**724**	740
Cheque accounts	**2 990**	2 536
Electronic banking	**3 013**	2 657
Other	**651**	492
Saving accounts	**2 105**	1 795
	9 483	8 220
Fee and commission expense	**(168)**	(147)
	9 315	8 073

	BANK 2008 Rm	BANK 2007 Rm
30. Gains and losses from banking and trading activities		
Associates and joint ventures	—	2
Dividends received	—	8
(Loss)/profit realised on disposal	—	(6)
Designated at fair value through profit or loss	**(389)**	1 291
Debt instruments	**138**	—
Debt securities in issue	**(750)**	(116)
Deposits due to customers	**(1 794)**	183
Deposits from banks	**(1 606)**	(435)
Equity instruments	**1 241**	870
Loans and advances to banks	**1 491**	510
Loans and advances to customers	**891**	333
Statutory liquid asset portfolio	—	(54)
Held for trading		
Derivatives and trading instruments	**3 762**	192
Ineffective hedges	**34**	79
Cash flow hedges (refer to note 59.2)	**76**	(60)
Fair value hedges (refer to note 59.2)	**(42)**	139
	3 407	1 564
31. Gains and losses from investment activities		
Associates and joint ventures		
Dividends received	—	3
Designated at fair value through profit or loss		
Equity instruments	**37**	69
Subsidiaries		
Profit realised on disposal	**54**	36
	91	108
32. Other operating income		
Exchange differences	**125**	100
Income from maintenance contracts	**48**	33
Internal banking income	—	178
Investment property rentals	**22**	—
Profit on disposal of intangible assets	**740**	68
Profit on disposal of property and equipment	**48**	80
Property development profit	—	191
Gross sales	—	308
Cost of sales	—	(117)
Rental income from property subleases	**108**	93
Sundry income[1]	**62**	154
	1 153	897

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

	BANK 2008 Rm	2007 Rm
33. Operating expenses		
Amortisation on intangible assets (refer to note 13)	**103**	63
Auditors' remuneration	**67**	54
Audit fees	**56**	48
Audit fees – under provision from prior periods	**6**	2
Other fees	**5**	4
Cash transportation	**320**	268
Depreciation (refer to note 15)	**790**	743
Equipment rental and maintenance	**207**	258
Information technology	**1 394**	1 079
Investment property charges	**13**	—
Change in fair value of investment property (refer to note 14)	**7**	—
Operating expenses	**6**	—
Marketing costs	**896**	889
Operating lease expenses on property	**816**	762
Other operating costs	**1 549**	1 278
Other professional fees	**1 106**	1 206
Printing and stationery	**225**	236
Staff costs	**10 347**	9 096
Bonuses	**1 440**	1 422
Employer contributions to post-retirement funds	**608**	525
Other staff costs	**487**	342
Salaries	**7 505**	6 472
Share-based payments (refer to note 49)	**120**	186
Training costs	**187**	149
Telephone and postage	**744**	652
	18 577	16 584
Average number of employees employed by the Bank	**32 959**	32 167
Number of employees employed by the Bank at year-end	**33 074**	32 843
34. Other impairments		
Financial instruments		
Available-for-sale instruments (refer to note 11.1)	**1**	—
Other	**(12)**	58
Computer software development costs (refer to note 13)	**1**	21
Repossessed properties	**(13)**	37
	(11)	58

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

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

- Impairments on available-for-sale financial instruments are reported in the "Other" segment.
- Impairments on computer software development costs are reported in the "Other" segment.
- The impairment reversal of repossessed properties are reported in the retail banking segment.

The previous year's impairment losses were reported in the following segments:

- Repossessed properties were reported in the retail banking segment.
- Impairments on computer software development costs were reported in the "Other" segment.

	BANK 2008 Rm	BANK 2007 Rm
35. Indirect taxation		
Payments to third parties	**46**	36
Training levy	**75**	66
Value added tax net of input credits	**509**	542
	630	644
36. Taxation expense		
Current		
Foreign taxation	**413**	189
Secondary taxation on companies	**119**	182
South African current taxation	**3 025**	2 591
South African current taxation – prior year	**(11)**	(16)
	3 546	2 946
Deferred		
Deferred taxation (refer to note 16.1)	**(541)**	331
Accelerated tax depreciation	**(149)**	151
Allowances for loan losses	**(547)**	(75)
Other provisions	**14**	(21)
Other temporary differences	**141**	276
	3 005	3 277
Reconciliation between accounting profit and the tax expense		
Operating profit before income tax	**11 852**	11 213
Share of retained earnings of associates and joint ventures	**(65)**	(67)
	11 787	11 146
Tax calculated at a tax rate of 28% (2007: 29%)	**3 300**	3 232
Effect of different tax rates in other countries	**(33)**	(23)
Effect on opening deferred taxes resulting from the reduction in the income tax rate	**(27)**	—
Expenses not deductible for tax purposes	**145**	292
Income not subject to tax	**(491)**	(413)
Other	**(8)**	7
Secondary taxation on companies	**119**	182
	3 005	3 277

	BANK 2008 Rm	BANK 2007 Rm

37. Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

	2008 Rm	2007 Rm
Profit attributable to ordinary equity holder of the Bank	**8 390**	7 620
Weighted average number of ordinary shares in issue (millions)	**354,6**	337,3
Issued shares at the beginning of the year (millions)	**337,3**	337,3
Effect of shares issued during the year (weighted millions)	**17,3**	—
Basic earnings per share (cents)	**2 366,1**	2 259,4
Diluted earnings per share (cents)	**2 366,1**	2 259,4

38. Headline earnings

	BANK 2008 Gross Rm	BANK 2008 Net[1] Rm	BANK 2007 Gross Rm	BANK 2007 Net[1] Rm
Headline earnings is determined as follows:				
Net profit attributable to ordinary equity holder of the Bank	—	**8 390**		7 620
Adjustments for:				
IAS 16 – Net profit on disposal of property and equipment (refer to note 32)	**(48)**	**(35)**	(80)	(57)
IAS 21 – Recycled foreign currency translation reserve, disposal of investments in foreign operations	—	—	(33)	(38)
IAS 27 – Net profit on disposal of subsidiaries (refer to note 31)	**(54)**	**(45)**	(36)	(26)
IAS 28 and 31 – Net loss on disposal of associates and joint ventures (refer to note 30)	—	—	6	6
IAS 28 – Headline earnings component of associates' and joint ventures' earnings	**(58)**	**(53)**	(45)	(45)
IAS 38 – Net profit on disposal and impairment of intangible assets (refer to notes 32 and 34)	**(739)**	**(636)**	(47)	(43)
IAS 39 – Release of available-for-sale reserves	**127**	**91**	83	59
IAS 39 – Impairment of available-for-sale assets (refer to note 34)	**1**	**1**	—	—
Headline earnings		**7 713**		7 476
Diluted headline earnings		**7 713**		7 476
Headline earnings per share (cents)		**2 175,5**		2 216,4
Diluted headline earnings per share (cents)		**2 175,5**		2 216,4

Note

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

	BANK 2008 Rm	BANK 2007 Rm
39. Retirement benefit obligations		
Balance sheet obligation disclosed in other liabilities (refer to note 19)		
Other post-retirement benefits	**1**	1
Income statement charge included in staff costs		
Pension benefits – Absa Group Pension Fund (refer to note 39.1)	**1**	1
39.1 Defined benefit plan		
Funded obligation		
Present value of funded obligations	**(4 833)**	(4 497)
Fair value of plan assets	**5 659**	5 765
Net assets before contingency and investment reserves	**826**	1 268
Contingency reserves as per the rules of the fund	**(148)**	(234)
Investment reserve account	**—**	(864)
Net unrecognised surplus	**678**	170
Reconciliation of movement in obligation		
Balance at the beginning of the year	**4 497**	3 928
Actuarial losses	**358**	630
Benefits paid	**(389)**	(355)
Current service costs	**1**	1
Interest expense	**366**	293
Balance at the end of the year	**4 833**	4 497
Reconciliation of movement in plan assets		
Balance at the beginning of the year	**5 765**	5 511
Actuarial (losses)/gains	**(163)**	179
Benefits paid	**(389)**	(355)
Employer contributions	**1**	1
Expected return on plan assets	**445**	429
Balance at the end of the year	**5 659**	5 765
Pension fund plan assets		
Debt instruments	**2 252**	2 294
Equity instruments	**3 197**	3 257
Other assets	**210**	214
	5 659	5 765

Pension fund assets include ordinary shares and interest-bearing instruments issued by the Bank with a fair value of R271 million (2007: R298 million). Refer to note 43 for the full disclosure of related party transactions.

The Bank expects to contribute R1 million to its defined benefit plan in 2009.

There was a negative return on assets of R360 million (2007: positive returns of R1 458 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.

	BANK 2008 Rm	BANK 2007 Rm
Total expense comprises:		
Current service costs	**1**	1
Expected return on plan assets	**(445)**	(429)
Interest expense	**366**	293
Total income	**(78)**	(135)

Due to the difference in the financial year-ends of the Absa Group Pension Fund and that of the Bank, the gains and losses on assets and liabilities in any calendar year are not directly comparable.

39. Retirement benefit obligations *(continued)*

39.1 Defined benefit plan *(continued)*

	BANK 2008 Rm	2007 Rm	2006 Rm	2005 Rm
Historical information as at the balance sheet date				
Present value of defined benefit obligation	**(4 833)**	(4 497)	(3 928)	(3 641)
Fair value of plan assets	**5 659**	5 765	5 511	4 618
Surplus in the plan	**826**	1 268	1 583	977
Contingency reserves as per the rules of the fund	**(148)**	(234)	(100)	(119)
Investment reserve account	**—**	(864)	(1 377)	(831)
	678	170	106	27
Experience adjustments on plan assets	**(163)**	179	747	319
Experience adjustments on plan liabilities	**358**	630	239	131

	BANK 2008	2007
The principal actuarial assumptions used for the defined benefit plan were as follows:		
Discount rate	**7,5%**	8,5%
Expected return on plan assets	**8,0%**	8,0%
Future salary increases	**7,0% + merit**	6,0% + 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	**20,4**	20,4
Female	**25,3**	25,3

Expected rate of future pension increases

Depending on the member's choice with regard to threshold rates, pension increases are granted each year to the extent that the investment return exceeds the post-retirement valuation rates of 4,5%, 6,0% or 7,0% per annum (threshold rates). If in any year the investment return is less than the threshold rates, the difference is recouped at the next date of pension increase.

39.2 Post-retirement benefits

All permanent employees are members of the Absa Group Pension Fund (the fund), with the exception of employees that have commenced employment within the Bank at the age of 55 or older. 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% (2007: 99,9%) were members of the defined contribution structure, while 0,1% (2007: 0,1%) were members of the defined benefit structure. As at the balance sheet date, the defined benefit structure had 44 (2007: 53) contributing members.

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

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

39. Retirement benefit obligations *(continued)*

39.2 Post-retirement benefits *(continued)*

The fund is governed by the Pension Funds Act of 1956, which requires that an actuarial valuation be carried out at least every three years. The most recent statutory valuation of the fund was effected on 1 April 2008 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.

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

39.2.1 Post-retirement medical aid contributions

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

	BANK	
	2008 Rm	2007 Rm
40. Dividends per share		
Dividends paid to the ordinary equity holder during the year		
19 February 2008 final dividend number 43 of 323,8 cents per ordinary share (20 February 2007: 208,2 cents)	**980**	630
Special dividend paid to Absa Group Limited – March 2008	**4 000**	—
7 August 2008 interim dividend number 44 of 322,2 cents per ordinary share (2 August 2007: 465,9 cents)	**975**	1 409
	5 955	2 039
Dividends paid to the ordinary equity holder relating to income for the year		
7 August 2008 interim dividend number 44 of 322,2 cents per ordinary share (2 August 2007: 465,9 cents)	**975**	1 409
Special dividend paid to Absa Group Limited – March 2008	**4 000**	—
9 February 2009 final dividend number 45 of 429,6 cents per ordinary share (19 February 2008: 323,8 cents)	**1 300**	980
	6 275	2 389
The STC payable by the Bank in respect of the dividend approved and declared subsequent to the balance sheet date, amounts to R130 million.		
No provision has been made for this dividend and the related STC in the financial statements at the balance sheet date.		
Dividends paid to preference equity holders during the year		
19 February 2008 final dividend number 4 of 4 436,00 cents per preference share (20 February 2007: 3 784,00 cents)	**219**	114
7 August 2008 interim dividend number 5 of 4 797,49 cents per preference share (2 August 2007: 4 043,00 cents)	**238**	199
	457	313

	BANK 2008 Rm	BANK 2007 Rm
40. Dividends per share *(continued)*		
Dividends paid to preference equity holders relating to income for the year		
7 August 2008 interim dividend number 5 of 4 797,49 cents per preference share (2 August 2007: 4 043,00 cents)	**238**	199
9 February 2009 final dividend number 6 of 4 734,49 cents per preference share (19 February 2008: 4 436,00 cents)	**236**	219
	474	418

The STC payable by the Bank in respect of the dividend approved and declared subsequent to the balance sheet date amounts to R23,6 million. No provision has been made for this dividend and the related STC in the financial statements at the balance sheet date.

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

Reverse repurchase agreements and cash collateral on securities borrowed

Reverse repurchase agreements are accounted for as collateralised loans under loans and advances. No cash collateral on securities borrowed was held during the year (2007: Rnil).

	BANK Reverse repurchase agreements 2008 Rm	2007 Rm
Assets		
Banks (refer to note 4)	**17 247**	29 307
Customers (refer to note 8)	**7 072**	8 233
Statutory liquid assets (refer to note 3)	**4 100**	—
	28 419	37 540

As part of the reverse repurchase agreements, the Bank has received securities as collateral that are allowed to be sold or repledged. The fair value of these securities at the balance sheet date amounts to R24 261 million (2007: R27 504 million) of which R18 636 million (2007: R18 205 million) have been sold or repledged.

Repurchase agreements

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

	BANK Repurchase agreements 2008 Rm	2007 Rm
Liabilities		
Banks (refer to note 17)	**27 774**	28 603
Customers (refer to note 20)	**2 217**	1 115
	29 991	29 718

The assets transferred and not derecognised in the above repurchase agreements are valued at R5 178 million (2007: R3 199 million), refer to note 5. They are pledged as security for the term of the underlying repurchase agreement. The remainder of the repurchase agreements are secured by securities on-pledged, (from loans and advances) as described in the reverse repurchase section above, as well as securities on-pledged from other loans.

	BANK 2008 Rm	2007 Rm
42. Securitisations		
In the ordinary course of business, the Bank enters into transactions that result in the transfer of assets to third parties or special purpose entities. The information below sets out the extent of such transfers.		
Transferred assets		
Cars securitisation	**2 913**	5 754
Homes securitisation	**3 335**	1 566
	6 248	7 320

Cars securitisation

The Bank has transferred instalment credit agreements to Collateralised Auto Receivables Securitisation (Proprietary) Limited and Collateralised Auto Receivables Securitisation Series 1 (Proprietary) Limited. These entities are consolidated by Absa Group Limited based on the following conclusions reached in terms of SIC-12:

- Absa Group Limited bears credit risk through its holding of notes issued by the entities.
- Absa Group Limited obtains the return on the notes issued, a servicing fee and the residual income in the entities.
- Absa Group Limited retains the majority of the residual ownership risks relating to these entities through a combination of its preference share investment and its holding of the notes issued by the entities.

Homes securitisation

The Bank has transferred retail mortgages to Home Obligors Mortgage Enhanced Securities (Proprietary) Limited (Homes). Homes is consolidated by Absa Group Limited based on the following conclusions reached in terms of SIC-12:

- Absa Group Limited bears credit risk through a subordinated loan advanced to Homes.
- Absa Group Limited obtains a return on the subordinated loan, a service fee and the residual income in Homes.
- Absa Group Limited retains the majority of the residual or ownership risks relating to Homes through the subordinated loan.

43. Related parties

The Bank's ultimate parent company is Barclays PLC (incorporated in the United Kingdom), which owns 58,8% (2007: 58,8%) of the ordinary shares of Absa Group Limited. The remaining 41,2% (2007: 41,2%) of the shares are widely held on the JSE.

The following are defined as related parties of the Bank:

- Key management personnel (refer to notes 43.1 and 43.2).
- The ultimate parent, Barclays Bank PLC (refer to note 43.3).
- The parent company, Absa Group Limited (refer to note 43.4).
- Subsidiaries (refer to note 43.5).
- Associates, joint ventures and retirement benefit funds (refer to note 43.6).

IAS 24 – *Related Partie*s, requires the identification of key management personnel, who are individuals responsible for planning, directing and controlling the activities of the entity, including directors. Key management personnel include executive and non-executive directors and members of the Executive Committee (Exco). The Bank has accordingly defined related parties to include:

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

43. Related parties *(continued)*

43.1 Transactions with key management personnel

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

	BANK			
	Transactions with key management 2008 Rm	**Transactions with entities controlled by key management 2008 Rm**	Transactions with key management 2007 Rm	Transactions with entities controlled by key management 2007 Rm
Loans				
Loans outstanding at the beginning of the year	**19**	**47**	17	35
Loans issued	**88**	**65**	43	92
Loans repaid	**(86)**	**(16)**	(42)	(80)
(Discontinuance)/inception of related party relationships and other	**(3)**	**(37)**	1	0
Loans outstanding at the end of the year	**18**	**59**	19	47
Interest income earned	**2**	**1**	1	4

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

	BANK			
	Transactions with key management 2008 Rm	**Transactions with entities controlled by key management 2008 Rm**	Transactions with key management 2007 Rm	Transactions with entities controlled by key management 2007 Rm
Deposits				
Deposits at the beginning of the year	**27**	**11**	24	10
Deposits received	**100**	**102**	270	83
Deposits repaid	**(95)**	**(96)**	(266)	(82)
(Discontinuance)/inception of related party relationships and other	**(25)**	**(7)**	(1)	0
Deposits at the end of the year	**7**	**10**	27	11
Interest expense on deposits	**1**	**1**	2	1
Guarantees issued by the Bank	**35**	**5**	—	—

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

Other investments

At the balance sheet date, Absa Group Limited managed on behalf of key management personnel certain investments. These management agreements are entered into in the normal course of business under terms no more favourable than those arranged with third parties.

Insurance premiums paid and claims received

Key management personnel paid insurance premiums of R0,5 million (2007: R0,3 million). Key management personnel received claims which in total were R0,2 million (2007: Rnil). These transactions are entered into in the normal course of business, under terms that are no more favourable than those arranged with third parties.

	BANK 2008 Rm	BANK 2007 Rm
43. Related parties *(continued)*		
43.2 Key management personnel compensation		
Directors		
Post-employment benefits	**1**	1
Salaries and other short-term benefits	**48**	55
Share-based payments	**11**	18
	60	74
Other key management personnel		
Post-employment benefits	**1**	1
Salaries and other short-term benefits	**42**	28
Share-based payments	**11**	6
	54	35
43.3 Transactions with ultimate parent company		
The following are balances with, and transactions entered into with the ultimate parent company:		
Balances		
Loans and advances	**13 636**	13 209
Derivative assets	**15 672**	4 707
Nominal value of derivative assets	**363 956**	361 881
Other assets	**228**	245
Investments	**435**	—
Deposits	**(14 615)**	(16 254)
Derivative liabilities	**(15 373)**	(5 496)
Nominal value of derivative liabilities	**(379 349)**	(204 120)
Other liabilities	**(284)**	(121)
Transactions		
Dividends paid	**—**	1 949
Interest paid	**259**	250
Interest received	**1 018**	94
All transactions entered into are on the same commercial terms and conditions as in the normal course of business.		
43.4 Transactions with parent company		
The following are balances with and transactions entered into with the parent company:		
Balances		
Loans and advances	**625**	53
Other liabilities	**1 767**	981
Transactions		
Interest received	**15**	18

43. Related parties *(continued)*

43.5 Subsidiaries

Details of the material subsidiaries are as follows:

			BANK					
			Issued capital	**Direct/ indirect holding**	Issued capital	Direct/ indirect holding	Shares at book value	
Name	**Nature of business**	**Country of incorporation**	**2008 Rm**	**2008 %**	2007 Rm	2007 %	**2008 Rm**	2007 Rm
Absa Debtor Finance Company (Proprietary) Limited	Provides debtor financing to business customers.	South Africa	**1**	**100**	1	100	**0**	0
Ambit Management Services (Proprietary) Limited	Property management company.	South Africa	**0**	**100**	0	100	**15**	15
Conbros Limited	Used to provide offshore loan facilities (currently winding down).	Isle of Man	**0**	**100**	0	100	**—**	—
The Ballito Junction Development (Proprietary) Limited	Retail property development company (previously disclosed as an associate, became a subsidiary during 2008).	South Africa	**35**	**100**	35	50	**28**	25
Ngwenya River Estate (Proprietary) Limited	Residential property development (previously disclosed as an associate, became a subsidiary during 2008).	South Africa	**0**	**50**	0	50	**96**	49
Special purpose entities								
Absa Property Equity Fund	Unit trust	South Africa	**n/a**	**91**	n/a	86	**160**	160
Asset Backed Collaterised Securities (Proprietary) Limited (Abacas)	Special purpose vehicle for Absa Capital division.	South Africa	**0**	**—**	0	—	**—**	—
IFU Property Fund	Unit trust	United Kingdom	**n/a**	**93**	n/a	n/a	**118**	n/a

Subsidiaries' aggregate profits and losses after taxation	**2008 Rm**	2007 Rm
Aggregate profits after taxation	**7 638**	7 703

43. Related parties *(continued)*

43.6 Associates, joint ventures and retirement benefit funds

At the balance sheet date, the Absa Group Pension Fund held shares to the value of R219 million (2007: R238 million) and other securities to the value of R52 million (2007: R60 million) in Absa Group Limited.

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

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

BANK

	2008		
	Associates and joint ventures Rm	**Retirement benefit funds Rm**	**Total Rm**
Deposits	**(207)**	**(43)**	**(250)**
Interest and similar income	**(1 316)**	**—**	**(1 316)**
Interest expense and similar charges	**30**	**3**	**33**
Fees received	**(131)**	**(15)**	**(146)**
Fees paid	**4**	**602**	**606**
Loans and advances	**10 057**	**—**	**10 057**
Other assets	**1 108**	**—**	**1 108**
Other liabilities	**(81)**	**—**	**(81)**
Value of investments managed by the Bank	**—**	**4 036**	**4 036**

	2007		
	Associates and joint ventures Rm	Retirement benefit funds Rm	Total Rm
Deposits	(350)	(41)	(391)
Interest and similar income	(824)	—	(824)
Interest expense and similar charges	20	3	23
Fees received	(123)	(14)	(137)
Fees paid	60	525	585
Loans and advances	7 495	—	7 495
Other liabilities	(92)	—	(92)
Value of investments managed by the Bank	—	4 029	4 029

43. Related parties *(continued)*

43.6 Associates, joint ventures and retirement benefit funds *(continued)*

Details on investments in associates and joint ventures are as follows:

Name	Nature of business
Absa Corob Trust Joint Venture[1]	Acquires immovable property for investment.
Abseq Properties (Proprietary) Limited[1]	Property development and investment company.
African Trading Spirit 309 (Proprietary) Limited[1]	Property development.
Agrista (Proprietary) Limited[1]	Agricultural consultants.
Ambit Properties Limited	Property loan stock company.
Axial Finance (Proprietary) Limited	Provides vehicle financing (sold during 2007).
Barrie Island Property Investments (Proprietary) Limited[1]	Investment in mixed use property.
Blue Nightingale 608 (Proprietary) Limited[1]	Investment in commercial property.
Campus on Rigel (Proprietary) Limited[1]	Property investment company (sold during 2008).
Cherry Vanilla Investments (Proprietary) Limited[1]	Retirement village development (acquired during 2008).
Culemborg Investment Properties (Proprietary) Limited[1]	Residential property development (acquired during 2008).
FFS Finance South Africa (Proprietary) Limited	Provides financing solutions to Ford Motor Company customers.
Integrated Processing Solutions (Proprietary) Limited	Joint venture with Standard Bank involved in cheque processing activities (acquired during 2008).
MAN Financial Services (S.A.) (Proprietary) Limited	Joint venture between Absa Bank Limited and MAN Financial Services GmbH for financing of trucks and buses.
Mall on 14th Avenue (Proprietary) Limited[1]	Property development (acquired during 2008).
Maravedi Group (Proprietary) Limited	Provides debtor management (sold during 2008).
Maxcity Properties (Proprietary) Limited[1]	Investment in mixed use property.
Ngwenya River Estate (Proprietary) Limited[1]	Residential property development (became a subsidiary during 2008).
Northern Lights Trading 197 (Proprietary) Limited[1]	Investment in commercial property.
Pacific Heights Investments 196 (Proprietary) Limited[1]	Property development (acquired during 2008).
Palm Hill Property Investments (Proprietary) Limited[1]	Property development.
Persistent Properties (Proprietary) Limited[1]	Investment in residential property.
Pinnacle Point Group Limited	Property development company (acquired during 2008).
Retail Africa Wingspan Investments (Proprietary) Limited[1]	Property fund (acquired during 2008).
RZT Zelpy 4809 (Proprietary) Limited[1]	Investment in residential property.
Sanlam Home Loans (Proprietary) Limited	Manages and administers the granting of loans as well as secure funding for these loans.
Sekunjalo Investments Limited	Investment holding company (became an associate during 2008).
Somerset West Autopark (Proprietary) Limited[1]	Investment in auto dealers and fitment centres.
The Ballito Junction Development (Proprietary) Limited[1]	Retail property development of a shopping centre complex in Ballito Bay (became a subsidiary during 2008).
The Racing Investment Trust[1]	Property development.
Unitrans Finance (Proprietary) Limited	Strategic alliance between Absa Bank Limited and Unitrans Motors (Proprietary) Limited.
Virgin Money South Africa (Proprietary) Limited	Joint venture between Absa Bank Limited and Virgin Money Group Limited to provide retail financial service products under the Virgin brand.

Note

[1]Venture capital organisation designated at fair value through profit or loss in terms of IAS 39.

43. Related parties *(continued)*

43.6 Associates, joint ventures and retirement benefit funds *(continued)*

BANK

Name	Country of incorporation	Carrying value Rm	Total assets[2] Rm	Total liabilities[2] Rm	Equity-accounted earnings Rm	Loans (from)/to entities Rm	Ownership %
	2008						
Equity-accounted associates and joint ventures							
Ambit Properties Limited[1]	South Africa	714	2 758	2 208	30	136	35
FFS Finance South Africa (Proprietary) Limited	South Africa	300	9 650	9 051	38	4 846	50
Integrated Processing Solutions (Proprietary) Limited[5]	South Africa	11	22	—	—	—	50
MAN Financial Services (S.A.) (Proprietary) Limited	South Africa	56	2 569	2 456	11	1 659	50
Pinnacle Point Group Limited[1, 5]	South Africa	931	583	298	—	—	28
Sanlam Home Loans (Proprietary) Limited	South Africa	—	4 866	4 863	—	1 695	50
Sekunjalo Investments Limited[1, 5]	South Africa	59	886	437	—	—	27
Unitrans Finance (Proprietary) Limited[1]	South Africa	0	0	—	—	—	35
Virgin Money South Africa (Proprietary) Limited	South Africa	0	24	84	(14)	65	50
		2 071	21 358	19 397	65	8 401	
Associates and joint ventures designated at fair value through profit or loss							
Absa Corob Trust Joint Venture[1]	South Africa	—	46	23	—	18	50
Abseq Properties (Proprietary) Limited[1]	South Africa	—	808	564	—	385	50
African Trading Spirit 309 (Proprietary) Limited[1]	South Africa	—	62	62	—	—	24
Agrista (Proprietary) Limited[1]	South Africa	—	—	—	—	—	47
Barrie Island Property Investments (Proprietary) Limited[1]	South Africa	—	41	36	—	38	40
Blue Nightingale 608 (Proprietary) Limited[1]	South Africa	—	—	—	—	36	30
Cherry Vanilla Investments (Proprietary) Limited[5]	South Africa	—	57	—	—	30	30
Culemborg Investment Properties (Proprietary) Limited[5]	South Africa	—	121	120	—	177	33
Mall on 14th Avenue (Proprietary) Limited[1, 5]	South Africa	—	—	—	—	44	30
Maxcity Properties (Proprietary) Limited[1]	South Africa	—	—	—	—	214	40
Northern Lights Trading 197 (Proprietary) Limited	South Africa	—	—	—	—	—	50
Pacific Heights Investments 196 (Proprietary) Limited[1, 5]	South Africa	—	—	—	—	—	50
Palm Hill Property Investments (Proprietary) Limited[1]	South Africa	—	113	97	—	73	40
Persistent Properties (Proprietary) Limited[1]	South Africa	—	32	32	—	30	50
Retail Africa Wingspan Investments (Proprietary) Limited[5]	South Africa	—	0	0	—	—	33
RZT Zelpy 4809 (Proprietary) Limited[1]	South Africa	—	0	0	—	—	25
Somerset West Auto Park (Proprietary) Limited[1]	South Africa	—	0	0	—	17	33
The Racing Investment Trust[1]	South Africa	—	42	40	—	26	20

Notes

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

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

[3] *Became a subsidiary during the year.*

[4] *Disposed during the year.*

[5] *Acquired during the year.*

43. Related parties *(continued)*

43.6 Associates, joint ventures and retirement benefit funds *(continued)*

		BANK 2007					
Name	Country of incorporation	Carrying value Rm	Total assets[2] Rm	Total liabilities[2] Rm	Equity accounted earnings Rm	Loans (from)/to entities Rm	Ownership %
Equity-accounted associates and joint ventures							
Ambit Properties Limited[1]	South Africa	594	1 386	1 013	38	152	31
FFS Finance South Africa (Proprietary) Limited	South Africa	261	9 755	9 233	49	4 676	50
MAN Financial Services (S.A.) (Proprietary) Limited	South Africa	46	2 180	2 089	11	1 272	50
Maravedi Group (Proprietary) Limited[1]	South Africa	4	233	220	(11)	—	45
Sanlam Home Loans (Proprietary) Limited	South Africa	0	5 887	5 555	—	2 301	50
Unitrans Finance (Proprietary) Limited[1]	South Africa	0	0	0	(3)	—	35
Virgin Money South Africa (Proprietary) Limited	South Africa	0	14	48	(17)	—	50
		905	19 455	18 158	67	8 401	
Associates and joint ventures designated at fair value through profit or loss							
Absa Corob Trust Joint Venture[1]	South Africa	2	44	24	—	18	50
Abseq Properties (Proprietary) Limited[1]	South Africa	150	813	545	—	387	50
African Trading Spirit 309 (Proprietary) Limited[1]	South Africa	30	62	2	—	—	50
Agrista (Proprietary) Limited[1, 4]	South Africa	0	3	1	—	—	47
Axial Finance (Proprietary) Limited[1, 3]	South Africa	0	0	0	—	—	—
Barrie Island Property Investments (Proprietary) Limited[1, 4]	South Africa	3	0	0	—	—	40
Blue Nightingale 608 (Proprietary) Limited[1, 4]	South Africa	32	0	0	—	—	30
Campus on Rigel (Proprietary) Limited[1]	South Africa	0	0	1	—	—	33
Maxcity Properties (Proprietary) Limited[1, 4]	South Africa	38	0	0	—	200	40
Ngwenya River Estate (Proprietary) Limited[1, 4]	South Africa	49	62	62	—	33	50
Northern Lights Trading 197 (Proprietary) Limited	South Africa	70	0	0	—	—	50
Palm Hill Property Investments (Proprietary) Limited[1]	South Africa	17	54	37	—	52	40
Persistent Properties (Proprietary) Limited[1, 4]	South Africa	8	26	18	—	18	50
The Ballito Junction Development (Proprietary) Limited[1]	South Africa	25	178	106	—	102	50
RZT Zelpy 4809 (Proprietary) Limited[1, 4]	South Africa	30	0	0	—	94	25
Somerset West Auto Park (Proprietary) Limited[1, 4]	South Africa	0	0	0	—	—	33
The Racing Investment Trust	South Africa	11	0	0	—	—	20

Notes

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

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

[3] *Disposed during the year.*

[4] *Acquired during the year.*

	BANK 2008 Rm	2007 Rm
44. Managed funds		
Other	**2 237**	2 111
Portfolio management	**1 955**	1 420
Unit trusts	**133**	155
	4 325	3 686

		BANK 2008 Rm	BANK 2007 Rm
45.	**Financial guarantee contracts**		
	Financial guarantee contracts	**1 001**	824
	Financial guarantee contracts represent contracts where the Bank undertakes to make specified payments to a counterparty, should the counterparty suffer a loss as a result of a specified debtor failing to make payment when due in accordance with the terms of a debt instrument.		
46.	**Commitments**		
	Authorised capital expenditure		
	Contracted but not provided for	**455**	83
	The Bank has capital commitments in respect of computer equipment and property purchases. Management is confident that future net revenues and funding will be sufficient to cover these commitments.		
	Minimum lease payments due		
	No later than one year	**1 094**	857
	Later than one year and no later than five years	**2 221**	1 780
	Later than five years	**473**	274
		3 788	2 911
	Operating lease payments represent rentals payable by the Bank for certain of its office properties and equipment. Leases are negotiated for an average term of three to five years and rentals are renegotiated annually.		
47.	**Contingencies**		
	Guarantees	**9 134**	9 787
	Irrevocable facilities	**42 788**	40 040
	Letters of credit	**6 069**	2 790
	Other contingencies	**25**	23
		58 016	52 640

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

Guarantees include the following:

- Performance guarantee contracts: Contracts where the Bank undertakes to make specified payments to a counterparty should a specified third party not perform in terms of its specified contractual obligations.
- Payment guarantee contracts: Contracts where the Bank undertakes to make specified payments to a counterparty should a specified third party not make payments to the counterparty in terms of its specified contractual obligations.

Legal proceedings

The Bank has been party in proceedings against it during the year, and as at year-end the following few cases need further disclosure:

- During 2001, a US$100 million facility was granted to Trans Sahara Trading (IOM) Limited (TST). The government of Zambia (GRZ) breached an undertaking it gave to the Bank and in addition interfered in the operations of TST leading to TST's inability to service the facility. The Bank contends that this conduct gives rise to a liability on the part of TST, which the GRZ denies. MNB attorneys, previously acting on behalf of TST, have obtained an interim charging order entitling them to dispose of a portion of the oil stock owned by TST in settlement of legal fees due. In view of the Bank's obvious interest in these proceedings, application for leave to intervene has been launched. Since the presiding court will be required to make a ruling as to ownership, and therefore the validity of the Bank's security, these proceedings are considered crucial to the outcome of the recovery effect. Leave to intervene was granted to the Bank on 22 July 2008, at which time the attorney general (AG) of the GRZ was joined to the proceedings. The proceedings were then postponed to 8 December 2008 in order to afford the AG an opportunity to file an answering affidavit. In order to prevent the prescription of its claim, the Bank issued summons against the GRZ directly. Although these proceedings constituted an aggressive step, every effort was made to sensitise stakeholders within the GRZ of the reason for the Bank doing so in an effort to maintain amicable settlement negotiations. The Bank held credit insurance in respect of the facility. After protracted negotiation, an agreement was concluded in terms whereof the insurers paid to the Bank an amount of US$12 million.

47. Contingencies *(continued)*

- A Bank employee has been accused of opening an incorrectly designated bank account within the Ovation Group of companies, which was subsequently used for fraudulent purposes. The Bank has received 22 letters of demand from persons who deposited money (approximately R3,5 million) into the incorrectly opened account. All these monies appear to have been lost. During the year, a portion of these claimants have instituted claims in respect of which the Bank has entered appearance to defend, and a summary judgement application is now pending. It is anticipated that the claim will be both legally and factually difficult. The curators of other entities within the Ovation Group are currently investigating its affairs from which further claims may conceivably flow. This matter is closely linked to the Fidentia group.
- Rotrax Cars SA CC (the customer) has made a claim against the Bank for allegedly closing a facility in an inappropriate manner. From initial investigations it appears that the customer failed to comply with its obligations in terms of the facility granted to it. The Bank proceeded to institute recovery action against the customer. The summons served by Bernert and CAFA (plaintiffs) does not disclose a cause of action against the Bank and the Bank filed notices for the plaintiffs to clarify the cause of complaint. The plaintiffs withdrew their claim in June 2005, however they subsequently launched an application to withdraw the notice of withdrawal, which application was dismissed by the court in June 2006. The plaintiffs have launched an application for leave to appeal the judgement and have sought permission for their claim to be reinstated. It is expected that the application for leave to appeal will only be heard in the event that the plaintiffs proceed to set down the application. The chances of the plaintiffs being successful and the claim being reinstated are reasonably possible. If successful, damages are estimated at R50 million. The Bank will defend the claim if the court grants the order to reinstate the claim.

	BANK	
	2008 Rm	2007 Rm
48. Cash and cash equivalents		
Cash, cash balances and balances with central banks	**3 942**	4 673
Loans and advances to banks	**39**	350
	3 981	5 023
49. Share-based payments		
During the year, R78 million (2007: R75 million) and R42 million (2007: R111 million) were charged to the income statement in respect of equity-settled and cash-settled share-based payment transactions respectively.		
Staff costs		
The income statement charge for share-based payments is as follows (refer to note 33):		
Equity-settled arrangements:		
Absa Group Limited Employee Share Ownership Administrative Trust	**—**	16
Absa Group Limited Executive Share Award Scheme	**6**	1
Absa Group Limited Performance Share Plan	**39**	—
Absa Group Limited Share Incentive Trust	**33**	58
Cash-settled arrangements:		
Absa Group Limited Phantom Performance Share Plan	**(3)**	90
Absa Group Limited Phantom Joiners Share Award Plan	**41**	18
Absa Group Limited Phantom Executive Share Award Scheme	**4**	3
	120	186
Total carrying amount of liabilities for cash-settled arrangements (refer to note 19)	**304**	195

The intrinsic value of the liability reflects the difference between the fair value of the options vested and the option exercise price and amounts to Rnil (2007: Rnil).

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

In terms of the rules of the Share Incentive Trust, the maximum number of shares of Absa Group Limited that may be issued or transferred and/or in respect of which options may be granted to the participants, shall be limited to shares representing 10% of the total number of issued shares from time to time. This scheme is an equity-settled share-based payment arrangement and options are allocated to employees according to the normal human resources talent management processes. The options issued up to August 2005 (issue 192) had no performance criteria linked to them and vested in equal tranches after three, four and five years respectively. No dividends accrue to the option holder over the vesting period. The options expire after a period of 10 years from the issuing date. Options issued since August 2005 (issue 193) have performance criteria associated with them, which require headline earnings per share to exceed an agreed benchmark over a three-year period from the grant date for the options to vest. Participants need to be in the employment of the Absa Group at the vesting date in order to be entitled to the options.

49. Share-based payments *(continued)*

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

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

BANK

	2008 Number of options '000	2008 Weighted exercise price R
Outstanding at the beginning of the year	**12 555**	**67,30**
Exercised during the year	**(3 061)**	**49,50**
Forfeited during the year	**(391)**	**75,56**
Transfers to Group subsidiaries	**(557)**	**—**
Outstanding at the end of the year	**8 546**	**72,96**
Of which are exercisable	**5 174**	**59,38**

	2007 Number of options '000	2007 Weighted exercise price R
Outstanding at the beginning of the year	17 391	53,19
Exercised during the year	(4 337)	48,73
Forfeited during the year	(759)	71,88
Granted during the year	260	107,47
Outstanding at the end of the year	12 555	67,30
Of which are exercisable	5 092	42,43

Options exercised during the year resulted in 3 060 806 shares (2007: 4 337 275 shares) being allocated at an average exercise price of R49,50 (2007: R48,73) each. The related weighted average share price at the time of exercise was R102,89 (2007: R136,25).

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

BANK

Exercise price ranges (R)	2008 Average option exercise price R	Weighted average contractual remaining life Years	Weighted average fair value[1] R	Number of options outstanding
2008				
17,85 – 43,92	**27,68**	**0,86**	**n/a**	**104 640**
21,16 – 36,19	**26,90**	**1,58**	**n/a**	**238 198**
24,74 – 39,27	**36,72**	**2,79**	**n/a**	**453 072**
27,05 – 35,97	**33,56**	**3,59**	**n/a**	**672 743**
32,00 – 46,05	**35,00**	**4,83**	**12,42**	**788 408**
44,39 – 73,35	**51,02**	**5,81**	**23,39**	**2 993 553**
74,97 – 94,63	**91,29**	**6,82**	**28,93**	**2 879 869**
89,57 – 113,95	**106,54**	**7,29**	**35,06**	**306 000**
82,97 – 112,92	**98,98**	**8,05**	**50,76**	**110 000**

Note

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

49. Share-based payments *(continued)*

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

	2007			
Exercise price ranges (R)	Average option exercise price R	Weighted average contractual remaining life Years	Weighted average fair value[1] R	Number of options outstanding
17,85 – 43,92	17,85	1,64	n/a	244 720
21,16 – 36,19	26,57	2,56	n/a	312 060
24,74 – 39,27	37,32	3,76	n/a	759 960
27,05 – 35,97	33,67	4,55	n/a	1 224 799
32,00 – 46,05	35,01	5,64	12,19	1 529 928
44,39 – 73,35	48,05	6,76	20,43	4 482 327
74,97 – 94,63	91,70	7,79	30,00	3 435 397
89,57 – 113,95	106,54	8,30	35,06	306 000
82,97 – 112,92	107,00	9,00	45,00	260 000

Note

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

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

	2008	
	Percentage of total issued shares	**Number of shares '000**
Maximum shares and options available	**10,0**	**68 028**
Shares and options subject to the trust	**(1,5)**	**(9 967)**
Balance of shares and options available	**8,5**	**58 061**

	2007	
	Percentage of total issued shares	Number of shares '000
Maximum shares and options available	10,0	67 857
Shares and options subject to the trust	(2,0)	(13 618)
Balance of shares and options available	8,0	54 239

Fair value assumptions of share options granted during the previous year

Fair values for the Share Incentive Trust options are calculated at the date of grant using a modified Black-Scholes model.

49. Share-based payments *(continued)*

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

The significant weighted average assumptions used to estimate the fair value of the options granted are as follows:

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

Note

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

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

49.2 Absa Group Limited Employee Share Ownership Administrative Trust

As of the implementation date (1 July 2004), all employees of South African wholly owned subsidiaries of Absa Group Limited (excluding executive directors of Absa Group Limited and Absa Bank Limited) were eligible to participate in this one-off equity-settled share-based payment scheme. Each employee who elected to participate was issued and allotted 200 compulsory redeemable cumulative option-holding preference shares against a receipt of the R400,00 subscription price. A maximum of 7 315 200 preference shares were available for allocation to the trust.

On 1 July 2004, 6 085 200 preference shares were issued. The preference shares receive a dividend calculated on the par value of the preference shares at a rate of 72% of the prime overdraft rate. These dividends are compounded and paid semi-annually in arrear on 30 September and 31 March each year. Absa Group Limited will redeem the preference shares on exercise of the options by the employee or on forfeiture of the options on the final option exercise date. Options vest after three years from the date of issue and are forfeited 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.

49. Share-based payments *(continued)*

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

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

	Weighted average exercise price R	BANK Number of options 2008 '000	2007 '000
Outstanding at the beginning of the year	48 – 69	**761**	4 445
Exercised during the year	66,90	**(272)**	(3 393)
Forfeited during the year	48 – 69	**(16)**	(291)
Outstanding at the end of the year	48 – 69	**473**	761
Of which are exercisable	48 – 69	**473**	761

Options exercised during the year resulted in 271 700 (2007: 3 392 800) shares being allocated at an average exercise price of R66,90 (2007: R69,00) each. The related weighted average share price at the time of exercise was R103,06 (2007: R132,70).

The options outstanding at the balance sheet date have a weighted average contractual life of 0,5 years (2007: 1,5 years).

Fair value assumptions of share options

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

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

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

Note

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

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

The Phantom PSP 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 to the participants is equal to the market value of a number of ordinary shares, as determined after a three-year vesting period. The vesting of the Phantom PSP awards will be subject to 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 awards will vest after three years to the extent that the performance conditions are satisfied. These awards are forfeited in total if Absa Group Limited's performance fails to meet the minimum performance criteria.

	BANK Number of options 2008 '000	2007 '000
Outstanding at the beginning of the year	**2 228**	1 060
Forfeited during the year	**(130)**	(143)
Granted during the year	**—**	1 311
Transfer to Group subsidiaries	**(28)**	—
Outstanding at the end of the year	**2 070**	2 228

49. Share-based payments *(continued)*

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

The options outstanding at the balance sheet date have no exercise price and a weighted average contractual life of 1,1 years (2007: 1,9 years).

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

Fair value assumptions of share options

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

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

49.4 Absa Group Limited Executive Share Award Scheme (ESAS)

The ESAS is an equity-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. Such an initial allocation is held in trust or in the name of the participant. If the participant is in the employ of the Absa Group after the three-year vesting period, the participant will receive 20% matched options. If the bonus award remains in the ESAS for another two years, the participant receives another 10% matched options. 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 share allocation and on the 20% and/or 10% matched shares, over the three- or five-year period. Employees that received a performance bonus in excess of a predetermined amount were compelled to place a set percentage of their bonus award into the ESAS. Employees also had the option of utilising more of their bonus award for voluntary ESAS options.

The following number of initial options allocated in terms of the scheme are eligible for the 20% and/or 10% matched options:

	BANK Number of options 2008 '000	 2007 '000
Outstanding at the beginning of the year	**37**	37
Forfeited during the year	**(41)**	—
Granted during the year	**994**	—
Outstanding at the end of the year	**990**	37

The options outstanding at the balance sheet date have no exercise price and a weighted average contractual life of 3,1 years (2007: 2,5 years). None of these options were exercisable at the balance sheet date.

Fair value assumptions of share options

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

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

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

The JSAP is a cash-settled share-based payment arrangement that enables Absa Group Limited to attract and motivate new employees by buying out the "in the money" portion of a participant's shares or options under their previous employers' 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.

49. Share-based payments *(continued)*

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

	BANK Number of options 2008 '000	2007 '000
Outstanding at the beginning of the year	**308**	77
Exercised during the year	**(118)**	(43)
Forfeited during the year	**(19)**	(10)
Granted during the year	**743**	284
Outstanding at the end of the year	**914**	308

The options outstanding at the balance sheet date have no exercise price and a weighted average contractual life of 2,9 years (2007: 1,9 years).

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

Fair value assumptions of share options

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

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

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

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

The following number of initial options allocated in terms of the scheme are eligible for the 20% and/or 10% matched options:

	BANK Number of options 2008 '000	2007 '000
Outstanding at the beginning of the year	**446**	—
Forfeited during the year	**(23)**	(31)
Granted during the year	**123**	477
Transfers to Group subsidiaries	**(9)**	—
Outstanding at the end of the year	**537**	446

The options outstanding have no exercise price and a weighted average contractual life of 1,0 year (2007: 2,4 years).

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

Fair value assumptions of share options

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

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

49. Share-based payments *(continued)*

49.7 Absa Group Limited Performance Share Plan (PSP)

The PSP was implemented in the current year as an equity-settled share-based payment arrangement. Participants are awarded a number of nil-cost options. These options will then be converted into Absa Group Limited shares after a three-year vesting period and on achieving performance conditions attached to the award. The vesting of the PSP awards will be subject to non-market and market-related 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 awards will vest after three years to the extent that the performance conditions are satisfied. These awards are forfeited in total if the Absa Group performance fails to meet the minimum performance criteria.

	BANK Number of options 2008 '000
Outstanding at the beginning of the year	—
Forfeited during the year	(116)
Granted during the year	2 004
Outstanding at the end of the year	1 888

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

Fair value assumptions of share options

The fair value of the PSP awards at grant date is based on the share price at grant date. The Bank considers adjustments to reflect expectations for options that might be forfeited before the shares vest. For purposes of determining the expected life and number of options to vest, historical exercise and forfeiture patterns were used.

50. Acquisitions and disposals of subsidiaries

50.1 Acquisitions of subsidiaries during the current year

50.1.1 The Bank obtained control over Abacas from 1 July 2008, and hence started to consolidate the entity from 2008 as evaluated in terms of SIC 12. Details of the net assets acquired and goodwill arising are as follows:

	BANK 2008 Rm
Cash, cash balances with central banks	1
Loans and advances to customers	1 782
Investments	10 707
Derivative liabilities	(9)
Other liabilities	(1)
Current tax liabilities	(10)
Deposits due to customers	(12 415)
Deferred tax liabilities	(4)
Net assets acquired	51
Satisfied by:	
Settlement through intercompany account with Absa Group Limited	51
Total consideration	51
Fair value of assets acquired	(51)
Goodwill	—

50. Acquisitions and disposals of subsidiaries *(continued)*

50.1 Acquisitions of subsidiaries during the current year *(continued)*

50.1.2 The Bank has a 92,5% interest in the IFU Property Fund. The Bank is deemed to have control over the fund from 2008 and the investment has been consolidated. Details of the net assets acquired and goodwill arising are as follows:

	BANK 2008 Rm
Loans and advances to banks	10
Other assets	4
Investment property	231
Deferred tax assets	27
Other liabilities and sundry provisions	(128)
Minority interest	(10)
Net assets acquired	134
Satisfied by:	
Value of shares issued	134
Fair value of net assets acquired	(134)
Goodwill	—

50.1.3 On 1 October 2008 the Bank acquired an additional 50,0% interest in Ngwenya River Estate (Proprietary) Limited increasing its shareholding to 100,0%. Ngwenya River Estate (Proprietary) Limited was previously recognised as an associate. The investment is fully consolidated and minority interest of 50,0% is being provided for until SARB approval for the acquisition is obtained. In terms of IFRS 3, the Bank has a period of 12 months from the date of acquisition to finalise the determination of the fair values of assets and liabilities. Some of these fair values are best estimates as at the balance sheet date based on determinations which are still in the process of being finalised. Details of the net assets acquired and goodwill arising are as follows:

	BANK 2008 Rm
Property and equipment: Freehold property	81
Other liabilities and sundry provisions	(25)
Net assets acquired	56
Satisfied by:	
Cash outflow on acquisition	36
Investment in venture capital organisation	20
Total consideration	56
Fair value of net assets acquired	(56)
Goodwill	—

50. Acquisitions and disposals of subsidiaries *(continued)*

50.1 Acquisitions of subsidiaries during the current year *(continued)*

	BANK 2008 Rm
50.1.4 On 10 November 2008, the Bank acquired an additional 50,0% interest in The Ballito Junction Development (Proprietary) Limited increasing its shareholding to 100,0%. The Ballito Junction Development (Proprietary) Limited was previously recognised as an associate. In terms of IFRS 3, the Bank has a period of 12 months from the date of acquisition to finalise the determination of the fair values of assets and liabilities. Some of these fair values are best estimates as at the balance sheet date based on determinations which are still in the process of being finalised. Details of the net assets acquired and goodwill arising are as follows:	
Cash, cash balances and balances with central banks	1
Other assets	9
Investment property	161
Property and equipment: Furniture and other equipment	4
Deferred tax assets	4
Other liabilities	(163)
Net assets acquired	16
Satisfied by:	
Cash outflow on acquisition	6
Investment in venture capital organisation	22
Total consideration	28
Fair value of net assets acquired	(16)
Goodwill	12
Net cash outflow due to acquisitions	**(40)**

50.2 Disposal of subsidiary during the current year

On 1 January 2008 Absa Bank Limited transferred its investment in Absa Development Company Holdings (Proprietary) Limited to its holding company, Absa Group Limited. The net assets of Absa Development Company Holdings (Proprietary) Limited as at the date of disposal were as follows:

	BANK 2008 Rm
Loans and advances to banks	8
Other assets	729
Deferred tax assets	2
Other liabilities and sundry provisions	(389)
Current tax liabilities	(3)
Net asset value	347
Satisfied by:	
Settlement through intergroup loan	347

50. Acquisitions and disposals of subsidiaries *(continued)*

50.3 Acquisitions of subsidiaries during the prior year

On 14 August 2006, the Bank set up the Absa Property Equity Fund, a traded unit trust. The Bank has an 86,5% interest in the fund. The Bank is deemed to have control over the investment from 2007 and the investment has been consolidated. Details of the net assets acquired and goodwill arising are as follows:

	BANK
	2007 Rm
Cash, cash balances and balances with central banks	15
Investments	169
Other liabilities and sundry provisions	(26)
Net assets acquired	158
Satisfied by:	
Transfer from investments	143
Cash and cash equivalents acquired	15
Total consideration	158
Fair value of net assets acquired	(158)
Goodwill	—

The Bank acquired a further 50,0% interest in Ambit Management Services (Proprietary) Limited during November 2006 (previously recognised as an associate), increasing its shareholding to 100,0%. The subsidiary has only been consolidated from the date of SARB approval, being 1 February 2007.

Details of the net assets acquired and goodwill arising are as follows:	
Cash, cash balances and balances with central banks	2
Other assets	1
Current tax liabilities	(3)
Net assets acquired	0
Satisfied by:	
Transfer from investments in associates and joint ventures	(2)
Cash and cash equivalents acquired	2
Total consideration	0
Fair value of net assets acquired	(0)
Goodwill	—
Total cash and cash equivalents acquired	17

50.4 Disposal of subsidiary during the prior year

The Bank disposed of Bankhaus Wölbern & Co. during 2006. As per terms of the agreement, additional contingency payments were payable in subsequent years if certain predetermined criteria were met. The Bank received such a payment to be amount of R36 million as full and final settlement during the previous year.

51. Non-current assets and liabilities held-for-sale

The Bank, through the private equity division in Absa Capital, has transferred assets to a value of R2 686 million to a newly formed fund during the year. The Bank remains exposed to some of the risks and rewards on these assets and consequently continued to recognise these assets within "Non-current assets held-for-sale" on the balance sheet. The associated liability representing third party investments already received by the fund was carried within "Non-current liabilities held-for-sale" and carried at fair value.

	BANK
	2008 Rm
Non-current asset held-for-sale	
Investments	**2 495**
Non-current liabilities held-for-sale	
Other liabilities and sundry provisions	**408**

52. Financial risks

52.1 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 Bank's risk appetite and overall strategy.

The responsibility for risk management resides at all levels throughout the Bank, from members of the board to all employees. 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. These policies and appetites are clearly communicated throughout the Bank and apply to all business units in the various divisions and wholly owned subsidiaries, as well as non-wholly owned subsidiaries and majority equity stakes over which the Bank has management control.

It is the policy of the board to maintain an independent internal audit function to undertake internal audit work throughout the Bank. The objective of the internal audit function is to provide reliable, valued and timely assurance to the board and executive management over the effectiveness of controls mitigating current and evolving high risks and in doing so enhancing the controls culture within the Bank.

Oversight of risk management is the responsibility of two board subcommittees: The Group Risk and Capital Management Committee (GRCMC) and the GACC.

The GACC assists the board with regard to financial information, accounting policies, internal control and compliance matters. The GRCMC's function is to assist the board in fulfilling its responsibilities with regard to risk management and to ensure compliance with the requirements of the Banks Act regarding risk and capital management.

52.2 The year under review

During 2008, the global banking industry experienced significant setbacks as a result of the after effects of the subprime crisis and the subsequent meltdown in the global financial sector and economic recession. Central banks throughout the world, in particular western Europe, the United Kingdom and the United States of America, were obliged to provide capital and liquidity support to their respective financial sectors. The South African market has largely not been exposed to the subprime crisis, but the global recession and financial crisis are impacting on the South African economy. This is likely to negatively impact all parts of the business in the year ahead.

Through an embedded risk governance structure, a continuous focus on credit, the managing of the Bank's daily liquidity position, and the monitoring of the Bank's risk weighted assets demand, the Bank responded expeditiously to the changing economic conditions experienced during 2008 and ensured compliance with minimum regulatory and board approved capital targets.

The Bank also monitors, on a continuous basis, risk trends in business areas where the environment is changing and/or its growth rates are increasing to ensure that the Bank remains within its set risk appetite. The board is informed of changes in the environment relating to specific risk trends, the Bank's positioning and exposure, and actions being taken or planned.

Retail credit risk

The focus during 2008 was to embed the processes in terms of the Advanced Internal Rating Based (AIRB) approach and to ensure appropriate responses to the worsening economic conditions locally and internationally.

52. Financial risks *(continued)*

52.2 The year under review *(continued)*

The Bank's portfolio was under increasing pressure owing to the deteriorating trend in the South African and global economy. This is especially the case for the mortgage and vehicle asset finance segments of the book.

A number of initiatives were implemented as mitigating actions, including:

- Lending criteria and policies in general were reviewed and tightened significantly to respond to the rapidly changing economic conditions. Examples of changes made, include: Loan to value (LTV) capped at a maximum of 70% for home loan applications by new customers; a revised LTV matrix for new and used vehicles; the removal of flexi-reserves under certain circumstances for home loans; and the increase of the cut-off of the new and existing client application scorecard for vehicle finance.
- Significant investments were made to enhance collection capabilities and enhance efficiencies in the collection processes. The number of collectors increase, while technology and processes were enhanced. Furthermore extended working hours and shifts to optimise productivity and efficiencies were introduced.

Looking forward, the economic outlook is such that the performance of the retail portfolios will remain under pressure.

Wholesale credit risk

The focus in 2008 was to embed the Foundation Internal Ratings Based (FIRB) approach for the wholesale portfolios and to start preparing for migration to the AIRB approach.

Although these portfolios were not under the same pressure as the retail portfolios during 2008, a number of proactive steps were taken to ensure the Bank's resilience. These included:

- In the CPF portfolio lending criteria and policies were revised. Examples of mitigating actions include the increase of cover ratios for all segments; reduced LTVs with a maximum of 80% and increased pre-sales agreements.
- The target market criteria for specialised finance were reviewed with the introduction of minimum share cover and reduced scale.

Market risk

By following a controlled trading strategy and applying tight market risk management controls during the stressed market conditions experienced in 2008, Absa Capital successfully continued its client flow business expansion plan and reported good trading revenues for the year.

Absa enhanced its prepayment risk management framework during 2008, to ensure that prepayment risk arising from fixed rate customer assets in a downward interest rate cycle is more proactively managed within a defined risk appetite.

Absa also completed the hedging build phase for its structural products and equity. As a result, the interest rate sensitivity in Absa's banking book has been reduced further in line with the interest rate risk management objective of ensuring a higher degree of margin stability and lower interest rate risk over time.

The Bank remains vigilant and continuously takes corrective action to address any control and risk weaknesses that have been exposed, particularly arising from the unprecedented global crisis.

Liquidity and funding risk

While international financial markets experienced significant stress in 2008, the South African domestic money market liquidity remains largely unaffected. Overall the Bank's key liquidity risk metrics, which have been formulated to achieve a prudent liquidity profile, were maintained at acceptable levels. Through ongoing stress testing, scenario analysis and contingency planning, the Bank continues to actively manage its stress liquidity buffers applying Basel II and best international practice. Overall the Bank's liquidity position remains strong.

Group Treasury and Absa Capital successfully raised secondary bank capital through issuing a consumer price index (CPI)-linked bond and CPI-linked senior unsecured bonds. The bond issue was the first time that a South African bank issued an inflation-linked subordinated bond into the domestic capital market. This long-term funding raised supported the bank's liquidity objectives.

The Bank achieved further improvement in its capital structure by issuing R1,9 billion inflation linked subordinated debt instruments (Tier II capital) during 2008.

52. Financial risks *(continued)*

52.2 The year under review *(continued)*

Basel II and capital management

Approval for the use of the Internal Ratings Based (IRB) approach in respect of credit risk, the Internal Models Approach (IMA) for market risk, and the Advanced Measurement Approach (AMA) for operational risk was endorsed by the SARB. Though having received approval, the robustness of internal models and of risk management processes will be under increased scrutiny and the Bank needs to continuously demonstrate the following:

- adequacy of capital to ensure financial stability; and
- robust mechanisms to manage risks within the business by successfully entrenching the internal capital adequacy assessment process (ICAAP) and the use test.

During 2008, the Bank submitted its first annual ICAAP submission to the SARB, where the embedment of the ICAAP use test principles was clearly demonstrated in its major businesses. Although the Bank made substantial progress in this regard, the embedment of the use test principles is a continuous process that will be enhanced over time in areas such as strategy setting, stress testing and incentives linked to the risk/reward principle.

Key Basel II focus areas for 2009 include the following:

- The further enhancement of risk models and the monitoring thereof.
- The development of the IRB approach for wholesale credit risk in the Absa Capital and Absa Commercial and Business Banking operations.

Capital supply was constrained during 2008. The financial market crisis severely impacted the ability of financial institutions to issue capital market instruments and execute securitisation transactions. Lower profits owing to pressure on consumers also resulted in reduced capital supply.

Given the deterioration in the credit environment over the financial year, the Bank remains vigilant to the potential effect of pro-cyclicality introduced by Basel II and will continue to focus on appropriate levels of capital. In this regard, the board has resolved to increase the target capital adequacy ratios for 2009 to 10% for Tier I capital (from 8,75%) and 13% for the total capital adequacy ratio (from 12%).The Bank is adequately capitalised above the minimum regulatory requirement and the board-approved targets. This was as a result of the emphasis placed by the Capital Management Committee on risk-weighted asset growth as well as the slower than expected asset growth.

53. Credit risk

53.1 Introduction

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations. Credit risk may also increase where the downgrading of an entity's credit rating causes the fair value of the Bank's investment in that entity's financial instruments to fall. The credit risk that the Bank faces arises mainly from commercial and consumer loans and advances, including credit card lending and trading transactions. The Bank dedicates considerable resources to controlling credit risk effectively to minimise losses.

Growth, consistent returns and capital are jeopardised if credit risk is not controlled. The Bank'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.

The Bank 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. The Bank continually looks for opportunities to strengthen its credit risk controls, with particular attention to avoiding undue concentrations.

53. Credit risk *(continued)*

53.1 Introduction *(continued)*

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

In addition to drawn loans and advances, the Bank is exposed to other credit risks. These exposures comprise loan commitments, contingent liabilities, financial guarantees, debt securities, other exposures arising in the course of trading activities, settlement risk and debt securities. 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 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.

The most significant other credit risks are in respect of guarantees, irrevocable loan commitments, debt securities, available-for-sale debt instruments, and settlement risk.

Guarantees and irrevocable loan commitments: The Bank is exposed to loss through 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 Bank, using its own grading system.

Settlement risk: The Bank is also exposed to settlement risk in its dealings with other financial institutions. These risks arise, for example, in foreign exchange transactions when the Bank pays away its side of the transaction to another bank or counterparty before receiving payment from the third party. The risk is that the third party may not meet its obligation. It also arises on derivative contracts where the carrying value of the financial asset is related to the credit condition of the counterparty.

While these exposures are of short duration, they can be significant. In recent years, settlement risk has been reduced by several industry initiatives that have enabled simultaneous and final settlement of transactions to be made (such as payment-versus-payment through continuous linked settlement and delivery-versus-payment in central bank money).

The Bank has worked with its peers in the development of these arrangements. As a result, the majority of high-value transactions are increasingly settled by such mechanisms. Where these mechanisms are not available, the risk is further reduced by dealing predominantly with highly rated counterparties, holding collateral and limiting the size of the exposures according to the rating of the counterparty. Furthermore, manifestation of 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. Thus the rating of any counterparty domiciled in another country is limited to the rating of the country.

53. Credit risk *(continued)*

53.2 Credit risk management

In managing credit risk, the Bank applies the five-step risk management process outlined in the principal risks policy (PRP), which is supported by the individual credit risk control frameworks. This policy is approved by the board of directors on recommendation from the GRCMC and defines the roles of key individuals and committees in the risk management process.

In terms of the PRP, Absa's Risk Director appoints a principal risk owner (PRO) for each principal risk, who is responsible for working with the risk owners in the business units to ensure that each principal risk is appropriately managed and controlled.

The credit risk control framework provides a structure within which credit is managed and for which specific operational policies and procedures are drafted as applicable to specific business areas.

The Bank has a centralised database of large corporate, sovereign and bank facilities and is currently constructing a database covering all the Bank's assets. System-based credit application processes for lending are operational throughout the Bank and an electronic corporate credit application system is deployed in all of the Bank's major businesses.

Each business segment has an embedded credit risk management team. These teams assist Group Risk in the formulation of the Bank's risk policy, that adhere to all the principles and requirements for the regulations relating to banks 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 industry sectors.

Those corporate accounts which are deemed to contain heightened levels of risk are recorded on graded problem loan lists known as either watch lists or early warning lists. These are updated monthly and circulated to the relevant risk control points. Once listing has taken place, exposure is carefully monitored and, where possible, exposure reductions are effected. These lists are graded in line with the perceived severity of the risk attached to the lending. Businesses with exposure to corporate customers all work to three categories of increasing concern. By the time an account becomes impaired it will normally, but not necessarily, have passed through all three categories, which reflects 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 banking portfolios, which tend to comprise homogeneous assets, statistical techniques more readily allow impairment to be monitored on a portfolio basis. It is consistent with the Bank'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.

Where models are used, they are based upon customers' personal and financial performance information over recent periods as a predictor for future performance. The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

The Bank manages country risk by setting a country risk appetite, which is known as the country guideline and agreed at the Credit Risk Committee (CRC). All cross-border or domestic foreign currency transactions are aggregated to give the current utilisation, in terms of country loss-given default (CLGD), against country appetite. The level of CLGD incurred by a counterparty transaction will largely depend on three main factors: the country severity, the product severity and counterparty grade.

CLGD is incurred in the country of direct risk, defined as where the majority of operating assets are held. This may differ from the country of incorporation. However, where transactions are secured with collateral, the country risk can be transferred from the country of the borrower to the country of the collateral provider. This is only permitted where the collateral sufficiently covers the borrowing and is not expected to decrease over time.

53. Credit risk *(continued)*

53.2 Credit risk management *(continued)*

Country risk grades are assigned to all countries where the Bank has, or is likely to have, exposure and are reviewed every quarter to ensure they remain appropriate. Country grades, which are derived from long-term sovereign foreign currency ratings, range from 1 (lowest probability of default) to 21 (highest probability of default). A ceiling is applied where a country is graded 12 or worse so that the counterparty cannot be graded better than the country, unless some form of protection is available in the event of a cross-border event, such as a significant portion of a counterparty's assets or income being held or generated in hard currency.

The principal committees that review credit risk management, formulate the overall Bank credit policy and resolve all significant credit policy issues, are the CRC and the GRCMC. The GACC also reviews the impairment allowance as part of financial reporting. All these committees receive regular and comprehensive reports on risk issues.

The monthly CRC meetings, chaired by Absa's Risk Director, exercises oversight through review and challenge of the size and constitution of the portfolios when viewed against the Bank's risk appetite for retail as well as wholesale credit risks.

The Executive Committee (Exco) monitors and manages risk-adjusted performance of businesses and receives a quarterly risk update including a copy of the Bank's risk profile report.

The GRCMC reviews the risk profile, approves the control framework and approves minimum control requirements for principal risks. It receives a quarterly report covering all of the principal risks.

The GACC considers the adequacy and effectiveness of the control framework and receives quarterly reports on control issues of significance and half-yearly impairment allowances and regulatory reports. Both the GRCMC and GACC also receive reports dealing in more depth with specific issues relevant at the time. The proceedings of both committees are reported to the board, which also receives a concise quarterly risk report. The board approves the overall risk appetite.

53.3 Credit risk measurement

The Bank uses different ratings processes for each of the approaches adopted.

Standardised approach

Within portfolios subject to the standardised approach, there are currently limited ratings processes applied. The retail portfolios do not apply any statistical ratings. This model produces a risk grade of between 1 and 5 using both analytical and subjective behavioural information.

Owing to the lack of model sophistication and available data, significant reliance is still placed on expert judgement based on detailed assessments of customers' financial and business risks, transaction characteristics and collateral. This is overseen by a number of control mechanisms (eg delegated authorities).

IRB approaches

For portfolios subject to the IRB approaches, the Bank uses a combination of statistical, structural and expert modelling techniques throughout its credit-rating systems to measure credit risk. The majority of the models are developed internally using the Bank's own historical data and other external information where appropriate. In some cases, externally developed models and rating tools are used for the corporate portfolios where limited loss information is available.

The appropriateness of these external models for use within the Bank is validated as part of the model approval process. It is also a Bank policy that all existing models are back tested and validated annually to ensure their applicability to the current portfolio and credit conditions. The key building blocks in the measurement system are the probability of customer default (PD), exposure at default (EAD) and severity of loss in the event of default (LGD). These systems assist the Bank in frontline credit decisions on new commitments and in managing the portfolio of existing exposures.

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

These internal estimates also form the foundation of calculating risk-weighted exposure amounts in accordance with the Basel II approach adopted, as well as a variety of measures used to measure and manage credit risk in the business, including:

- risk tendency (point-in-time (PIT) PD x EAD x LGD);
- expected loss (through-the-cycle (TTC) PD x EAD x downturn LGD);
- calculation of impairment on accounts;
- the credit risk economic capital (EC); and
- risk appetite.

Probability of customer default – commonly known as PD: Internal risk ratings

The Bank assesses the credit quality of borrowers and other counterparties by assigning an internal risk rating. Two different categories of default ratings 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.

A PIT PD measures the unconditional probability of a counterparty defaulting over a defined future period, typically the next 12 months. The term “unconditional” in the statistical sense is used, meaning “averaging, with proper probabilities, all of the future, conditional PDs that would occur in each of the different credit environments that could arise in the future”. The PIT PD is sensitive to current economic and borrower circumstances. References might be made to this measure simply as a PD (without qualification), however, analysts sometimes use the expression PIT PD to avoid any possible confusion with the TTC PD.

The second category (TTC PD) reflects the average 12 months default rate over the course of a complete economic cycle. This type of rating provides a measure of risk that is independent of the current credit conditions and is therefore much more stable over time than a PIT 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 Bank categorises its current exposures according to a 21-grade internal default grade (DG) rating scale that corresponds 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.

For SARB disclosure purposes a 26 default grade scale is used. The scale used for SARB purposes is TTC and is based on PDs used to calculate the risk weighted assets (RWA), while the internal 21-grade DG scale is a PIT scale.

Exposure in the event of default – commonly known as exposure at default (EAD)

Exposure in the event of default represents the expected level of utilisation of the credit facility when default occurs. During the course of a loan, 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. However, when the Bank evaluates loans, it takes exposure at default into consideration, using its extensive historical experience. This recognises that customers may make greater 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 LGD

When a customer defaults, a portion of the amount outstanding on his/her loans is usually recovered. The portion 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, the Bank can estimate how much it is likely to lose, on average, for various types of loans in the event of default.

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

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 recovery expenses involved. 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.

Expected loss and risk tendency

The three components described on the previous page, PD, EAD and LGD, are building blocks used in a variety of applications that measure credit risk across the entire portfolio. Two of these applications, expected loss (EL) and risk tendency (RT), are measurements of loss which enable the application of consistent credit risk measurement across all retail and wholesale credit exposures.

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 PIT PD as an input. RT provides insight into the credit quality of the portfolio and assists management in tracking risk changes as the Bank's stock of credit exposures evolves in size or risk profile in the course of business. RT is generally only calculated on the performing book and cannot be used to forecast impairments.

EL is a statistical estimate of the average loss for the loan portfolio for the next 12 months, based on a long-term average loss tendency that incorporates at least one business cycle. This type of measure therefore provides a measure of loss that is independent of the current credit conditions for a particular customer type, and is much more stable over time. It is primarily used in the capital measurement processes.

RT and EL are calculated for both corporate and retail loans as follows:
RT = PIT PD x EAD x LGD and EL = TTC PD x EAD x downturn LGD.

The RT and EL of each individual loan is aggregated to produce the RT and EL of the various sub portfolios in the Bank and ultimately for the whole Bank.

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 the Bank's budget or internal forecast of impairment allowance in the future.
- 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.
  - Impairment 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 RT.
  - RT is a statistical estimate of losses arising only in the current performing loan portfolio and therefore it is not calculated for defaulted advances.

53. Credit risk *(continued)*
53.3 Credit risk measurement *(continued)*

– 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 attributed 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.

53.3.1 Maximum exposure to credit risk

For financial assets recognised on balance sheet, the exposure to credit risk equals the carrying amount. For financial guarantees, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the guarantee was called upon (contract value). 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.

(a) Credit risk exposures relating to on-balance sheet assets

	BANK	
	2008 Rm	2007 Rm
Balances with the SARB	**12 626**	10 396
Cash, cash balances and balances with central banks (refer to note 2)	**12 626**	10 396
Land Bank bills	**492**	492
RSA government bonds	**19 156**	13 024
Reverse repurchase agreements	**4 100**	—
SARB debentures	**1 814**	—
Treasury bills	**7 457**	9 441
Statutory liquid asset portfolio (refer to note 3)	**33 019**	22 957
Other loans and advances to banks	**26 312**	23 384
Reverse repurchase agreements	**17 247**	29 307
Loans and advances to banks (refer to note 4)	**43 559**	52 691
Debt instruments	**5 178**	2 206
Derivative assets	**65 466**	21 757
Money market assets	**1 464**	1 340
Trading portfolio assets (refer to note 5)	**72 108**	25 303
Derivatives designated as cash flow hedging instruments	**2 530**	5
Derivatives designated as fair value hedging instruments	**609**	720
Hedging portfolio assets (refer to note 5)	**3 139**	725
Accounts receivable	**5 036**	2 520
Settlement accounts and collateral placed	**2 340**	1 521
Other assets (refer to note 6)	**7 376**	4 041

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

53.3.1 Maximum exposure to credit risk *(continued)*

(a) Credit risk exposures relating to on-balance sheet assets *(continued)*

	BANK 2008 Rm	BANK 2007 Rm
Retail banking	**331 585**	303 125
Cheque accounts	**6 447**	6 036
Credit cards	**13 378**	12 941
Instalment credit agreements	**43 208**	39 257
Loans to associates and joint ventures	**5 441**	6 466
Microloans	**3 083**	2 458
Mortgages	**249 119**	225 575
Other advances	**1 065**	1 182
Personal loans	**9 844**	9 210
Absa Corporate and Business Bank	**117 398**	88 520
Corporate	**18 553**	10 640
Large and Medium	**74 197**	56 827
Other	**24 648**	21 053
Absa Capital	**63 070**	50 452
Other	**631**	1 023
Loans and advances to customers (refer to note 8)	**512 684**	443 120
Debt instruments	**7 709**	724
Investments (refer to note 11)	**7 709**	724
Total assets subject to credit risk	**692 220**	559 957
Assets not subject to credit risk[1]	**42 759**	33 002
Total assets per the balance sheet	**734 979**	592 959

Note

[1]*Includes coins and bank notes, prepayments, constructed assets held-for-sale, repossessed properties, deferred costs, investments in equity instruments, deferred tax assets, intangible assets, investment property, non-current assets held-for-sale and property and equipment which are not subject to credit risk.*

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

53.3.1 Maximum exposure to credit risk *(continued)*

(b) Credit risk exposures relating to off-balance sheet items

	BANK 2008 Rm	BANK 2007 Rm
Financial guarantees	**1 001**	824
Guarantees	**9 134**	9 787
Irrevocable facilities	**42 788**	40 040
Letters of credit	**6 069**	2 790
Other contingencies	**25**	23
	59 017	53 464

(c) Financial assets and liabilities designated at fair value through profit or loss

The following represents the maximum exposure at the balance sheet date to credit risk of financial instruments designated at fair value through profit or loss, before taking into account any collateral held or other credit enhancements.

	BANK 2008 Rm	BANK 2007 Rm
Assets		
Statutory liquid asset portfolio (refer to note 3)	**8 273**	2 683
Loans and advances to banks (refer to note 4)	**7 168**	10 992
Loans and advances to customers (refer to note 8)	**10 848**	13 029
Investments (refer to note 11)	**6 084**	656
	32 373	27 360
Liabilities		
Deposits from banks (refer to note 17)	**9 002**	10 663
Other liabilities and sundry provisions (refer to note 19)	**304**	233
Deposits due to customers (refer to note 20)	**11 419**	11 465
Debt securities in issue (refer to note 21)	**5 890**	3 764
Borrowed funds (refer to note 24)	**671**	—
	27 286	26 125

At the balance sheet date, the Bank did not use credit derivatives as a mechanism to hedge its exposure to credit risk for financial assets and financial liabilities designated at fair value.

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

53.3.1 Maximum exposure to credit risk *(continued)*

(d) Contractual obligation at maturity of liabilities designated at fair value through profit or loss

The following represents the carrying value of liabilities designated at fair value through profit or loss and the amount which the Bank is contractually required to pay to the holder of the obligation at maturity.

	BANK	
	2008	
	Carrying value Rm	Contractual obligation Rm
Liabilities		
Deposits from banks (refer to note 17)	9 002	9 034
Other liabilities and sundry provisions (refer to note 19)	304	304
Deposits due to customers (refer to note 20)	11 419	8 972
Debt securities in issue (refer to note 21)	5 890	4 629
Borrowed funds (refer to note 24)	671	765
	27 286	23 704

For 2007, the amount which the Bank was contractually required to pay the holder of the obligation at maturity, approximated the carrying value.

(e) Increase/(decrease) in fair value attributable to changes in credit risk

	BANK	
	2008 Rm	2007 Rm
Assets		
Loans and advances to customers	24	21
Investments	26	(4)

The cumulative change in fair value due to changes in credit risk for loans and advances to customers designated at fair value through profit or loss 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 owing to changes in credit risk.

The change in fair value for financial assets 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 instruments 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.

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

53.3.2 Financial assets subject to credit risk

For the purposes of the Bank's disclosure regarding credit quality, the maximum exposure to credit risk of financial assets at the balance sheet date have been analysed as follows:

	Cash, cash balances and balances with central banks[1] Rm	Statutory liquid asset portfolio Rm	Loans and advances to banks Rm
Neither past due nor impaired (refer to note 53.3.3 (a))	**12 626**	**33 019**	**43 559**
Past due but not impaired (refer to note 53.3.5)	—	—	—
Impaired (refer to note 53.3.6 (a))	—	—	—
Impairment allowance (refer to notes 9 and 53.3.6 (b))	—	—	—
Identified impairments			
Identified collective	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Identified individual	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Unidentified impairments	—	—	—
Carrying value of financial assets (refer to note 53.3.1 (a))	**12 626**	**33 019**	**43 559**

	Cash, cash balances and balances with central banks[1] Rm	Statutory liquid asset portfolio Rm	Loans and advances to banks Rm
Neither past due nor impaired (refer to note 53.3.3 (a))	10 396	22 957	52 691
Past due but not impaired (refer to note 53.3.5)	—	—	—
Impaired (refer to note 53.3.6 (a))	—	—	—
Impairment allowance (refer to notes 9 and 53.3.6 (b))	—	—	—
Identified impairments			
Identified collective	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Identified individual	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Unidentified impairments	—	—	—
Carrying value of financial assets (refer to note 53.3.1 (a))	10 396	22 957	52 691

Notes

[1] *Cash, cash balances and balances with central banks exclude coins and bank notes which are not subject to credit risk.*

[2] *Trading portfolio assets and investments exclude equity instruments and commodities as they are not subject to credit risk.*

[3] *Other assets exclude prepayments, constructed assets held-for-sale, repossessed properties, cash under management and deferred costs which are not subject to credit risk.*

BANK

2008

Trading portfolio assets[2] Rm	Hedging portfolio assets Rm	Other assets[3] Rm	Loans and advances to customers Rm	Investments[2] Rm	Total Rm
72 108	**3 139**	**7 355**	**476 355**	**7 709**	**655 870**
—	**—**	**21**	**2 660**	**—**	**2 681**
—	**—**	**2**	**42 166**	**—**	**42 168**
—	**—**	**(2)**	**(8 497)**	**—**	**(8 499)**
—	**—**	**—**	**(943)**	**—**	**(943)**
—	**—**	**—**	**(472)**	**—**	**(472)**
—	**—**	**—**	**(471)**	**—**	**(471)**
—	**—**	**—**	**(6 272)**	**—**	**(6 272)**
—	**—**	**—**	**(4 680)**	**—**	**(4 680)**
—	**—**	**—**	**(1 592)**	**—**	**(1 592)**
—	**—**	**(2)**	**(1 282)**	**—**	**(1 284)**
72 108	**3 139**	**7 376**	**512 684**	**7 709**	**692 220**

2007

Trading portfolio assets[2] Rm	Hedging portfolio assets Rm	Other assets[3] Rm	Loans and advances to customers Rm	Investments[2] Rm	Total Rm
25 303	725	4 041	421 496	724	538 333
—	—	—	2 769	—	2 769
—	—	—	24 336	—	24 336
—	—	—	(5 481)	—	(5 481)
—	—	—	(295)	—	(295)
—	—	—	(146)	—	(146)
—	—	—	(149)	—	(149)
—	—	—	(3 223)	—	(3 223)
—	—	—	(2 081)	—	(2 081)
—	—	—	(1 142)	—	(1 142)
—	—	—	(1 963)	—	(1 963)
25 303	725	4 041	443 120	724	559 957

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

53.3.3 Financial assets neither past due nor impaired

The Bank categorises its current exposures according to a 21-grade internal rating scale DG that corresponds to a statistical probability of customers in that rating class defaulting within a 12-month period. An indicative mapping of the DG buckets to the equivalent international rating agency scales can be performed as illustrated in the table below:

DG mapping (to risk-rated or credit-scored models)				Rating agency mappings (international rating scales)		
DG	Min PD (>)	Max PD (≤)	PD (midpoint)	Standard and Poor's	Moody's	Fitch
1	0,000%	0,019%	0,010%	AAA	Aaa	AAA
2	0,020%	0,029%	0,025%	AA	Aa	AA
3	0,030%	0,049%	0,040%	A+	A1	A+
4	0,050%	0,099%	0,075%	A/A-	A2/A3	A/A-
5	0,100%	0,149%	0,125%	BBB+	Baa1	BBB+
6	0,150%	0,199%	0,175%	BBB+/BBB	Baa1/Baa2	BBB+/BBB
7	0,200%	0,249%	0,225%	BBB	Baa2	BBB
8	0,250%	0,299%	0,275%	BBB/BBB-	Baa2/Baa3	BBB/BBB-
9	0,300%	0,399%	0,350%	BBB-	Baa3	BBB-
10	0,400%	0,499%	0,450%	BBB-/BB+	Baa3/Ba1	BBB-/BB+
11	0,500%	0,599%	0,550%	BB+	Ba1	BB+
12	0,600%	1,199%	0,900%	BB	Ba2	BB
13	1,200%	1,549%	1,375%	BB/BB-	Ba2/Ba3	BB/BB-
14	1,550%	2,149%	1,850%	BB/BB-	Ba2/Ba3	BB/BB-
15	2,150%	3,049%	2,600%	BB-	Ba3	BB-
16	3,050%	4,449%	3,750%	B+	B1	B+
17	4,450%	6,349%	5,400%	B+/B	B1/B2	B+/B
18	6,350%	8,649%	7,500%	B	B2	B
19	8,650%	11,349%	10,000%	B-	B3	B-
20	11,350%	18,649%	15,000%	CCC+	Caa1	CCC+
21	18,650%	99,999%	30,000%	CCC	Caa2	CCC
Defaulted	100,000%	100,000%	100,000%	D	D	D

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 including the asset in a watch-list.

Default grades 20 – 21

These financial assets' probability of default have deteriorated to such an extent that they are included in a watch-list for regular review. Assets so classified must have well-defined weaknesses that exacerbate the probability of default. They are characterised by the distinct possibility that the obligor will default, and should the collateral pledged be insufficient to cover the asset, the Bank will sustain some loss when default occurs.

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

53.3.3 Financial assets neither past due nor impaired *(continued)*

Financial assets neither past due nor impaired can be analysed according to the internal rating system used in the Bank's business. The credit quality of financial assets subject to credit risk, that were neither past due nor impaired, based on the Bank's internal ratings, were as follows:

(a) Credit risk exposures relating to on-balance sheet assets

	BANK			
	2008			
	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total Rm
Balances with the SARB	12 626	—	—	12 626
Cash, cash balances and balances with central banks	**12 626**	**—**	**—**	**12 626**
Land Bank bills	492	—	—	492
RSA government bonds	19 156	—	—	19 156
Reverse repurchase agreements	4 100	—	—	4 100
SARB debentures	1 814	—	—	1 814
Treasury bills	7 457	—	—	7 457
Statutory liquid asset portfolio	**33 019**	**—**	**—**	**33 019**
Other	26 311	1	—	26 312
Reverse repurchase agreements	17 247	—	—	17 247
Loans and advances to banks	**43 558**	**1**	**—**	**43 559**
Debt instruments	5 178	—	—	5 178
Derivative assets	61 247	4 184	35	65 466
Money market assets	1 464	—	—	1 464
Trading portfolio assets	**67 889**	**4 184**	**35**	**72 108**
Derivatives designated as cash flow hedging instruments	2 493	37	—	2 530
Derivatives designated as fair value hedging instruments	602	7	—	609
Hedging portfolio assets	**3 095**	**44**	**—**	**3 139**
Accounts receivable	4 993	22	—	5 015
Settlement accounts and collateral placed	2 340	—	—	2 340
Other assets	**7 333**	**22**	**—**	**7 355**
Retail banking	51 331	234 124	12 639	298 094
Cheque accounts	684	5 278	409	6 371
Credit cards	165	9 268	2 218	11 651
Instalment credit agreements	5 535	31 164	2 534	39 233
Loans to associates and joint ventures	652	4 489	300	5 441
Microloans	75	1 820	880	2 775
Mortgages	41 943	175 649	5 343	222 935
Other advances	462	264	21	747
Personal loans	1 815	6 192	934	8 941

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

53.3.3 Financial assets neither past due nor impaired *(continued)*

(a) Credit risk exposures relating to on-balance sheet assets *(continued)*

BANK

	2008 DG 1 – 11 Rm	2008 DG 12 – 19 Rm	2008 DG 20 – 21 Rm	2008 Total Rm
Absa Corporate and Business Bank	46 682	65 016	2 676	114 374
Corporate	6 283	11 744	243	18 270
Large and Medium	34 266	36 231	2 081	72 578
Other	6 133	17 041	352	23 526
Absa Capital	52 549	10 706	—	63 255
Other	632	—	—	632
Loans and advances to customers	**151 194**	**309 846**	**15 315**	**476 355**
Debt instruments	7 709	—	—	7 709
Investments	**7 709**	—	—	**7 709**
Total (refer to note 53.3.2)	**326 423**	**314 097**	**15 350**	**655 870**

	2007 DG 1 – 11 Rm	2007 DG 12 – 19 Rm	2007 DG 20 – 21 Rm	2007 Total Rm
Balances with the SARB	10 396	—	—	10 396
Cash, cash balances and balances with central banks	10 396	—	—	10 396
Land Bank bills	492	—	—	492
RSA government bonds	13 024	—	—	13 024
Treasury bills	9 441	—	—	9 441
Statutory liquid asset portfolio	22 957	—	—	22 957
Other	23 384	—	—	23 384
Reverse repurchase agreements	29 307	—	—	29 307
Loans and advances to banks	52 691	—	—	52 691
Debt instruments	2 168	38	—	2 206
Derivative assets	21 398	359	—	21 757
Money market assets	1 317	23	—	1 340
Trading portfolio assets	24 883	420	—	25 303
Derivatives designated as cash flow hedging instruments	5	—	—	5
Derivatives designated as fair value hedging instruments	720	—	—	720
Hedging portfolio assets	725	—	—	725
Accounts receivable	1 090	1 430	—	2 520
Settlement accounts and collateral placed	1 497	24	—	1 521
Other assets	2 587	1 454	—	4 041
Retail banking	12 454	243 412	27 110	282 976
Cheque accounts	21	5 864	126	6 011
Credit cards	303	10 243	806	11 352
Instalment credit agreements	—	32 761	1 872	34 633
Loans to associates and joint ventures	4 691	1 722	53	6 466
Microloans	—	1 744	547	2 291
Mortgages	6 451	183 661	21 763	211 875
Other advances	988	188	4	1 180
Personal loans	—	7 229	1 939	9 168

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

53.3.3 Financial assets neither past due nor impaired *(continued)*

(a) Credit risk exposures relating to on-balance sheet assets *(continued)*

	BANK 2007			
	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total Rm
Absa Corporate and Business Bank	13 781	71 543	1 554	86 878
Corporate	890	9 677	74	10 641
Large and Medium	11 728	42 113	1 393	55 234
Other	1 163	19 753	87	21 003
Absa Capital	20 608	29 770	243	50 621
Other	1 021	—	—	1 021
Loans and advances to customers	47 864	344 725	28 907	421 496
Debt instruments	724	—	—	724
Investments	724	—	—	724
Total (refer to note 53.3.2)	162 827	346 599	28 907	538 333

53.3.4 Financial assets renegotiated

Certain of the Bank's loans and advances to customers would have defaulted if their terms had not been renegotiated.

At the balance sheet date, the carrying amount of assets[1] renegotiated and transferred[2] to the neither past due nor impaired classification in the last 12 months were as follows:

	BANK	
Loans and advances to customers	**2008 Rm**	2007 Rm
Retail banking	**4 339**	2 244
Cheque accounts	**3**	32
Mortgages	**4 227**	2 142
Personal loans	**109**	70
Absa Corporate and Business Bank	**975**	1 035
	5 314	3 279

Notes

[1]*Assets need to be included in loans and advances at the balance sheet date.*

[2]*Assets are only transferred to the neither past due nor impaired classification once the customer demonstrates the ability to make the contractual payments for a specified period.*

In the event that a customer loan becomes past due, and the customer cannot temporarily afford to pay the arrears or monthly instalments, the customer could qualify for a remediation period to give him/her the opportunity to rectify the situation. On expiry of the remediation period the customer's situation is reassessed and the rectification of the account or the renegotiation of the terms of the agreement are explored. The terms of the agreement can only be permanently altered once in a 12-month period and is subject to affordability assessments and customer risk. The renegotiated term of the contract is limited by the maximum legally allowed financing term for the specific product.

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

53.3.5 Financial assets that are past due but not impaired

These are assets where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate, based on the level of security collateral available.

The age of loans and advances to customers and other assets that are past due but not impaired is as follows:

BANK

	2008					
	Past due up to 1 month Rm	**Past due 1 – 2 months Rm**	**Past due 2 – 3 months Rm**	**Past due 3 – 4 months Rm**	**Past due older than 4 months Rm**	**Total Rm**
Accounts receivable	**15**	**2**	**4**	**—**	**—**	**21**
Other assets	**15**	**2**	**4**	**—**	**—**	**21**
Retail banking	**492**	**115**	**97**	**108**	**1 111**	**1 923**
Cheque accounts	**1**	**4**	**1**	**4**	**20**	**30**
Instalment credit agreements	**30**	**3**	**2**	**4**	**38**	**77**
Mortgages	**456**	**106**	**93**	**99**	**1 043**	**1 797**
Personal loans	**5**	**2**	**1**	**1**	**10**	**19**
Absa Corporate and Business Bank	**497**	**61**	**4**	**30**	**145**	**737**
Large and Medium	**497**	**61**	**4**	**30**	**137**	**729**
Other	**—**	**—**	**—**	**—**	**8**	**8**
Loans and advances to customers	**989**	**176**	**101**	**138**	**1 256**	**2 660**
Past due but not impaired (refer to note 53.3.2)	**1 004**	**178**	**105**	**138**	**1 256**	**2 681**

	2007					
Loans and advances to customers	Past due up to 1 month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm	Total Rm
Retail banking	537	114	115	120	646	1 532
Cheque accounts	—	1	1	2	12	16
Instalment credit agreements	15	—	—	—	43	58
Mortgages	517	113	113	117	586	1 446
Personal loans	5	—	1	1	5	12
Absa Corporate and Business Bank	1 135	5	4	9	84	1 237
Large and Medium	1 098	1	—	5	60	1 164
Other	37	4	4	4	24	73
Past due but not impaired (refer to note 53.3.2)	1 672	119	119	129	730	2 769

For details of the collateral held against the above loans and advances to customers, refer to note 53.4.1.

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

53.3.6 Financial assets individually assessed as impaired

The Bank's credit policy considers the following to be key indicators (albeit not the only indicators) of default:

- The borrower is unlikely to pay its credit obligation in full, without recourse by the Bank to actions such as realising any security held.
- The obligor is overdue.

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

In the retail portfolio, the identified impairment is calculated on both an individual and collective basis. For accounts currently residing in the legal environment, impairment is held against individual exposures. Where retail exposures are identified as delinquent (one or more payments down) but not currently in the legal process, they are impaired collectively, given the level of delinquency. For accounts purposes, these accounts are considered to be specifically impaired.

(a) Analysis of assets individually assessed as impaired

BANK

	2008			2007		
	Original carrying amount Rm	Impairment allowance Rm	Revised carrying amount Rm	Original carrying amount Rm	Impairment allowance Rm	Revised carrying amount Rm
Accounts receivable	2	(2)	—	—	—	—
Other assets	2	(2)	—	—	—	—
Retail banking	38 085	(5 931)	32 154	22 182	(2 299)	19 883
Cheque accounts	341	(106)	235	252	(151)	101
Credit cards	3 249	(1 447)	1 802	2 475	(754)	1 721
Instalment credit agreements	5 245	(1 219)	4 026	5 049	(435)	4 614
Microloans	647	(366)	281	350	(95)	255
Mortgages	27 454	(2 404)	25 050	13 455	(650)	12 805
Personal loans	1 149	(389)	760	601	(214)	387
Absa Corporate and Business Bank	4 081	(1 284)	2 797	2 130	(1 203)	927
Corporate	563	(228)	335	119	(69)	50
Large and Medium	2 060	(724)	1 336	1 691	(874)	817
Other	1 458	(332)	1 126	320	(260)	60
Absa Capital	—	—	—	24	(16)	8
Loans and advances to customers	42 166	(7 215)	34 951	24 336	(3 518)	20 818
Total (refer to note 53.3.2)	42 168	(7 217)	34 951	24 336	(3 518)	20 818

For details of the collateral held against the above loans and advances to customers, refer to note 53.4.1.

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

53.3.6 Financial assets individually assessed as impaired *(continued)*

(b) Reconciliation of total impairments (identified and unidentified)

BANK

	2008				
Impairment of loans and advances to customers	**Opening balance Rm**	**Net present value unwind on non-performing book Rm**	**Amounts written off and recoveries Rm**	**Impairment raised Rm**	**Closing balance Rm**
Retail banking	**3 568**	**(477)**	**(2 219)**	**5 645**	**6 517**
Absa Corporate and Business Bank	**1 719**	**(44)**	**(345)**	**464**	**1 794**
Absa Capital	**194**	**—**	**(10)**	**2**	**186**
	5 481	**(521)**	**(2 574)**	**6 111**	**8 497**

	2007				
Impairment of loans and advances to customers	Opening balance Rm	Net present value unwind on non-performing book Rm	Amounts written off and recoveries Rm	Impairment raised Rm	Closing balance Rm
Retail banking	2 897	(245)	(1 379)	2 295	3 568
Absa Corporate and Business Bank	1 505	(27)	(81)	322	1 719
Absa Capital	193	—	—	1	194
	4 595	(272)	(1 460)	2 618	5 481

53.4 Credit risk mitigation, collateral and other credit enhancements

The Bank uses a wide variety of techniques to reduce credit risk on its lending. The most fundamental of these is to assess the ability of a borrower to service the proposed level of borrowing without distress at the outset. It is a Bank 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.

The Bank does however, commonly obtain 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 reliable 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 policies and procedures.

The ratings 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.

53. Credit risk *(continued)*

53.4 Credit risk mitigation, collateral and other credit enhancements *(continued)*

The following types of collateral are currently held against assets subject to credit risk:

Assets subject to credit risk on balance sheet	Type of collateral
Cash, cash balances and balances with central banks	• Deposits from customers and cession of ring fenced bank accounts with cash
Loans and advances to banks	• Bonds and guarantees • South African government bonds
Loans and advances to customers	• Bonds over properties • Call options to holding companies • Charge on property • Debentures • Governmental guarantees • Guarantees from shareholders and directors • Insurance policies • Life insurance policies • Listed equities • Parental guarantees • Personal and other company guarantees • Pledged securities • Property and equipment • Put options from holding companies/other group companies • Shares

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 over-the-counter (OTC) trading exposures will be subject to a "haircut" which is negotiated at the time of signing the collateral agreement. A haircut is the valuation percentage applicable to each type of collateral and will be largely based on liquidity and price volatility of the underlying security.

Within the corporate sectors, collateral for impaired loans, including guarantees and insurance, is reviewed regularly and at least annually to ensure that it is still enforceable and that the impairment allowance remains appropriate given the current valuation. Where the collateral has decreased in value, an additional impairment allowance may be considered. Conversely, increases in collateral may result in a release of the impairment allowance.

The Bank will consider all relevant factors, including local market conditions and practices, before any collateral is released.

For most forms of security, the collateral given is valued only on origination or in the course of enforcement actions. The value of security is not updated based on the specific security except where a loan is individually assessed as impaired. For mortgages, in cases where a loan is not individually assessed as impaired, the house price index is applied to obtain the fair value of security. In the case of corporates, lending security may be in the form of floating charges where the value of collateral varies with the level of assets, such as inventory and receivables held by the customer.

The Bank also uses various forms of specialised legal agreements to reduce risk, including entering into master netting agreements with counterparties, which the Bank uses to restrict its exposure to credit losses. The International Swaps and Derivatives Association (ISDA) master agreement is the Bank's preferred agreement for documenting OTC activity. It provides the contractual framework within which dealing activities across a full range of OTC products are conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, should either party default or other predetermined events occur. In the normal course of events, where the ISDA master agreement is used, the collateral document will be the ISDA Credit Support Annex (CSA). The collateral document must give the Bank the power to realise any collateral placed with it in the event of the failure of the counterparty, and to obtain further collateral when requested or in the event of insolvency, administration or similar processes, as well as in the case of early termination.

53. Credit risk *(continued)*

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

53.4.1 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 (specifically 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:

	BANK	
Loans and advances to customers	**2008 Rm**	2007 Rm
Retail banking	**25 290**	17 318
Cheque accounts	**44**	36
Instalment credit agreements	**3 017**	3 417
Microloans	**2**	2
Mortgages	**22 116**	13 798
Personal loans	**111**	65
Absa Corporate and Business Bank	**3 645**	1 898
Corporate	**345**	—
Large and Medium	**2 305**	1 898
Other	**995**	—
Fair value of collateral for loans past due but not impaired and individually impaired	**28 935**	19 216
Carrying values of loans past due but not impaired (refer to note 53.3.5)	**2 660**	2 769
Carrying values of loans individually impaired (refer to note 53.3.6(a))	**42 166**	24 336

An apparent shortfall exists between the fair value of collateral held and the carrying values of loans and advances past due but not impaired and individually assessed as impaired. This is owing to the Bank using a probability of default when assessing certain of the individually impaired loans.

53. Credit risk *(continued)*

53.4 Credit risk mitigation, collateral and other credit enhancements *(continued)*

53.4.2 Enforcement of collateral

Carrying value of assets held by the Bank at the balance sheet date as a result of the enforcement of collateral, was as follows:

	BANK	
Loans and advances to customers	**2008 Rm**	2007 Rm
Residential properties		
Opening balance	**172**	142
Acquisitions	**295**	83
Disposals	**(127)**	(53)
Closing balance	**340**	172

Any properties repossessed are made available for sale in an orderly and timely fashion, with any proceeds realised being used to reduce or repay any outstanding loan. The Bank does not, as a rule, occupy repossessed properties for its business use.

53.5 Credit risk concentration

The Bank manages the diversification of its portfolio to avoid unwanted credit risk concentrations.

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. When managing its portfolio, the Bank avoids unwanted credit risk concentrations through diversification, which takes several dimensions:

- Maximum exposure guidelines are in place relating to the exposures to any individual counterparty, which permit higher exposures to higher-rated borrowers than to lower-rated borrowers. They also distinguish between types of counterparty, for example, between sovereign governments, banks and corporations. Excesses are considered individually at the time of credit sanctioning, are reviewed regularly, and are reported to the Group Credit Committee (GCC), CRC and 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.
- Mandate and scale limits, which can also be set at an Absa 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 by-to-let and restrictions on maximum residual value risk in relation to vehicle lease agreements. These mandate and scale limits are amended and updated as required when weaknesses in exposures are detected – either in individual exposures or in groups of exposures. Actions to ensure that the mandate and scale limits are met include reducing the available facilities and amounts outstanding as well as discussion with the customers, clients or counterparties, if appropriate, in limits to higher risk clients, tightening scorecard credit criteria thereby reducing the accept rates, credit derivatives and, sometimes, the sale of loan assets.

The Bank has implemented a process of identifying specific mitigates based on key risk indicators in the current market environment. This process resulted in a number of credit-tightening actions. Evidence of impacts of specific mitigating actions is quicker to manifest in the retail portfolios, while the impacts on the wholesale portfolios will become evident over a longer period. The impact of these mitigants and decisions taken by the business is monitored at the CRC, monthly and reported through to the GRCMC and the board.

53. Credit risk *(continued)*

53.5 Credit risk concentration *(continued)*

53.5.1 Analysis of credit risk concentration by industry

The following table reflects the Bank's credit exposures at their carrying amounts, as categorised by the industry sectors of our counterparties at the balance sheet date:

	Cash, cash balances and balances with central banks Rm	Statutory liquid asset portfolio Rm	Loans and advances to banks Rm	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm
Agriculture	—	—	—	1	17 445
Construction and property	—	—	—	13	50 949
Consumer (home loans)	—	—	—	—	186 893
Consumer (other personal lending)	—	—	—	—	50 099
Electricity	—	—	—	—	2 023
Finance	12 626	—	43 559	68 105	32 185
Government	—	33 019	—	1 107	4 892
Manufacturing	—	—	—	—	17 630
Mining	—	—	—	—	10 209
Other	—	—	—	5 983	43 987
Services	—	—	—	38	62 602
Transport	—	—	—	—	18 212
Wholesale	—	—	—	—	15 558
Subject to credit risk	**12 626**	**33 019**	**43 559**	**75 247**	**512 684**

	Cash, cash balances and balances with central banks Rm	Statutory liquid asset portfolio Rm	Loans and advances to banks Rm	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm
Agriculture	—	—	—	5	10 545
Construction and property	—	—	—	3 500	39 318
Consumer (home loans)	—	—	—	—	203 166
Consumer (other personal lending)	—	—	—	—	88 223
Electricity	—	—	—	—	2 661
Finance	10 396	—	52 691	19 041	41 090
Government	—	22 957	—	1 281	2 291
Manufacturing	—	—	—	558	7 904
Mining	—	—	—	80	8 086
Other	—	—	—	794	10 170
Services	—	—	—	118	14 075
Transport	—	—	—	356	2 531
Wholesale	—	—	—	295	13 060
Subject to credit risk	10 396	22 957	52 691	26 028	443 120

BANK

2008

Other assets Rm	Invest-ments Rm	Financial guarantees Rm	Guarantees Rm	Letters of credit Rm	Other contin-gencies Rm	Irrevocable facilities Rm	Total Rm
—	—	—-	23	—	—	—	17 469
60	3 859	—	430	651	—	13	55 975
5	—	—	—	—	—	—	186 898
318	—	—	364	4	—	9 206	59 991
—	233	94	—	—	—	1 143	3 493
2 925	2 890	539	733	2 405	—	16 186	182 153
1 289	—	—	—	—	—	—	40 307
—	—	351	458	1 326	—	2 712	22 477
—	617	—	617	8	—	1 796	13 247
2 747	66	—	6 078	1 515	25	2 338	62 739
2	—	—	252	78	—	241	63 213
—	44	—	114	—	—	6 252	24 622
30	—	17	65	82	—	2 901	18 653
7 376	**7 709**	**1 001**	**9 134**	**6 069**	**25**	**42 788**	**751 237**

2007

Other assets Rm	Invest-ments Rm	Financial guarantees Rm	Guarantees Rm	Letters of credit Rm	Other contin-gencies Rm	Irrevocable facilities Rm	Total Rm
13	—	—	256	25	—	5	10 849
358	—	—	1 920	1	4	90	45 191
1	—	—	—	—	—	8 875	212 042
61	—	—	495	—	—	—	88 779
—	—	378	12	—	—	485	3 536
2 121	68	446	2 987	755	12	15 283	144 890
1 353	—	—	32	941	—	—	28 855
14	—	—	1 552	819	3	1 252	12 102
—	656	—	87	139	—	7 343	16 391
79	—	—	504	2	1	2	11 552
41	—	—	841	—	1	10	15 086
—	—	—	218	37	—	4 883	8 025
—	—	—	883	71	2	1 812	16 123
4 041	724	824	9 787	2 790	23	40 040	613 421

53. Credit risk *(continued)*

53.5 Credit risk concentration *(continued)*

53.5.2 Analysis of credit risk concentration by geographical sector

The following table reflects the Bank's credit exposure at their carrying amounts, as categorised by geographical region as at the balance sheet date. For this table, the Bank has allocated exposures to regions based on the country of domicile of the Bank's counterparties.

BANK

	2008				
	South Africa Rm	Rest of Africa Rm	Europe Rm	Asia, Americas and Australia Rm	Total Rm
On-balance sheet exposures					
Cash, cash balances and balances with central banks	12 626	—	—	—	12 626
Statutory liquid asset portfolio	33 019	—	—	—	33 019
Loans and advances to banks	19 891	123	22 992	553	43 559
Trading and hedging portfolio assets	21 403	313	39 673	13 858	75 247
Other assets	7 137	—	237	2	7 376
Loans and advances to customers	495 513	7 299	4 450	5 422	512 684
Investments	7 578	131	—	—	7 709
Subject to credit risk (refer to note 53.3.1 (a))	597 167	7 866	67 352	19 835	692 220
Off-balance sheet exposures					
Financial guarantees	574	333	94	—	1 001
Guarantees	9 133	—	1	—	9 134
Irrevocable facilities	36 455	721	272	5 340	42 788
Letters of credit	6 069	—	—	—	6 069
Other contingencies	25	—	—	—	25
Subject to credit risk (refer to note 53.3.1 (b))	52 256	1 054	367	5 340	59 017

53. Credit risk *(continued)*

53.5 Credit risk concentration *(continued)*

53.5.2 Analysis of credit risk concentration by geographical sector *(continued)*

	BANK 2007				
	South Africa Rm	Rest of Africa Rm	Europe Rm	Asia, Americas and Australia Rm	Total Rm
On-balance sheet exposures					
Cash, cash balances and balances with central banks	10 396	—	—	—	10 396
Statutory liquid asset portfolio	22 957	—	—	—	22 957
Loans and advances to banks	38 071	4	14 376	240	52 691
Trading and hedging portfolio assets	17 936	—	7 918	174	26 028
Other assets	3 880	—	161	—	4 041
Loans and advances to customers	427 095	1 151	3 880	10 994	443 120
Investments	724	—	—	—	724
Subject to credit risk (refer to note 53.3.1 (a))	521 059	1 155	26 335	11 408	559 957
Off-balance sheet exposures					
Financial guarantees	824	—	—	—	824
Guarantees	9 787	—	—	—	9 787
Irrevocable facilities	40 040	—	—	—	40 040
Letters of credit	2 790	—	—	—	2 790
Other contingencies	23	—	—	—	23
Subject to credit risk (refer to note 53.3.1 (b))	53 464	—	—	—	53 464

54. Market risk

Market risk is the risk that the Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads. The main market risk arises from trading activities and equity investments. Absa is also exposed to interest rate risk in the banking book.

The Bank's market risk management objectives include:

- understanding and controlling market risk by robust measurement, sound controls and strong oversight;
- facilitating business growth within a controlled and transparent risk management framework;
- ensuring traded market risk resides primarily in Absa Capital; and
- ensuring a high degree of interest rate margin stability and lower interest rate risk over the interest rate cycle.

54.1 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 CE, the 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 GRCMC.

The board approves the overall appetite for market risk at Absa Bank level, within which the GRCMC approves the market risk appetite for all categories of market risk. Market risk limits are set within the context of the approved market risk appetite. The Market Risk Committee (MRC) governs market risk across the Bank and meets monthly to review, approve and make recommendations concerning the market risk profile including risk appetite, limits and utilisation.

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. Oversight and support is provided to the business by the central market risk team.

54.2 Traded market risk

The Bank's policy is to concentrate its traded market risk exposure within Absa Capital. This includes transactions where Absa Capital acts as principal with clients or with the market. For maximum efficiency, Absa Capital manages client and market activities together.

In Absa Capital, market risk occurs in both the trading book and the banking book as defined for regulatory purposes. Interest rate risk in Absa Capital's banking book is subjected to the same rigorous measurement and control standards as described later on for its traded market risk, but the associated sensitivities are reported in the interest rate risk in the banking book section further on.

54.2.1 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 unweighted historical price and rate data is applied and updated daily. This internal model is also used for measuring value at risk over both a 1-day and 10-day holding period at a 99% confidence level for regulatory back testing and capital calculation purposes. The value at risk model has been approved by the SARB for regulatory capital calculation purposes and is regularly assessed for continued suitability.

54. Market risk *(continued)*

54.2 Traded market risk *(continued)*

54.2.1 Risk measurement *(continued)*

There are a number of considerations that should be taken into account when reviewing DVaR numbers. These are as follows:

- Historical simulation assumes that the past is a good representation of the future. This may not always be the case.
- The assumed time horizon will not fully capture the market risk of positions that cannot be closed out or hedged within this time horizon.
- DVaR does not indicate the potential loss beyond the selected percentile.
- Prudent valuation practices are used in the DVaR calculation when there is difficulty obtaining rate/price information.

The performance of the DVaR model is regularly assessed. The main approach employed is a technique known as back testing, which counts the number of days when trading losses exceed the corresponding DVaR estimate. Back testing results for Absa Capital's trading book DVaR model were satisfactory for 2007 and 2008.

To complement DVaR, stress testing and other sensitivity measures are used. Stress testing provides an indication of the potential size of losses that could arise in extreme conditions.

54.2.2 Analysis of traded market risk exposure

The table below reflects the 98% DVaR statistics for Absa Capital's trading book activities.

Absa Capital's traded market risk exposure, as measured by average total DVaR, increased by 104% to R25,86 million (2007: R12,69 million), mainly owing to an R8,94 million increase in average foreign exchange DVaR from a low 2007 base. The highest total DVaR for the 2008 year however increased by only 45% from 2007, with the highs for equity and commodity risk showing a decline from 2007 due to a cautious trading strategy followed during the year. Diversification across risk types improved to 64% in 2008 (2007: 56%) assisted by, amongst others, more balanced foreign exchange exposure within the portfolio. The growth in average total DVaR and foreign exchange DVaR were largely due to the growth in the underlying client flow business per Absa Capital's business plan and increased market volatility and opportunities in 2008.

Absa Capital trading book DVaR: Summary table

	Year ended 31 December 2008			**As at 31 December 2008**	Year ended 31 December 2007			As at 31 December 2007
	Average Rm	**High[1] Rm**	**Low[1] Rm**	**2008 Rm**	Average Rm	High[1] Rm	Low[1] Rm	2007 Rm
Interest rate risk[2]	**15,89**	**29,38**	**3,25**	**17,64**	7,92	21,38	1,52	7,73
Foreign exchange risk	**10,69**	**44,79**	**0,37**	**4,38**	1,75	26,46	0,08	0,84
Equity risk	**14,90**	**28,47**	**7,72**	**25,76**	9,41	31,60	3,23	15,97
Commodity risk	**1,05**	**4,33**	**0,02**	**0,04**	0,76	10,16	0,03	1,12
Diversification effect	**(16,67)**	**n/a**	**n/a**	**(17,60)**	(7,14)	n/a	n/a	(9,47)
Total DVaR[3]	**25,86**	**46,24**	**10,01**	**30,22**	12,69	31,81	3,81	16,19

Notes

[1] *The high (and low) DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) total DVaR. Consequently, a diversification effect number for the high (and low) DVaR figures would not be meaningful and is therefore omitted from the above table.*

[2] *Credit spread risk is reported together with interest rate risk.*

[3] *The total value at risk over a 10-day holding period at a 99% confidence level as at the balance sheet date was R114,66 million (2007: R55,04 million).*

54. Market risk *(continued)*

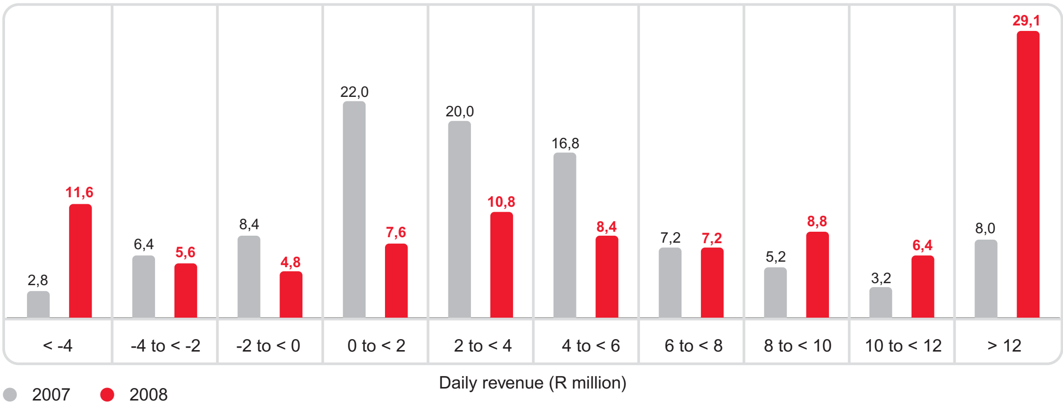
54.2 Traded market risk *(continued)*

54.2.3 Analysis of trading revenue

The histograms below show the distribution of daily trading revenue for the Absa Capital trading book. Revenue includes net trading book income, excluding net fees and commissions.

The distributions are skewed to the profit side. The average daily trading revenue in 2008 was R7,7 million (a 126% increase from 2007: R3,4 million) and there were 196 positive revenue days out of 251 (2007: 206 positive revenue days out of 250). The growth in trading revenues was mainly driven by client flow business.

Absa Capital daily trading revenue (% of business days)



54.3 Interest rate risk in the banking book

Interest rate risk is the risk that the Bank's financial position may be adversely affected as a result of changes in interest rate levels, yield curves and spreads. Interest rate risk in the banking book arises from the provision of retail and wholesale (non-traded) banking products and services, as well as certain structural exposures within the Bank's balance sheet, mainly due to repricing timing differences between assets, liabilities and equity. These risks impact both the earnings and the economic value of the Bank.

Absa's objective for management of interest rate risk in the banking book is to ensure a higher degree of interest rate margin stability and lower interest rate risk over an interest rate cycle. This is achieved by hedging material exposures and by not allowing any propriety trades, through the use of DVaR and other risk limits.

Banking book interest rate risk management strategies considered include:

- strategies regarding changes in the volume, composition, pricing and interest rate risk characteristics of assets and liabilities; and
- the execution of applicable derivative contracts to maintain the Bank's interest rate risk exposure within limits. Where possible hedge accounting is applied to derivatives that are used to hedge interest rate risk in the banking book. In cases where hedge relationships do not qualify for hedge accounting, mismatches may arise due to different bases used in fair valuing the hedges and the underlying banking book exposure. Applicable accounting rules as stipulated in the Bank'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 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 Bank's equity, and is managed by Absa Group Treasury.

54.3.1 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.

Structural balances are typically 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 hedges.

Other supplementary techniques used to measure and control interest rate risk in the banking book include repricing gaps, daily value at risk, economic value of equity sensitivity and stress testing.

54. Market risk *(continued)*

54.3 Interest rate risk in the banking book *(continued)*

54.3.2 Repricing profile

Absa Bank's repricing profile is depicted in the table to follow. Instruments 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 Bank's operations and liquidity needs because of the broad customer base (numerically and by depositor type).

The repricing profile shows that the banking book remains asset-sensitive, or positively gapped, as interest-earning assets reprice sooner than interest-paying liabilities, before and after derivative hedging activities. Thus, future net interest income remains vulnerable to a decrease in market interest rates. Hedging activities undertaken during 2008 resulted in a less asset-sensitive profile, compared to 2007, contributing to greater future interest margin stability.

During 2008, the Bank completed the hedging build phase for its structural products and equity by increasing its receive fixed/pay floating swaps. This is evident from the absolute increases from 2007 to 2008 in the "Derivatives" line in the repricing profile.

Expected repricing profile

	31 December 2008			
	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	131 453	(32 568)	(36 442)	(35 859)
Derivatives[2]	(114 007)	19 646	40 522	53 839
Net interest rate sensitivity gap	17 446	(12 922)	4 080	17 980
Cumulative interest rate gap	17 446	4 524	8 604	26 584
Cumulative gap as a percentage of the Bank's total assets (%)	2,4	0,6	1,2	3,6

	31 December 2007			
	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	104 629	(25 904)	(38 779)	(27 734)
Derivatives[2]	(77 307)	19 375	27 591	30 342
Net interest rate sensitivity gap	27 322	(6 529)	(11 188)	2 608
Cumulative interest rate gap	27 322	20 793	9 605	12 213
Cumulative gap as a percentage of the Bank's total assets (%)	4,6	3,5	1,6	2,1

Notes

[1]*Includes exposures held in the Absa Capital banking book.*

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

54. Market risk *(continued)*

54.3 Interest rate risk in the banking book *(continued)*

54.3.3 Impact on net interest income

The table below shows Absa Bank's annual earnings at risk for a 100 basis point up and down movement in interest rates. Assuming no management action in response to interest rate movements, a hypothetical immediate and sustained parallel decrease of 100 basis points in all interest rates would result in a reduction in projected 12-month net interest income of R393 million. A similar increase would result in an increase in projected 12-month net interest income of R355 million. The decrease in total net interest income sensitivity from 2007 to 2008 is due to the completion of the Bank's structural hedging programme build phase during 2008, as is also evident in the repricing gap report.

Annual earnings at risk for a 100 basis point change in interest rates

	Domestic bank book[1]	
	– 100 basis points	+ 100 basis points
As at 31 December 2008		
Change in projected 12-month net interest income (Rm)	**(393)**	**355**
Percentage of 2008 net interest income (%)	**(1,9)**	**1,8**
Percentage of the Bank's equity (%)	**(0,9)**	**0,8**
As at 31 December 2007[2]		
Change in projected 12-month net interest income (Rm)	(572)	590
Percentage of 2007 net interest income (%)	(3,2)	3,3
Percentage of the Bank's equity (%)	(1,6)	1,7

Notes

[1]*Includes exposures held in the Absa Capital banking book.*

[2]*The 2007 net interest income sensitivity numbers were restated to more closely reflect the sensitivity of stable deposits, given the completion of the Bank's hedging programmes during 2008. This concurs with the Bank's approved policies and regulatory reporting under Basel II.*

Interest rate risk in the banking book as managed by each of Absa Capital and Absa Group Treasury are also measured in terms of DVaR and subject to DVaR limits.

The Bank's banking book exposure to non-ZAR interest rates remained small for both 2007 and 2008.

54. Market risk *(continued)*

54.3 Interest rate risk in the banking book *(continued)*

54.3.4 Impact on equity

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 net interest income sensitivity is reported in note 54.3.3. The effect of taxation can be estimated using the Bank's effective tax rate of 28% (2007: 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 on equity 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.

The increased sensitivity of cash flow hedge reserves from 2007 to 2008 is due to additional interest rate derivatives used for interest rate risk hedging, on which cash flow hedge accounting is applied. The increased sensitivity of available-for-sale reserves from 2007 to 2008 is due to additional statutory liquid assets purchased during the year, classified as available-for-sale.

Sensitivity of reserves to interest rate movements

	2008			2007		
	Impact on equity as at 31 December Rm	Maximum impact[1] Rm	Minimum impact[1] Rm	Impact on equity as at 31 December Rm	Maximum impact[1] Rm	Minimum impact[1] Rm
+ 100 basis point parallel move in all yield curves						
Available-for-sale reserve	(100)	(168)	(64)	(57)	(70)	(45)
Cash flow hedging reserve	(1 596)	(1 598)	(899)	(833)	(970)	(649)
Total	(1 696)	(1 696)	(1 002)	(890)	(1 025)	(695)
As a percentage equity at 31 December (%)	(3,80)	(3,80)	(2,24)	(2,51)	(2,90)	(1,96)
– 100 basis point parallel move in all yield curves						
Available-for-sale reserve	100	168	64	57	70	45
Cash flow hedging reserve	1 596	1 598	899	833	970	649
Total	1 696	1 696	1 002	890	1 025	695
As a percentage equity at 31 December (%)	3,80	3,80	2,24	2,51	2,90	1,96

Note

[1] *The maximum and minimum impacts reported for each reserve category did not necessarily occur for the same month as the maximum and minimum impact reported for the total.*

54. Market risk *(continued)*

54.4 Interest return on average balances

Average balances and weighted average effective interest rates were as follows:

BANK

	2008			2007		
	Average balance Rm	Average rate %	Interest income/ (expense) Rm	Average balance Rm	Average rate %	Interest income/ (expense) Rm
Assets						
Cash, cash balances and balances with central banks	14 283	0,50	71	12 272	0,90	110
Statutory liquid asset portfolio	27 130	14,98	4 065	21 630	7,66	1 656
Loans and advances to customers and banks	526 417	13,31	70 069	436 557	11,64	50 813
Trading and hedging portfolio assets[1]	59 673	(3,74)	(2 234)	18 303	(2,99)	(547)
Other assets	14 215	4,22	600	7 405	2,44	181
Current tax assets	107	—	—	34	—	—
Deferred tax assets	46	—	—	61	—	—
Investments	9 021	6,57	593	5 408	—	—
Investments in associates and joint ventures	1 481	—	—	796	—	—
Investment property, property, equipment and intangible assets	4 948	—	—	3 835	—	—
Total assets	657 321	11,13	73 164	506 301	10,30	52 213
Liabilities						
Deposits from customers and banks	402 692	(8,18)	(32 934)	321 823	(6,80)	(21 881)
Trading and hedging portfolio liabilities[1]	56 633	1,47	830	21 843	(2,56)	(560)
Debt securities in issue	143 000	(12,94)	(18 506)	114 631	(9,51)	(10 905)
Other liabilities and sundry provisions	(2 582)	(20,37)	(526)	6 163	(2,53)	(156)
Borrowed funds	10 919	(16,38)	(1 789)	9 538	(8,35)	(796)
Liabilities under insurance contracts	20	—	—	12	—	—
Current tax liabilities	64	—	—	795	—	—
Deferred tax liabilities	2 071	—	—	1 991	—	—
Total liabilities	612 817	(8,64)	(52 925)	476 796	(7,19)	(34 298)
Equity						
Capital and reserves						
Attributable to ordinary equity holder of the Bank:						
Share capital	274	—	—	270	—	—
Share premium	8 750	—	—	5 417	—	—
Other reserves	1 247	—	—	1 836	—	—
Retained earnings	29 577	—	—	17 814	—	—
	39 848	—	—	25 337	—	—
Minority interest	4 656	—	—	4 168	—	—
Total equity	44 504	—	—	29 505	—	—
Total equity and liabilities	657 321	(8,05)	(52 925)	506 301	(6,78)	(34 298)
Net interest margin		3,08			3,52	

Daily averages have been used to calculate the average balances.

Note

[1]*Interest on trading and hedging portfolio assets and liabilities relates to the fair value adjustments on hedging instruments.*

54. Market risk *(continued)*

54.5 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

54.5.1 Currency concentration

The tables to follow summarise the Bank's assets and liabilities at carrying amounts, categorised by currency, as at the balance sheet date.

BANK

	2008					
	ZAR Rm	USD Rm	GBP Rm	Euro Rm	Other Rm	Total Rm
Assets						
Cash, cash balances and balances with central banks	16 568	—	—	—	—	16 568
Statutory liquid asset portfolio	33 019	—	—	—	—	33 019
Loans and advances to banks	33 004	4 769	3 931	1 601	254	43 559
Trading portfolio assets	38 010	32 297	340	1 644	638	72 929
Hedging portfolio assets	(3 218)	(1 815)	—	8 172	—	3 139
Other financial assets	9 924	6	—	—	—	9 930
Loans and advances to customers	501 754	10 210	582	6	132	512 684
Loans to Absa Group companies	18 986	4	—	—	—	18 990
Investments	15 015	131	11	34	—	15 191
Financial assets	663 062	45 602	4 864	11 457	1 024	726 009
Non-financial assets						8 970
Total assets						734 979
Liabilities						
Deposits from banks	40 227	7 033	4 299	8 031	453	60 043
Trading portfolio liabilities	44 506	19 635	2 165	1 301	513	68 120
Hedging portfolio liabilities	1 080	—	—	—	—	1 080
Other financial liabilities	7 368	182	14	—	—	7 564
Current tax liabilities	260	—	62	—	—	322
Deposits due to customers	370 906	1 613	2	568	87	373 176
Debt securities in issue	151 083	—	—	7 959	—	159 042
Loans from Absa Group companies	3 946	—	—	—	—	3 946
Borrowed funds	12 143	—	—	—	—	12 143
Financial liabilities	631 519	28 463	6 542	17 859	1 053	685 436
Non-financial liabilities						4 880
Total liabilities						690 316
Equity						44 663
Total equity and liabilities						734 979
Gross currency position of financial assets and financial liabilities	n/a	17 139	(1 678)	(6 402)	(29)	9 030
Foreign currency derivative	—	—	—	—	—	(9 707)
Net currency position of financial assets and financial liabilities	—	—	—	—	—	(677)
Credit commitments						
Financial guarantee contracts	1 001	—	—	—	—	1 001
Capital commitments	455	—	—	—	—	455
Contingencies	57 361	626	29	—	—	58 016

54. Market risk *(continued)*

54.5 Foreign exchange risk *(continued)*

54.5.1 Currency concentration *(continued)*

	BANK 2007					
	ZAR Rm	USD Rm	GBP Rm	Euro Rm	Other Rm	Total Rm
Assets						
Cash, cash balances and balances with central banks	15 069	—	—	—	—	15 069
Statutory liquid asset portfolio	22 957	—	—	—	—	22 957
Loans and advances to banks	44 845	5 067	1 697	1 082	—	52 691
Trading portfolio assets	18 146	4 773	212	2 280	465	25 876
Hedging portfolio assets	545	—	—	180	—	725
Other financial assets	3 972	65	6	—	—	4 043
Current tax assets	168	—	—	—	—	168
Loans and advances to customers	434 516	6 864	62	1 422	256	443 120
Loans to Absa Group companies	15 338	—	—	—	—	15 338
Investments	6 455	—	119	—	—	6 574
Financial assets	562 011	16 769	2 096	4 964	721	586 561
Non-financial assets						6 398
Total assets						592 959
Liabilities						
Deposits from banks	50 446	13 677	635	296	113	65 167
Trading portfolio liabilities	14 888	5 034	146	2 813	66	22 947
Hedging portfolio liabilities	2 226	—	—	—	—	2 226
Other financial liabilities	6 767	18	2	8	—	6 795
Current tax liabilities	49	—	7	—	—	56
Deposits due to customers	298 762	5 880	177	—	58	304 877
Loans from Absa Group companies	5 900	—	—	—	—	5 900
Debt securities in issue	127 947	—	—	6 076	—	134 023
Policyholder liabilities under insurance contracts	67	—	—	—	—	67
Borrowed funds	9 796	—	—	—	—	9 796
Financial liabilities	516 848	24 609	967	9 193	237	551 854
Non-financial liabilities						5 577
Total liabilities						557 431
Equity						35 528
Total equity and liabilities						592 959
Gross currency position of financial assets and financial liabilities	n/a	(7 840)	1 129	(4 229)	484	(10 456)
Foreign currency derivative						9 461
Net currency position of financial assets and financial liabilities						995
Credit commitments						
Financial guarantee contracts	824	—	—	—	—	824
Capital commitments	83	—	—	—	—	83
Contingencies	52 549	13	78	—	—	52 640

54. Market risk *(continued)*

54.5 Foreign exchange risk *(continued)*

54.5.2 Transactional and translational foreign exchange risk

The Bank is exposed to two sources of foreign exchange risk:

- Transactional foreign exchange risk: Transactional foreign exchange exposures arise as a result of banking assets and liabilities which are not denominated in the functional currency of the transacting entity. The Bank's foreign exchange risk management policy does not allow material open positions to be taken outside the Absa Capital trading book. Foreign exchange risk in the trading book is managed by Absa Capital and monitored primarily via open position and DVaR limits. In accordance with this policy, there were no material net currency exposures outside the Absa Capital trading book at either 31 December 2008 or 2007 that would give rise to material foreign exchange gains and losses being recognised in the income statement.
- Translational foreign exchange risk: The Bank has various investments in foreign branches and other entities which have functional currencies other than the South African rand (ZAR). Translational foreign exchange risk is the risk that exchange rate fluctuations will create volatility in the rand value of these net investments. This may in turn impact the income statement, equity or capital ratios.

  The impact of a change in the exchange rate between ZAR and any of the relevant currencies would be:

  – a higher or lower profit after tax, arising from changes in the exchange rates used to translate items in the consolidated income statement;
  – a higher or lower currency translation reserve within equity, representing the retranslation of the net assets of non-ZAR entities, arising from changes in the exchange rates used to translate the net assets at the balance sheet date, net of the effects of any hedges of net investments; and
  – changes in the value of available-for-sale investments denominated in foreign currencies, impacting the available-for-sale reserve.

The main functional currencies in which the Bank's business is transacted are ZAR and, on a lesser scale, US dollar, sterling and euro. Translational foreign currency risk can be mitigated through hedging using for example forward foreign exchange contracts, or by financing with borrowings in the same currency as the functional currency involved.

The Bank's policy is to economically hedge foreign currency net investments, where practical, after taking consideration of market liquidity, cost of hedging and the materiality of the exposure. Based on these considerations, the Bank does not currently actively hedge foreign currency net investments, but the risk is monitored regularly to consider the need for mitigating actions towards minimising material fluctuations.

54. Market risk *(continued)*

54.6 Market risk sensitivity of equity investments

Equity risk in the banking book refers to the risk of adverse changes in the value of listed and unlisted equity investments. These investments are longer-term investments held in the banking book, and are managed in terms of the new ventures and asset framework in accordance with the purpose and strategic benefits of such investments, rather than marked-to-market considerations only. The Group Investment Committee (GIC) considers, approves and monitors all investments or divestments of the Bank in accordance with its terms of reference, the new ventures and asset framework, the directives of the CE and the directives of the board. The MRC regularly reviews the market risk of these investments, using value-at-risk and regulatory risk metrics, along with their performance and capital requirements.

As at the balance sheet date, the Bank's listed and unlisted equity investments amounted to R7 482 million (2007: R5 850 million), refer to note 11 for more detail. The accounting treatment of listed and unlisted equity investments are stipulated in the accounting policies (refer to note 1.7).

The table below presents the pre-tax impact on profit and loss and equity of a reasonably possible 5% variance in equity prices based on the accounting treatment of these investments:

The increase in both investment fair value and sensitivity from 2007 to 2008 is due to:

- an increase in listed investments of R594 million from R1 129 million as at 31 December 2007 to R1 723 million as at 31 December 2008; and
- an increase in unlisted investments of R1 038 million from R4 721 million as at 31 December 2007 to R5 759 million as at 31 December 2008.

Sensitivity analysis – impact on profit and loss and equity

	5% reduction in fair value Rm	Fair value Rm	5% increase in fair value Rm
As at 31 December 2008			
Equity securities – listed and unlisted	**7 108**	**7 482**	**7 856**
Impact on profit and loss	**(332)**		**332**
Impact on equity	**(42)**		**42**
As at 31 December 2007			
Equity securities – listed and unlisted	5 558	5 850	6 143
Impact on profit and loss	(271)		271
Impact on equity	(21)		21

55. Liquidity risk

55.1 Introduction

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

Liquidity risk 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, systemic shocks, terrorist attacks and even natural disasters.

The efficient management of liquidity risk is essential to the Bank in order to ensure that:

- normal banking operations continue uninterrupted;
- all stakeholders in the Bank are protected;
- financial market confidence is maintained at all times; and
- liquidity risk is managed in line with regulatory liquidity requirements.

In conclusion, liquidity management can be defined as the ability to meet commitments as they fall due, at an appropriate cost, while maintaining market confidence in the institution.

55. Liquidity risk *(continued)*

55.2 Liquidity risk management

Group Treasury is responsible for the management of liquidity risk on behalf of the Bank.

Liquidity risk is managed in terms of the liquidity risk control framework and policy which sets out the framework for responsibilities, processes, reporting and assurance that supports the management of liquidity risk. This framework and policy document, which is reviewed annually by the MRC and approved by the GRCMC, incorporates the Bank's contingency funding and liquidity plan designed to manage and mitigate the effects of stress liquidity events. With the establishment of a dedicated funding and liquidity function within Group Treasury, liquidity risk management has been elevated to a level of strategic importance within the Bank.

An overall balance sheet approach, which consolidates all sources and uses of liquidity and aims to maintain a balance between liquidity and profitability (cost of funding), is applied in managing liquidity risk. In order to effectively manage liquidity risk, the Bank is required to measure, monitor and manage on-balance sheet 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.

Business-as-usual liquidity risk management

Business-as-usual liquidity management refers to the management of a bank's "normal" ebb and flow of cash experienced in the course of conducting business. These operational needs include, for example, meeting unexpected surges in loan demand or deposit withdraws.

The business-as-usual environment tends to result in fairly high probability, low severity liquidity events and requires the balancing of the Bank's day-to-day cash needs.

The Bank's approach to managing business-as-usual liquidity needs 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 one year;
- the active daily management of the funding and liquidity profile taking cognisance of the board-approved liquidity risk metrics designed to achieve the Bank's business-as-usual liquidity risk tolerance and position the Bank to deal with stress liquidity events;
- the maintenance of a portfolio of highly liquid assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- the active participation in local money and capital markets required to support day-to-day funding needed to refinance maturities, meet customer withdraws and support growth in advances;
- the monitoring and managing of liquidity costs; and
- the ongoing assessment and evaluation of various funding sources designed to grow and diversify the Bank's funding base in order to achieve an optimal funding profile and sound liquidity risk management.

The key liquidity risk metrics used to manage the Bank's business-as-usual liquidity risk profile within the Board-approved risk tolerance include the short-, medium- and long-term funding ratios, short-term maturity mismatches (at a contractual and behavioural level), cash outflow limits and concentration of deposits.

Stress liquidity risk management

Group Treasury performs liquidity scenario analysis and stress testing on a regular basis in order to assess the adequacy of the Bank's stress funding sources, liquidity buffers and contingency funding strategies to meet unexpected outflows arising from Bank specific, systemic and market stress events. Scenario analysis and stress testing encompasses a range of simulated, but realistic adverse events that, while remote, could have a material impact on the liquidity of the banking operations. Through these simulations, the Bank aims to manage and mitigate liquidity risk by:

- determining, evaluating and testing the impact of adverse liquidity scenarios;
- identifying opportunities for rapid and effective responses to crisis situations;
- aiding management in planning for crisis avoidance or reducing the severity of a crisis; and
- setting liquidity limits, liquidity buffers and formulating a funding strategy designed to minimise liquidity risk.

The Bank's overall objective is to ensure that its stress funding sources and liquidity buffers exceed the estimated stress funding requirements which could emanate from a moderate to high stress liquidity event.

The Bank has formulated a detailed contingency funding and liquidity plan designed to protect depositors, creditors and shareholders under adverse liquidity situations. The contingency plan focuses on early warning indicators which highlight the threat of increased liquidity risk, and the need for a prudential reduction in liquidity risk exposure. In addition, the plan sets out the crisis response strategy addressing sources of stress funding, strategies for crisis avoidance or minimisation and the internal/external communication strategy to be rolled out with key stakeholders.

55. Liquidity risk *(continued)*

55.3 Liquidity risk measurement

Monitoring and reporting take the form of cash flow measurement and projections for the next day, next week and each month out to one year 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 Bank's discounted and undiscounted liquidity profile is reflected in the tables that follow:

BANK

	2008				
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Assets					
Cash, cash balances and balances with central banks	16 568	—	—	—	16 568
Statutory liquid asset portfolio	20	14 461	1 660	16 878	33 019
Loans and advances to banks	6 146	11 798	22 448	3 167	43 559
Trading portfolio assets	72 929	—	—	—	72 929
Hedging portfolio assets	—	281	2 728	130	3 139
Other financial assets	9 924	6	—	—	9 930
Loans and advances to customers	114 712	47 450	84 587	265 935	512 684
Loans to Absa Group companies	18 990	—	—	—	18 990
Investments	—	3 730	7 615	3 846	15 191
Financial assets	239 289	77 726	119 038	289 956	726 009
Non-financial assets					8 970
Total assets					734 979
Liabilities					
Deposits from banks	13 320	46 485	188	50	60 043
Trading portfolio liabilities	68 120	—	—	—	68 120
Hedging portfolio liabilities	35	250	282	513	1 080
Other financial liabilities	6 117	1 026	177	244	7 564
Current tax liabilities	322	—	—	—	322
Deposits due to customers	218 224	131 844	17 795	5 313	373 176
Debt securities in issue	104	125 616	27 754	5 568	159 042
Loans from Absa Group companies	3 946	—	—	—	3 946
Borrowed funds	—	3 492	4 946	3 705	12 143
Financial liabilities	310 188	308 713	51 142	15 393	685 436
Non-financial liabilities					4 880
Total liabilities					690 316
Equity					44 663
Total equity and liabilities					734 979
Net liquidity position of financial assets and liabilities	(70 899)	(230 987)	67 896	274 563	40 573

55. Liquidity risk *(continued)*

55.3 Liquidity risk measurement *(continued)*

	BANK				
	2007				
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Assets					
Cash, cash balances and balances with central banks	4 593	10 476	—	—	15 069
Statutory liquid asset portfolio	—	13 748	5 280	3 929	22 957
Loans and advances to banks	2 038	21 919	24 452	4 282	52 691
Trading portfolio assets	25 876	—	—	—	25 876
Hedging portfolio assets	—	12	464	249	725
Other financial assets	4 043	—	—	—	4 043
Current tax assets	—	168	—	—	168
Loans and advances to customers	96 488	52 513	75 915	218 204	443 120
Loans to Absa Group companies	15 338	—	—	—	15 338
Investments	—	1 653	410	4 511	6 574
Financial assets	148 376	100 489	106 521	231 175	586 561
Non-financial assets					6 398
Total assets					592 959
Liabilities					
Deposits from banks	19 159	44 037	1 802	169	65 167
Trading portfolio liabilities	22 947	—	—	—	22 947
Hedging portfolio liabilities	1	1 410	824	(9)	2 226
Other financial liabilities	2 870	1 430	2 318	177	6 795
Current tax liabilities	—	56	—	—	56
Deposits due to customers	178 123	111 151	4 383	11 220	304 877
Loans from Absa Group companies	5 900	—	—	—	5 900
Debt securities in issue	791	111 815	18 066	3 351	134 023
Policyholder liabilities under insurance contracts	—	67	—	—	67
Borrowed funds	—	297	6 041	3 458	9 796
Financial liabilities	229 791	270 263	33 434	18 366	551 854
Non-financial liabilities					5 577
Total liabilities					557 431
Equity					35 528
Total equity and liabilities					592 959
Net liquidity position of financial assets and liabilities	(81 415)	(169 774)	73 087	212 809	34 707

55. Liquidity risk *(continued)*

55.4 Contractual maturity of financial liabilities – undiscounted basis

The table below reflects the cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

BANK

	2008					
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-balance sheet						
Deposits from banks	13 320	46 746	256	50	(329)	60 043
Trading portfolio liabilities	68 120	—	—	—	—	68 120
Hedging portfolio liabilities	35	252	340	1 455	(1 002)	1 080
Other financial liabilities	5 286	913	1 480	291	(406)	7 564
Current tax liabilities	322	—	—	—	—	322
Deposits due to customers	222 494	134 844	26 290	20 449	(30 901)	373 176
Debt securities in issue	100	134 285	32 528	16 986	(24 857)	159 042
Loans from Absa Group companies	3 946	—	—	—	—	3 946
Borrowed funds	—	4 196	6 149	4 060	(2 262)	12 143
Total liabilities	313 623	321 236	67 043	43 291	(59 757)	685 436
Off-balance sheet						
Loan commitments	42 788	—	—	—	—	42 788

	2007					
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-balance sheet						
Deposits from banks	19 166	44 202	1 816	169	(186)	65 167
Trading portfolio liabilities	22 947	—	—	—	—	22 947
Hedging portfolio liabilities	—	1 544	902	(10)	(210)	2 226
Other financial liabilities	6 389	708	182	65	(549)	6 795
Current tax liabilities	56	—	—	—	—	56
Deposits due to customers	178 183	116 105	9 746	24 669	(23 826)	304 877
Loans from Absa Group companies	5 900	—	—	—	—	5 900
Debt securities in issue	830	120 083	24 737	5 584	(17 211)	134 023
Policyholder liabilities under insurance contracts	—	67	—	—	—	67
Borrowed funds	—	1 355	8 325	4 986	(4 870)	9 796
Total liabilities	233 471	284 064	45 708	35 463	(46 852)	551 854
Off-balance sheet						
Loan commitments	40 040	—	—	—	—	40 040

56. Capital management

56.1 Introduction

Capital management strategy

In a time of extreme economic distress, such as currently prevailing both domestically and globally, maintaining and preserving capital becomes priority.

The Bank'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. This is conducted as part of the ICAAP and strategic planning review.

Capital management objectives of the Bank

The Bank has a number of capital management objectives, which are to:

- meet the individual capital ratios required by our regulators and the board;
- maintain an adequate level of available capital resources as cover for the EC requirements calculated at a 99,95% confidence level;
- generate sufficient capital to support asset growth; and
- achieve an international (A) credit rating.

Importance of capital management

Capital is managed as a board-level priority in the Bank, which reflects the importance of capital planning. The board is responsible for assessing and approving the Bank's capital management policy, capital target levels, capital strategy and risk-based allocation. The capital ratios, together with the short- and medium-term capital plans, are set annually and reviewed monthly at the Capital Management Committee (CMC) and are reported at least quarterly to the board.

56.2 Regulatory capital requirements

Minimum banking requirements

Capital adequacy and the use of regulatory capital are monitored by employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision (the Basel Committee) and implemented by the SARB or other host regulators for supervisory purposes. These techniques include the capital adequacy ratio calculation, which the SARB and other host regulators regard as a key supervisory tool.

Risk-weighted assets are determined by applying risk weights to balance sheet assets and off-balance sheet financial instruments according to the relative credit risk of the counterparty. The risk weighting for each balance sheet asset and off-balance sheet financial instrument is regulated by the Banks Act, No 94 of 1990 (as amended), or by regulations in the respective countries where the other banking licences are held. Included in the overall risk-weighted assets is a notional risk weighting for the trading book, calculated based on the market, counterparty and large exposure risks.

Minimum regulated entities' requirements

The capital requirements for regulated entities, other than banks, are determined in accordance with the stipulations of their respective regulators.

Minimum unregulated entities' requirements

The capital requirements are determined in accordance with the SARB capital requirements, which entail the application of a 10% capital requirement to the total on-balance sheet and off-balance sheet exposures, net of intragroup exposures.

56. Capital management *(continued)*

56.3 Qualifying capital

Banking entities

Regulatory guidelines define three tiers of capital resources:

- Primary (Tier I) capital comprises mainly shareholders' funds, including certain accounting reserves, hybrid debt instruments (in terms of Basel II) and non-redeemable, non-cumulative preference shares. Primary capital is the highest tier and can be used to meet trading and banking activity requirements.
- Secondary (Tier II) capital includes cumulative preference shares, subordinated debt (prescribed debt instrument), general provisions for bad and doubtful debts and the general credit risk reserve. 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, the Bank makes provision for a buffer in excess of the minimum capital requirements to ensure that banking entities are more than adequately capitalised.

56.4 Target capital levels (unaudited)

One of the measurements used to ensure that the objectives for managing capital are met is the ability to meet the board target levels. Target capital levels have been set for Absa Bank Limited and are equal to the minimum regulatory requirements set by the SARB.

The target capital adequacy threshold for the Bank is as follows:

	2008 Absa Bank Limited %
Total regulatory minimum requirement	9,75
Buffer	2,25
Total capital	**12,00**

56. Capital management *(continued)*

56.4 Target capital levels (unaudited) *(continued)*

Absa Bank Limited – Capital adequacy – statutory capital and risk-weighted assets

	2008 Basel II[1] Risk-weighted assets Rm
Absa Bank Limited	
Risk-weighted assets	
Credit risk	252 839
Operational risk	39 098
Market risk	5 088
Equity investment risk	41 079
Other risk	14 767
	352 871

	Qualifying capital Rm	%[2]
Primary capital		
Ordinary share capital	303	0,1
Ordinary share premium	9 415	2,7
Preference share capital and premium	4 644	1,3
Reserves[3]	26 003	7,4
Deductions	(1 511)	(0,5)
50% of amount by which expected loss exceeds eligible provisions	(1 472)	(0,5)
50% of first loss credit enhancement provided in respect of a securitisation scheme	(39)	—
	38 854	11,0
Secondary capital		
Subordinated redeemable debt	12 210	3,5
Deductions	(1 521)	(0,5)
50% of amount by which expected loss exceeds eligible provisions	(1 472)	(0,5)
50% of first loss credit enhancement provided in respect of a securitisation scheme	(39)	—
Other deductions	(10)	—
	10 689	3,0
Total qualifying capital	49 543	14,0

Notes

[1] *Comparatives have not been disclosed as a result of the difference between Basel I and Basel II.*

[2] *Percentage of capital to risk-weighted assets.*

[3] *Reserves include unappropriated banking profits.*

56. Capital management *(continued)*

56.4 Target capital levels (unaudited) *(continued)*

Capital adequacy ratios and targets

Absa Bank Limited	Target %	Regulatory constraint %	**2008 %**	2007 %
Total capital adequacy ratio	12,00	≥9,75	**14,0**	12,5
Tier I capital adequacy ratio	8,75	≥7,00	**11,0**	9,2
Non-redeemable non-cumulative preference shares and hybrid debt instruments as a percentage of Tier I capital	n/a	≤25	**12,0**	14,0
Tier II and Tier III as a percentage of Tier I	n/a	≤100	**27,6**	36,1
Lower Tier II as a percentage of Tier I (subordinated debt) capital	n/a	≤50	**27,6**	31,2
Ordinary equity and reserves as a percentage of capital	n/a	n/a	**69,0**	63,2
Preference shares as a percentage of capital	n/a	n/a	**9,4**	10,3
Tier II and Tier III as a percentage of capital	n/a	n/a	**21,6**	26,5

56. Capital management *(continued)*

56.5 Basel II

The implementation of Basel II on 1 January 2008 has provided the Bank with an internationally recognised framework that incorporates best practice in risk and capital management. Under Basel II, banks are expected to hold capital commensurate with the risks assumed. Basel II places emphasis on 3 pillars:

- Pillar 1 – minimum capital requirement
- Pillar 2 – supervisory review
- Pillar 3 – market discipline

Pillar 1

The Bank has received approval from the SARB to use the following approaches in order to calculate the regulatory capital requirement under Basel II:

- Retail credit risk – Advanced IRB
- Wholesale credit risk – Foundation IRB
- Operational risk – Advanced Measurement Approach
- Market risk – Internal model
- Equity investment risk – Simple Risk Weight Approach
- Africa – Standardised Approach

Pillar 2

The Bank submitted its inaugural ICAAP submission to the SARB in October 2008 after approval by the GRCMC and the board. The submission articulates the risk and capital management processes of the Bank. Going forward, the ICAAP process will be subject to further development and an annual review.

57. Fair value of financial instruments

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not designated on the Bank's balance sheet at their fair value.

	BANK			
	2008		2007	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Financial assets				
Balances with the SARB	**12 626**	**12 626**	10 396	10 396
Coins and bank notes	**3 942**	**3 942**	4 673	4 673
Cash, cash balances and balances with central banks (refer to note 2)	**16 568**	**16 568**	15 069	15 069
Loans and advances to banks (refer to note 4)	**36 391**	**36 397**	41 699	41 755
Other assets (refer to note 6)	**7 435**	**7 435**	4 043	4 043
Retail banking	**330 568**	**331 268**	303 125	302 889
Cheque accounts	**6 447**	**6 447**	6 036	6 036
Credit cards	**13 378**	**13 378**	12 941	12 941
Instalment credit agreements	**43 208**	**43 416**	39 257	39 097
Loans to associates and joint ventures	**4 424**	**4 424**	6 466	6 466
Microloans	**3 083**	**3 221**	2 458	2 458
Mortgages	**249 119**	**249 473**	225 575	225 520
Other	**1 065**	**1 065**	1 182	1 182
Personal loans	**9 844**	**9 844**	9 210	9 189
Absa Capital	**57 372**	**56 064**	44 084	42 907
Absa Corporate and Business Bank	**113 427**	**113 579**	81 859	81 938
Corporate	**27 556**	**27 556**	10 640	10 643
Large and Medium	**61 152**	**61 304**	50 166	50 242
Other	**24 719**	**24 719**	21 053	21 053
Other	**469**	**469**	1 023	1 023
Loans and advances to customers – net of impairment (refer to note 8)	**501 836**	**501 380**	430 091	428 757
Loans to Absa Group companies (refer to note 10)	**18 990**	**18 990**	15 338	15 338
Total	**581 220**	**580 770**	506 240	504 962

57. Fair value of financial instruments *(continued)*

	BANK			
	2008		2007	
	Carrying value Rm	**Fair value Rm**	Carrying value Rm	Fair value Rm
Financial liabilities				
Deposits from banks (refer to note 17)	**51 041**	**51 046**	54 504	54 504
Other liabilities and sundry provisions (refer to note 19)	**6 852**	**6 852**	6 562	6 562
Call deposits	**62 055**	**62 051**	45 726	45 726
Cheque account deposits	**96 311**	**96 311**	94 776	94 776
Credit card deposits	**2 051**	**2 051**	2 173	2 173
Fixed deposits	**114 550**	**115 051**	91 575	113 404
Foreign currency deposits	**10 034**	**10 034**	8 330	8 330
Liabilities to clients under acceptances	**121**	**121**	108	108
Notice deposits	**7 148**	**7 148**	6 863	6 857
Other deposits	**12 504**	**12 504**	8 591	8 591
Saving and transmission deposits	**56 983**	**56 983**	35 270	35 270
Deposits due to customers (refer to note 20)	**361 757**	**362 254**	293 412	315 235
Debt securities in issue (refer to note 21)	**142 428**	**142 756**	121 938	158 331
Loans from Absa Group companies (refer to note 22)	**3 946**	**3 946**	5 900	5 900
Borrowed funds (refer to note 24)	**4 917**	**4 905**	4 951	5 118
Total	**570 941**	**571 759**	487 267	545 650

58. Segment reporting

58.1 Segment report per geographical segment

	BANK		
	2008		
	South Africa Rm	**Other foreign countries Rm**	**Total Rm**
Net interest income – external	**19 856**	**123**	**19 979**
Non-interest income – external	**15 877**	**94**	**15 971**
Total assets	**717 624**	**17 355**	**734 979**

	2007		
	South Africa Rm	Other foreign countries Rm	Total Rm
Net interest income – external	17 695	84	17 779
Non-interest income – external	12 158	15	12 173
Total assets	589 050	3 909	592 959

58. Segment report *(continued)*

58.2 Segment report per market segment

	Retail banking 2008 Rm	Retail banking 2007[1] Rm	Absa Corporate and Business Bank 2008 Rm	Absa Corporate and Business Bank 2007[1] Rm
Income statement				
Net interest income	**13 690**	11 985	**5 715**	4 502
Net interest income – external[2]	**38 593**	30 830	**6 929**	4 633
Net interest income – internal	**(24 903)**	(18 845)	**(1 214)**	(131)
Impairment losses on loans and advances	**(5 353)**	(1 952)	**(271)**	(260)
Non-interest income	**9 527**	8 523	**2 577**	2 432
Non-interest income – external[2]	**8 984**	7 850	**2 278**	2 230
Non-interest income – internal	**543**	673	**299**	202
Depreciation and amortisation	**(291)**	(266)	**(12)**	(9)
Operating expenses	**(12 358)**	(11 049)	**(4 040)**	(3 579)
Other impairments	**—**	—	**—**	—
Indirect taxation	**(328)**	(329)	**(103)**	(54)
Share of retained earnings from associates and joint ventures	**24**	18	**41**	49
Operating profit before income tax	**4 911**	6 930	**3 907**	3 081
Taxation expense	**(1 499)**	(2 146)	**(1 133)**	(951)
Profit for the year	**3 412**	4 784	**2 774**	2 130
Attributable to:				
Ordinary equity holder of the Bank	**3 412**	4 784	**2 774**	2 127
Preference equity holders of the Bank	**—**	—	**—**	—
Minority interest	**—**	—	**—**	3
	3 412	4 784	**2 774**	2 130
Balance sheet				
Loans and advances to customers	**331 585**	303 125	**117 398**	88 520
Investments in associates and joint ventures	**318**	286	**783**	619
Other assets	**124 075**	98 468	**16 537**	21 427
Other assets – external	**6 142**	5 609	**5 432**	3 865
Other assets – internal[3]	**117 933**	92 859	**11 105**	17 562
Total assets	**455 978**	401 879	**134 718**	110 566
Deposits due to customers	**127 071**	96 935	**98 360**	76 318
Other liabilities	**326 563**	286 655	**34 387**	24 890
Other liabilities – external	**5 341**	6 398	**4 380**	3 612
Other liabilities – internal[3]	**321 222**	280 257	**30 007**	21 278
Total liabilities	**453 634**	383 590	**132 747**	101 208

Notes

[1] *December 2007 comparatives have been restated for structure changes as well as the reclassification of CPF's unlisted investments to "Investments", refer to note 1.23. December 2006 comparatives have not been restated.*

[2] *External revenue refers to revenue outside of the Absa Group.*

[3] *Internal assets and liabilities include all interdivisional and intragroup asset and liability balances. December 2007 comparatives have been restated accordingly. Internal assets and liabilities for the Bank are eliminated in "Head office and intersegment eliminations".*

Absa Capital		Other		Head office and intersegment eliminations		Absa Bank	
2008 Rm	2007[1] Rm	2008 Rm	2007[1] Rm	2008 Rm	2007[1] Rm	2008 Rm	2007[1] Rm
1 831	1 397	(965)	(71)	(32)	102	20 239	17 915
(25 220)	(18 802)	(195)	1 896	(128)	(778)	19 979	17 779
27 051	20 199	(770)	(1 967)	96	880	260	136
(2)	6	(1)	(1)	—	—	(5 627)	(2 207)
3 073	2 177	495	(286)	699	(122)	16 371	12 724
3 479	2 501	521	(262)	709	(146)	15 971	12 173
(406)	(324)	(26)	(24)	(10)	24	400	551
(19)	(2)	(88)	(78)	(483)	(451)	(893)	(806)
(2 079)	(1 311)	78	279	715	(118)	(17 684)	(15 778)
(1)	—	20	(37)	(8)	(21)	11	(58)
(59)	(77)	(62)	31	(78)	(215)	(630)	(644)
—	—	—	—	—	—	65	67
2 744	2 190	(523)	(163)	813	(825)	11 852	11 213
(777)	(674)	198	245	206	249	(3 005)	(3 277)
1 967	1 516	(325)	82	1 019	(576)	8 847	7 936
1 967	1 516	(782)	(231)	1 019	(576)	8 390	7 620
—	—	457	313	—	—	457	313
—	—	—	—	—	—	—	3
1 967	1 516	(325)	82	1 019	(576)	8 847	7 936
63 070	50 452	427	650	204	373	512 684	443 120
970	—	—	—	—	—	2 071	905
366 766	359 499	21 032	150 880	(308 186)	(481 340)	220 224	148 934
147 808	89 890	36 639	29 255	5 213	4 977	201 234	133 596
218 958	269 609	(15 607)	121 625	(313 399)	(486 317)	18 990	15 338
430 806	409 951	21 459	151 530	(307 982)	(480 967)	734 979	592 959
147 160	131 143	11	(62)	574	543	373 176	304 877
281 807	274 618	(13 922)	147 016	(311 695)	(480 625)	317 140	252 554
273 801	218 416	29 910	4 348	(238)	13 880	313 194	246 654
8 006	56 202	(43 832)	142 668	(311 457)	(494 505)	3 946	5 900
428 967	405 761	(13 911)	146 954	(311 121)	(480 082)	690 316	557 431

58. Segment report *(continued)*

58.2 Segment report per market segment *(continued)*

	Retail banking 2008	Retail banking 2007[1]	Absa Corporate and Business Bank 2008	Absa Corporate and Business Bank 2007[1]
Financial performance (%) (audited)				
Return on average equity[2]	**n/a**	27,3	**n/a**	29,2
Return on average assets	**0,82**	1,34	**2,06**	1,93
Operating performance (%)				
Net interest margin on average assets	**3,21**	3,39	**4,34**	4,49
Impairment losses on loans and advances as a percentage of average loans and advances to customers	**1,67**	0,69	**0,27**	0,33
Non-interest income as a percentage of total operating income	**41,0**	41,6	**31,1**	35,1
Top-line growth[1]	**13,2**	15,2	**19,6**	34,2
Cost growth[1]	**11,8**	9,5	**12,9**	26,3
Cost-to-income ratio	**54,5**	55,2	**48,9**	51,7
Cost-to-assets ratio	**3,0**	3,2	**3,1**	3,6
Other (unaudited)				
Return on average EC[2] (%)	**18,2**	n/a	**23,6**	n/a
Banking customer base per segment	**9 892 365**	8 905 491	**87 999**	87 708

Retail banking segment	Absa Wealth 2008	Absa Wealth 2007[1]	Retail Bank 2008	Retail Bank 2007[1]
Total revenue – external (Rm)	**593**	544	**7 173**	7 733
Net interest income – external (Rm)	**509**	466	**77**	1 716
Non-interest income – external (Rm)	**84**	78	**7 096**	6 017
Total revenue – internal (Rm)	**(284)**	(298)	**6 430**	4 048
Net interest income – internal (Rm)	**(298)**	(306)	**6 145**	3 615
Non-interest income – internal (Rm)	**14**	8	**285**	433
Attributable earnings (Rm)	**27**	46	**2 419**	2 324
Impairment losses on loans and advances as a percentage of average loans and advances to customers (%)	**0,33**	0,38	**2,49**	1,45
Cost-to-income ratio (%)	**76,6**	61,6	**65,5**	66,2
Loans and advances to customers (Rm)	**9 566**	7 566	**40 700**	36 890
Total assets (Rm)	**10 357**	8 204	**135 558**	111 594
Deposits due to customers (Rm)	**7 032**	5 020	**118 150**	89 838
Total liabilities (Rm)	**10 341**	7 763	**134 080**	108 962
Return on average equity (%)	**n/a**	11,4	**n/a**	80,9
Other (unaudited)				
Return on average EC (%)	**1,9**	n/a	**108,0**	n/a

Notes

[1]*December 2007 comparatives have been restated for structure changes as well as the reclassification of CPF's unlisted investments to "Investments", refer to note 1.23. December 2006 comparatives have not been restated.*

[2]*In December 2007 capital was allocated to segments based on Basel I principles. In 2008, the Bank adopted a new measurement basis whereby capital is no longer allocated to segments. In order to measure a return per segment, a notional EC amount has been used as a denominator. The return on average equity and return on average EC are not comparable. December 2007 comparatives have not been restated.*

Absa Capital 2008	Absa Capital 2007[1]	Other 2008	Other 2007[1]	Head office and intersegment eliminations 2008	Head office and intersegment eliminations 2007[1]	Absa Bank 2008	Absa Bank 2007[1]
n/a	42,6	**n/a**	n/a	**n/a**	n/a	**21,8**	26,4
0,47	0,43	**n/a**	n/a	**n/a**	n/a	**1,17**	1,47
0,44	0,37	**n/a**	n/a	**n/a**	n/a	**3,08**	3,52
—	(0,01)	**n/a**	n/a	**n/a**	n/a	**1,19**	0,54
62,2	60,9		n/a		n/a	**44,7**	41,5
35,7	54,2	**n/a**	n/a	**n/a**	n/a	**19,5**	20,5
59,7	40,1	**n/a**	n/a	**n/a**	n/a	**12,0**	14,0
43,3	36,7	**n/a**	n/a	**n/a**	n/a	**50,7**	54,1
0,5	0,4	**n/a**	n/a	**n/a**	n/a	**2,8**	3,2
19,5	n/a	**n/a**	n/a	**n/a**	n/a	**18,0**	n/a
2 655	2 503	**n/a**	n/a	**n/a**		**9 983 019**	8 995 702

Absa Home Loans 2008	Absa Home Loans 2007	Absa Card 2008	Absa Card 2007	Absa Vehicle and Asset Finance 2008	Absa Vehicle and Asset Finance 2007	Total 2008	Total 2007
28 329	21 107	**3 962**	3 353	**7 520**	5 943	**47 577**	38 680
28 256	21 009	**2 480**	1 898	**7 271**	5 741	**38 593**	30 830
73	98	**1 482**	1 455	**249**	202	**8 984**	7 850
(24 228)	(17 229)	**(1 210)**	(877)	**(5 068)**	(3 816)	**(24 360)**	(18 172)
(24 423)	(17 422)	**(1 211)**	(835)	**(5 116)**	(3 897)	**(24 903)**	(18 845)
195	193	**1**	(42)	**48**	81	**543**	673
143	1 287	**536**	706	**287**	421	**3 412**	4 784
1,20	0,27	**5,54**	3,39	**2,35**	1,17	**1,67**	0,69
31,1	33,9	**45,9**	41,5	**39,5**	48,3	**54,5**	55,2
220 530	200 930	**12 402**	11 817	**48 387**	45 922	**331 585**	303 125
237 168	216 316	**18 695**	13 993	**54 200**	51 772	**455 978**	401 879
—	—	**1 888**	2 064	**1**	13	**127 071**	96 935
237 184	206 512	**18 393**	12 807	**53 636**	47 546	**453 634**	108 962
n/a	15,1	**n/a**	70,7	**n/a**	9,2	**n/a**	27,3
2,0	n/a	**22,4**	n/a	**8,7**	n/a	**18,2**	n/a

58. Segment report *(continued)*

58.2 Segment report per market segment *(continued)*

Absa Corporate and Business Bank segment	2008 Rm	Excluding listed equities 2008 Rm	2007 Rm	Excluding listed equities 2007 Rm
Income statement				
Net interest income	**5 715**	**5 715**	4 502	4 502
Impairment losses on loans and advances	**(271)**	**(271)**	(260)	(260)
Non-interest income	**2 577**	**2 675**	2 432	2 237
Operating expenses	**(4 052)**	**(4 052)**	(3 588)	(3 586)
Other	**(62)**	**(62)**	(5)	(5)
Operating profit before income tax	**3 907**	**4 005**	3 081	2 888
Taxation expense	**(1 133)**	**(1 160)**	(951)	(894)
Profit for the year	**2 774**	**2 845**	2 130	1 994
Attributable to:				
Ordinary equity holder of the Bank	**2 774**	**2 845**	2 127	1 991
Minority interest	**—**	**—**	3	3

Operating profit before income tax by business area	2008 Rm	2007 Rm
Large	**1 995**	1 496
Medium	**1 464**	1 190
Corporate	**315**	200
CPF equity portfolio[1]	**133**	195
Listed	**(98)**	195
Unlisted	**231**	—
	3 907	3 081

Note

[1]*Includes realised and unrealised profits.*

59. Derivatives

Derivative financial instruments are entered into in the normal course of business to manage various financial risks. Derivative financial instruments entered into in terms of asset and liability management strategies are defined as hedging transactions and such instruments are accounted for in terms of the Bank's accounting policies.

At the balance sheet date, the Bank did not have any compound financial instruments with multiple embedded derivatives in issue.

59.1 Derivatives held for trading

The Bank trades derivative instruments mainly on behalf of customers while the Bank's own positions are insignificant. The Bank transacts derivative contracts to address customer demands both as a market maker in the wholesale markets and in structuring tailored derivatives for customers.

59.2 Derivatives held for hedging

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

Derivatives designated as fair value hedges

Fair value hedges are used by the Bank to protect against changes in fair value of financial assets and liabilities owing to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, available-for-sale assets, debt securities and borrowed funds.

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

59. Derivatives *(continued)*

59.2 Derivatives held for hedging *(continued)*

The Bank recognised the following gains and losses on hedging instruments and hedging items:

	BANK 2008 Rm	BANK 2007 Rm
Gains/(losses) on hedged items (assets) (refer to note 27)	**1 156**	(343)
Gains/(losses) on hedging instruments (assets) (refer to note 27)	**(933)**	457
Gains/(losses) on hedged items (liabilities) (refer to note 28)	**(818)**	417
Gains/(losses) on hedging instruments (liabilities) (refer to note 28)	**830**	(560)

Hedge effectiveness is measured using a statistical method and results would have to be within the 80% to 125% range in order for hedge accounting to be applied.

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

	BANK 2008 Rm	BANK 2007 Rm
Ineffectiveness (outside range) (refer to note 30)	**(42)**	139
Ineffectiveness (inside range)	**12**	(14)

Derivatives designated as cash flow hedges

The objective of cash flow hedges is to protect against changes in future interest cash flows resulting from the impact of changes in market interest risk rates and reinvestment or reborrowing of current balances.

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

The Bank is exposed to variability in future interest cash flows on non-trading portfolio assets and liabilities which bear interest at a variable rate. The Bank 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:

BANK

	2008						
	Less than 1 year Rm	**1 – 2 years Rm**	**2 – 3 years Rm**	**3 – 4 years Rm**	**4 – 5 years Rm**	**More than 5 years Rm**	**Total Rm**
Forecast receivable cash flow[1]	**1 167**	**695**	**454**	**310**	**112**	**25**	**2 763**
Forecast payable cash flow[1]	**(99)**	**(39)**	**(9)**	**(4)**	**(4)**	**(50)**	**(205)**
Net cash outflow	**1 068**	**656**	**445**	**306**	**108**	**(25)**	**2 558**

	2007						
	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	Total Rm
Forecast receivable cash flow[1]	3	—	—	—	—	—	3
Forecast payable cash flow[1]	(629)	(354)	(178)	(73)	(19)	(8)	(1 261)
Net cash outflow	(626)	(354)	(178)	(73)	(19)	(8)	(1 258)

Note

[1] *These balances are shown before taxation.*

59. Derivatives *(continued)*

59.2 Derivatives held for hedging *(continued)*

The following net gain/(loss) on cash flow hedges was recycled from equity to the income statement:

	BANK 2008 Rm	BANK 2007 Rm
Interest and similar income (refer to note 27)	**(1 301)**	(1 004)
Gains and losses from banking and trading activities (refer to note 30)	**76**	(60)
	(1 225)	(1 064)
Taxation	**343**	309
	(882)	(755)

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

	BANK 2008 Rm	BANK 2007 Rm
Ineffectiveness (outside range) (refer to note 30)	**76**	(60)
Ineffectiveness (inside range)	**(88)**	(46)

59.3 Detailed breakdown of derivatives

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

- **Foreign exchange contracts** represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.
- **Foreign currency and interest rate futures** are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the exchange.
- **Forward rate agreements** are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.
- **Currency and interest rate swaps** are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (ie fixed rate for floating rate) or a combination of all these (ie cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.
- **Options** are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange traded or negotiated between the Bank and a customer.

59. Derivatives *(continued)*
59.3 Detailed breakdown of derivatives *(continued)*

BANK

	2008				2007	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
Trading						
Foreign exchange derivatives						
Foreign exchange forward	433 497	(1 469)	22 585	(24 054)	314 329	356
Currency swaps	97 606	1 561	7 758	(6 197)	93 746	(869)
Cross-currency swaps	20 569	(78)	571	(649)	17 404	10
OTC foreign exchange options	32 976	(96)	1 076	(1 172)	5 991	7
OTC foreign exchange options purchased	15 883	1 076	1 076	—	3 000	92
OTC foreign exchange options written	17 093	(1 172)	—	(1 172)	2 991	(85)
Other OTC foreign exchange derivatives	43 230	(9)	60	(69)	25 587	(7)
Total foreign exchange derivatives	627 878	(91)	32 050	(32 141)	457 057	(503)
Interest rate derivatives						
Forward rate agreements (FRAs)	1 416 653	200	3 525	(3 325)	862 847	30
Swaps	44 112	(128)	61	(189)	28 452	(79)
Interest rate swaps	1 127 631	(646)	21 554	(22 200)	759 819	(768)
OTC options on FRAs and swaps	185 412	89	664	(575)	15 781	(145)
OTC options on FRAs and swaps purchased	94 843	664	664	—	10 411	52
OTC options on FRAs and swaps written	90 569	(575)	—	(575)	5 370	(197)
OTC bond option contracts	7 106	(126)	225	(351)	4 446	6
OTC bond options purchased	4 065	225	225	—	2 945	15
Other bond options written	3 041	(351)	—	(351)	1 501	(9)
Non-qualifying hedges						
Interest rate swaps	—	—	—	—	49 384	230
Total interest rate derivatives	2 780 914	(611)	26 029	(26 640)	1 720 729	(726)
Balance carried forward	3 408 792	(702)	58 079	(58 781)	2 177 786	(1 229)

59. Derivatives *(continued)*

59.3 Detailed breakdown of derivatives *(continued)*

	BANK					
	2008				2007	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
Balance brought forward	3 408 792	(702)	58 079	(58 781)	2 177 786	(1 229)
Equity derivatives						
OTC options purchased	47 873	2 018	2 018	—	13 468	1 010
OTC options written	40 715	(4 026)	—	(4 026)	11 357	(1 384)
Equity futures	1 059	193	210	(17)	1 529	1 304
Other OTC equity derivatives	2 278	21	94	(73)	83 839	12
OTC equity derivatives	91 925	(1 794)	2 322	(4 116)	110 193	942
Exchange traded derivatives	178 160	—	—	—	99 578	(15)
Exchange traded options purchased	60 957	—	—	—	38 340	—
Exchange traded options written	60 343	—	—	—	39 213	(15)
Exchange traded futures	56 860	—	—	—	22 025	—
Total equity derivatives	270 085	(1 794)	2 322	(4 116)	209 771	927
Commodity derivatives						
Agricultural forward	—	—	—	—	42	3
OTC agricultural options	18	(2)	—	(2)	81	—
OTC agricultural options purchased	—	—	—	—	21	2
OTC agricultural options written	18	(2)	—	(2)	60	(2)
OTC options on gold	11 144	173	2 903	(2 730)	8 276	80
OTC gold options purchased	5 572	2 903	2 903	—	4 138	1 664
OTC gold options written	5 572	(2 730)	—	(2 730)	4 138	(1 584)
Other OTC commodity derivatives	8 819	(68)	1 819	(1 887)	3 308	(94)
OTC commodity derivatives	19 981	103	4 722	(4 619)	11 707	(11)
Exchange traded agricultural derivatives	4 159	—	—	—	466	—
Exchange traded agricultural options purchased	309	—	—	—	32	—
Exchange traded agricultural options written	84	—	—	—	85	—
Exchange traded agricultural futures	3 766	—	—	—	349	—
Total commodity derivatives	24 140	103	4 722	(4 619)	12 173	(11)
Credit derivatives						
Swaps	6 717	(178)	54	(232)	3 328	39
Embedded derivatives	7 367	199	289	(90)	(3 514)	(12)
Total credit derivatives	14 084	21	343	(322)	(186)	27
Total trading	3 717 101	(2 372)	65 466	(67 838)	2 399 544	(286)

59. Derivatives *(continued)*

59.3 Detailed breakdown of derivatives *(continued)*

BANK

	2008				2007	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
Balance brought forward	3 717 101	(2 372)	65 466	(67 838)	2 399 544	(286)
Hedging						
Cash flow hedges						
Interest rate swaps	130 354	2 280	2 530	(250)	87 159	(1 608)
Forward foreign exchange	376	(35)	—	(35)	304	(13)
Total cash flow hedges	130 730	2 245	2 530	(285)	87 463	(1 621)
Fair value hedges						
Interest rate swaps	24 943	(315)	480	(795)	1 969	(60)
Currency swaps	6 005	129	129	—	—	180
Total fair value hedges	30 948	(186)	609	(795)	1 969	120
Total hedges	161 678	2 059	3 139	(1 080)	89 432	(1 501)
Total derivative instruments	3 878 779	(313)	68 605	(68 918)	2 488 976	(1 787)

To the extent that the Company has ISDA agreements with the same counterparty, the Bank's net exposure was R33 329 million (2007: R11 127 million).

Notional amount

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

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

Fair value

The amounts disclosed represent the fair value as at the balance sheet date of all derivative financial instruments held. Positive amounts reflect positive fair values, while amounts indicated in brackets reflect negative fair values.

Company balance sheet

As at 31 December

		COMPANY	
	Note	2008 Rm	2007[1] Rm
Assets			
Cash, cash balances and balances with central banks	2	**16 524**	15 053
Statutory liquid asset portfolio	3	**33 019**	22 957
Loans and advances to banks	4	**41 510**	50 648
Trading portfolio assets	5	**73 029**	25 876
Hedging portfolio assets	5	**3 139**	725
Other assets	6	**8 049**	4 545
Current tax assets	7	**—**	168
Loans and advances to customers	8	**502 748**	432 287
Loans to Absa Group companies	10	**15 845**	11 431
Investments	11	**11 003**	6 405
Investments in associates and joint ventures	12	**1 729**	652
Subsidiaries	13	**2 933**	2 907
Intangible assets	14	**130**	101
Property and equipment	15	**5 402**	4 233
Deferred tax assets	16	**41**	10
Non-current assets held-for-sale	45	**2 495**	—
Total assets		**717 596**	577 998
Liabilities			
Deposits from banks	17	**59 705**	65 299
Trading portfolio liabilities	18	**68 119**	22 947
Hedging portfolio liabilities	18	**1 080**	2 226
Other liabilities and sundry provisions	19	**8 779**	9 322
Current tax liabilities	7	**310**	29
Deposits due to customers	20	**367 631**	297 285
Debt securities in issue	21	**152 402**	134 023
Loans from Absa Group companies	22	**646**	500
Borrowed funds	23	**12 143**	9 796
Deferred tax liabilities	16	**2 609**	2 185
Non-current liabilities held-for-sale	45	**408**	—
Total liabilities		**673 832**	543 612
Equity			
Capital and reserves			
Attributable to equity holders of the Company:			
Ordinary share capital	24	**303**	303
Ordinary share premium	24	**9 415**	5 415
Preference share capital	24	**1**	1
Preference share premium	24	**4 643**	4 643
Other reserves	25	**3 609**	1 329
Retained earnings		**25 793**	22 695
Total equity		**43 764**	34 386
Total equity and liabilities		**717 596**	577 998

Note

[1]*Reclassified (refer to note 1.1).*

Company income statement

For the year ended 31 December

	Note	COMPANY 2008 Rm	2007[1] Rm
Net interest income		**19 720**	17 217
Interest and similar income	26	**71 622**	51 106
Interest expense and similar charges	27	**(51 902)**	(33 889)
Impairment losses on loans and advances	9	**(5 605)**	(2 180)
Net interest income after impairment losses on loans and advances		**14 115**	15 037
Net fee and commission income		**11 709**	10 135
Fee and commission income	28	**12 344**	10 702
Fee and commission expense	28	**(635)**	(567)
Gains and losses from banking and trading activities	29	**3 429**	1 561
Gains and losses from investment activities	30	**770**	579
Other operating income	31	**1 074**	649
Operating income before operating expenses		**31 097**	27 961
Operating expenditure		**(19 027)**	(17 104)
Operating expenses	32	**(18 410)**	(16 405)
Other impairments	33	**11**	(58)
Indirect taxation	34	**(628)**	(641)
Operating profit before income tax		**12 070**	10 857
Taxation expense	35	**(2 968)**	(3 149)
Profit for the year		**9 102**	7 708
Attributable to:			
Ordinary equity holder of the Company		**8 645**	7 395
Preference equity holders of the Company		**457**	313
		9 102	7 708
• basic earnings per share (cents)	36	**2 438,0**	2 192,4
• diluted earnings per share (cents)	36	**2 438,0**	2 192,4

Note

[1]*Reclassified (refer to note 1.1).*

Company statement of changes in equity

For the year ended 31 December

	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at 1 January 2008	**337 286**	**303**	**5 415**	**1**	**4 643**
Movement in regulatory general credit risk reserve	—	—	—	—	—
Movement in available-for-sale reserve and/or cash flow hedging reserve	—	—	—	—	—
Amount removed from equity and recognised in the income statement	—	—	—	—	—
Deferred tax	—	—	—	—	—
Fair value gains and losses	—	—	—	—	—
Foreign currency translation effects	—	—	—	—	—
Profit for the year	—	—	—	—	—
Shares issued	**21 769**	**0**	**4 000**	—	—
Contribution to Share Incentive Trust	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Dividends declared	—	—	—	—	—
Balance at 31 December 2008	**359 055**	**303**	**9 415**	**1**	**4 643**

	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at 1 January 2007	337 286	303	5 415	1	2 991
Movement in regulatory general credit risk reserve	—	—	—	—	—
Movement in available-for-sale reserve and/or cash flow hedging reserve	—	—	—	—	—
Amount removed from equity and recognised in the income statement	—	—	—	—	—
Deferred tax	—	—	—	—	—
Fair value gains and losses	—	—	—	—	—
Foreign currency translation effects	—	—	—	—	—
Profit for the year	—	—	—	—	—
Shares issued	—	—	—	0	1 658
Costs incurred	—	—	—	—	(6)
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Dividends declared	—	—	—	—	—
Balance at 31 December 2007 as previously reported	337 286	303	5 415	1	4 643
Reclassification (refer note 1.1)	—	—	—	—	—
Reclassified balance at 31 December 2007	337 286	303	5 415	1	4 643
Notes	24	24	24	24	24

Note

All movements are reflected net of taxation (refer to note 16).

COMPANY

2008 Regulatory general credit risk reserve Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Retained earnings Rm	Total Rm
429	**58**	**(893)**	**157**	**1 422**	**156**	**22 695**	**34 386**
(427)	**—**	**—**	**—**	**—**	**—**	**427**	**—**
—	**(94)**	**2 668**	**—**	**—**	**—**	**—**	**2 574**
—	**85**	**1 636**	**—**	**—**	**—**	**—**	**1 721**
—	**66**	**(1 032)**	**—**	**—**	**—**	**—**	**(966)**
—	**(245)**	**2 064**	**—**	**—**	**—**	**—**	**1 819**
—	**—**	**—**	**(6)**	**—**	**—**	**—**	**(6)**
—	**—**	**—**	**—**	**—**	**—**	**9 102**	**9 102**
—	**—**	**—**	**—**	**—**	**—**	**—**	**4 000**
—	**—**	**—**	**—**	**—**	**—**	**(61)**	**(61)**
—	**—**	**—**	**—**	**—**	**139**	**42**	**181**
—	**—**	**—**	**—**	**—**	**(42)**	**42**	**—**
—	**—**	**—**	**—**	**—**	**181**	**—**	**181**
—	**—**	**—**	**—**	**—**	**—**	**(6 412)**	**(6 412)**
2	**(36)**	**1 775**	**151**	**1 422**	**295**	**25 793**	**43 764**

2007 Regulatory general credit risk reserve Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Retained earnings Rm	Total Rm
50	(3)	(353)	198	1 422	167	17 627	27 818
379	—	—	—	—	—	(379)	—
—	61	(540)	—	—	—	—	(479)
—	61	1 064	—	—	—	—	1 125
—	(33)	221	—	—	—	—	188
—	33	(1 825)	—	—	—	—	(1 792)
—	—	—	(41)	—	—	—	(41)
—	—	—	—	—	—	7 690	7 690
—	—	—	—	—	—	—	1 658
—	—	—	—	—	—	—	(6)
—	—	—	—	—	(11)	87	76
—	—	—	—	—	(87)	87	—
—	—	—	—	—	76	—	76
—	—	—	—	—	—	(2 352)	(2 352)
429	58	(893)	157	1 422	156	22 673	34 364
—	—	—	—	—	—	22	22
429	58	(893)	157	1 422	156	22 695	34 386
25	25	25	25	25	25		

Company cash flow statement

For the year ended 31 December

		COMPANY	
	Note	**2008 Rm**	2007 Rm
Cash flow from operating activities			
Interest, fee and commission income		**83 051**	61 674
Interest, fee and commission expense		**(50 977)**	(34 608)
Net trading and other income		**9 900**	2 898
Cash payments to employees and suppliers		**(17 415)**	(15 913)
Income taxes paid		**(3 093)**	(3 896)
Cash flow from operating profit before changes in operating assets and liabilities		**21 466**	10 155
Net increase in trading and hedging portfolio assets		**(50 699)**	(8 555)
Net increase in loans and advances to customers		**(75 541)**	(77 954)
Net increase in other assets		**(12 501)**	(42 140)
Net increase in trading and hedging portfolio liabilities		**44 026**	7 776
Net increase in amounts due to customers and banks		**69 386**	113 649
Net increase in other liabilities		**11 076**	2 113
Net cash generated from operating activities		**7 213**	5 044
Cash flow from investing activities			
Purchase of property and equipment	15	**(2 117)**	(1 682)
Proceeds from sale of property and equipment		**197**	58
Purchase of intangible assets	14	**(133)**	(150)
Disposal of subsidiaries, net of cash		**—**	36
Acquisition of associates and joint ventures, net of cash	12.5	**(1 060)**	(148)
Net increase in loans to associates and joint ventures		**—**	(17)
Net increase in investments		**(4 654)**	(2 656)
Net cash utilised from investing activities		**(7 767)**	(4 559)
Cash flow from financing activities			
Issue of ordinary shares		**4 000**	—
Issue of preference shares		**—**	1 652
Proceeds from borrowed funds		**1 886**	1 725
Dividends paid		**(6 412)**	(2 352)
Net cash (utilised)/generated from financing activities		**(526)**	1 025
Net (decrease)/increase in cash and cash equivalents		**(1 080)**	1 510
Cash and cash equivalents at the beginning of the year		**5 005**	3 494
Effect of exchange rate movements on cash and cash equivalents		**—**	1
Cash and cash equivalents at the end of the year	44	**3 925**	5 005

Notes to the Company financial statements

For the year ended 31 December

1. Accounting policies

The financial statements of Absa Bank Limited (Company) are prepared according to the same accounting principles used in preparing the consolidated financial statements of Absa Bank Limited and its subsidiaries (Bank). For detailed accounting policies refer to the Bank's financial statements.

1.1 Reclassifications

		2007		
	Note	As previously reported Rm	Reclassifi-cations Rm	Reclassified balance Rm
Balance sheet				
Loans to Absa Group companies	1.1.2	10 931	500	11 431
Investments	1.1.1	5 939	466	6 405
Investments in associates and joint ventures	1.1.1	1 096	(444)	652
Loans from Absa Group companies	1.1.2	—	(500)	(500)
Retained earnings	1.1.1	(22 673)	(22)	(22 695)
Income statement				
Fee and commission income	1.1.3	10 593	109	10 702
Gains and losses from banking and trading activities	1.1.1	1 533	28	1 561
Other operating income	1.1.3	758	(109)	649
Taxation expense	1.1.1	(3 139)	(10)	(3 149)
Income statement impact			18	

1.1.1 Commercial Property Finance (CPF) investment in associates and joint ventures

During the 2007 financial year, Absa Corporate and Business Bank launched the CPF division. The CPF division's aim is to identify and invest in property developments by obtaining an equity investment in the identified company and/or provide financing. The investment portfolio was previously classified as investments in associates as the equity investment generally ranges between 20% and 50% of the Company's issued equity.

During 2008, these investments were reclassified from investments in associates to unlisted investments being measured at fair value through profit or loss according to the scope exclusion for venture capital organisations in IAS 28 – *Investments in Associates* and IAS 31 – *Interests in Joint Ventures*.

The value of the investments reclassified from the investments in associates category to the unlisted investments category was R465 million.

1.1.2 Intergroup loans

Intergroup loans receivable were previously reported net of intergroup loans payable. During the year these two balances were reported separately and the comparatives have been restated accordingly.

1.1.3 Intergroup service fees

Intergroup service fees were previously reported as part of other operating income. These service fees have been reclassified to net fee and commission income in the current year. Prior year figures have been restated accordingly.

	COMPANY	
	2008 Rm	2007 Rm
2. Cash, cash balances and balances with central banks		
Balances with the SARB	**12 626**	10 395
Coins and bank notes	**3 898**	4 658
	16 524	15 053
Portfolio analysis		
Loans and receivables		
Balances with the SARB	**12 626**	10 395
Coins and bank notes	**3 898**	4 658
	16 524	15 053

Notes to the Company financial statements

For the year ended 31 December

	COMPANY 2008 Rm	COMPANY 2007 Rm
3. Statutory liquid asset portfolio		
Land Bank bills	**492**	492
Reverse repurchase agreements (refer to note 41 of the Bank's financial statements)	**4 100**	—
RSA government bonds	**19 156**	13 024
SARB debentures	**1 814**	—
Treasury bills	**7 457**	9 441
	33 019	22 957
Portfolio analysis		
Available-for-sale	**12 669**	9 933
Land Bank bills	**492**	492
RSA government bonds	**2 906**	—
SARB debentures	**1 814**	—
Treasury bills	**7 457**	9 441
Available-for-sale instruments in fair value hedging relationship		
RSA government bonds	**12 077**	10 341
Designated at fair value through profit or loss	**8 273**	2 683
Reverse repurchase agreements	**4 100**	—
RSA government bonds	**4 173**	2 683
	33 019	22 957

RSA government stock, SARB debentures and treasury bills valued at R3 470 million (2007: R2 829 million) have been pledged with the SARB. The related liability for the pledged assets, which is disclosed in "Deposits from banks", bears interest at the SARB repurchase rate.

	COMPANY 2008 Rm	COMPANY 2007 Rm
4. Loans and advances to banks		
Other loans and advances to banks	**24 263**	21 341
Reverse repurchase agreements (refer to note 41 of the Bank's financial statements)	**17 247**	29 307
	41 510	50 648
Portfolio analysis		
Designated at fair value		
Reverse repurchase agreements	**16 632**	20 555
Loans and receivables	**24 878**	30 093
Other loans and advances to banks	**24 263**	21 341
Reverse repurchase agreements	**615**	8 752
	41 510	50 648

Loans with variable rates are R24 004 million (2007: R20 170 million) and fixed rates are R17 506 million (2007: R30 478 million).

Included above are loans and advances with the Company's ultimate parent company of R13 636 million (2007: R13 209 million). Refer to note 39 for the full disclosure of related party transactions.

Included above are loans and advances to banks with a carrying value of R2 462 million (2007: R68 million) that have been pledged as security, which excludes reverse repurchase agreements as disclosed in note 41 of the Bank's financial statements.

The amounts pledged is the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

	COMPANY	
	2008 Rm	2007 Rm
5. Trading and hedging portfolio assets		
Commodities	**517**	465
Debt instruments	**5 178**	2 206
Derivative assets (refer to note 47.3)	**65 566**	21 757
Commodity derivatives	**4 722**	2 172
Credit derivatives	**343**	41
Equity derivatives	**2 322**	2 487
Foreign exchange derivatives	**32 050**	7 245
Interest rate derivatives	**26 129**	9 812
Equity instruments	**304**	108
Money market assets	**1 464**	1 340
Total trading portfolio assets	**73 029**	25 876
Hedging portfolio assets (refer to note 47.3)	**3 139**	725
	76 168	26 601
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**2 530**	5
Derivatives designated as fair value hedging instruments	**609**	720
Held for trading	**72 512**	25 411
Debt instruments	**5 178**	2 206
Derivative assets	**65 566**	21 757
Equity instruments	**304**	108
Money market assets	**1 464**	1 340
Non-financial instruments	**517**	465
	76 168	26 601

Included above are derivative positions with the Company's ultimate parent company of R15 672 million (2007: R4 707 million). Refer to note 39 for the full disclosure of related party transactions.

Trading portfolio assets with a carrying value of R5 178 million (2007: R3 199 million) have been pledged as security (refer to note 41 of the Bank's financial statements). These assets are pledged for the duration of the respective agreements.

Notes to the Company financial statements

For the year ended 31 December

	COMPANY 2008 Rm	COMPANY 2007 Rm
6. Other assets		
Accounts receivable and prepayments	**5 318**	2 832
Deferred costs	**27**	25
Inventories	**364**	167
Settlement accounts and collateral placed	**2 340**	1 521
	8 049	4 545
Portfolio analysis		
Loans and receivables	**7 419**	4 219
Accounts receivable	**5 079**	2 698
Settlement accounts and collateral placed	**2 340**	1 521
Non-financial assets	**630**	326
	8 049	4 545

Included above are settlement accounts with the Company's ultimate parent company of R228 million (2007: R245 million). Refer to note 39 for the full disclosure of related party transactions.

Included in accounts receivable and prepayments are assets with a carrying value of R546 million (2007: R400 million), that have been pledged as security in the form of cash collateral on derivative transactions.

	COMPANY 2008 Rm	COMPANY 2007 Rm
7. Current tax		
Current tax assets		
Amount due from revenue authorities	**—**	168
Current tax liabilities		
Amount due to revenue authorities	**310**	29
8. Loans and advances to customers		
Cheque accounts	**26 120**	19 597
Client liabilities under acceptances	**121**	108
Corporate overdrafts and specialised finance loans	**10 294**	5 907
Credit cards	**15 040**	13 827
Foreign currency loans	**11 775**	11 143
Instalment credit agreements (refer to note 8.1)	**61 261**	55 320
Gross advances	**77 359**	71 420
Unearned finance charges	**(16 098)**	(16 100)
Loans granted under resale agreements (Carries) (refer to note 41 of the Bank's financial statements)	**7 072**	8 233
Loans to associates and joint ventures (refer to note 12.2)	**8 290**	7 495
Microloans	**3 412**	2 628
Mortgages	**299 453**	263 111
Other advances	**3 711**	911
Overnight finance	**11 146**	12 636
Personal loans	**18 154**	16 861
Preference shares	**2 987**	3 803
Wholesale overdrafts	**32 291**	16 072
	511 127	437 652
Impairment losses on loans and advances (refer to note 9)	**(8 379)**	(5 365)
	502 748	432 287

	COMPANY 2008 Rm	2007 Rm
8. Loans and advances to customers *(continued)*		
Portfolio analysis		
Designated at fair value through profit or loss	**9 265**	13 029
Loans granted under resale agreements (Carries)	**1 543**	3 040
Mortgages	**4 133**	6 661
Wholesale overdrafts	**3 589**	3 328
Loans and receivables	**501 862**	424 623
	511 127	437 652

8.1 Instalment credit agreements

Maturity analysis

	COMPANY 2008 Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
Less than one year	**23 035**	**(4 711)**	**18 324**
Between one and five years	**52 661**	**(11 002)**	**41 659**
More than five years	**1 663**	**(385)**	**1 278**
	77 359	**(16 098)**	**61 261**

	2007 Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
Less than one year	20 126	(4 194)	15 932
Between one and five years	50 306	(11 681)	38 625
More than five years	988	(225)	763
	71 420	(16 100)	55 320

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

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

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

Unguaranteed residual values of instalment credit agreements at the balance sheet date are estimated at R5 768 million (2007: R6 537 million).

The accumulated allowance for uncollectable lease payments receivable included in the allowance for impairments at the balance sheet date is R773 million (2007: R570 million).

	COMPANY 2008 Rm	COMPANY 2007 Rm
9. Impairment losses on loans and advances		
Balance at the beginning of the year	**5 365**	4 479
Amounts written off during the year	**(2 553)**	(1 431)
Interest on impaired assets (refer to note 26)	**(521)**	(271)
	2 291	2 777
Impairments raised during the year (refer to note 9.1)	**6 088**	2 588
Balance at the end of the year (refer to note 8)	**8 379**	5 365
Comprising:		
Identified impairments	**7 113**	3 452
Unidentified impairments	**1 266**	1 913
	8 379	5 365
9.1 Income statement charge for impairment losses on loans and advances		
Impairments raised during the year	**6 088**	2 588
Identified impairments	**6 735**	2 309
Unidentified impairments	**(647)**	279
Recoveries of loans and advances previously written off	**(483)**	(408)
	5 605	2 180
10. Loans to Absa Group companies		
Fellow subsidiaries	**14 055**	10 369
Holding company	**1 790**	1 062
	15 845	11 431
Portfolio analysis		
Loans and receivables	**15 845**	11 431
11. Investments		
Debt instruments	**3 564**	724
Listed equity instruments	**1 591**	959
Unlisted equity and hybrid instruments	**5 848**	4 722
	11 003	6 405
Directors' valuation and market value		
Directors' valuation of unlisted equity and hybrid instruments	**5 848**	4 722
Market value of debt instruments	**3 564**	724
Market value of listed equity instruments	**1 591**	959
	11 003	6 405

	COMPANY 2008 Rm	2007 Rm
11. Investments *(continued)*		
Portfolio analysis		
Available-for-sale (refer to note 11.1)	**1 199**	494
Debt instruments	**367**	68
Listed equity instruments	**422**	1
Unlisted equity and hybrid instruments	**410**	425
Designated at fair value	**9 804**	5 911
Debt instruments	**3 197**	656
Listed equity instruments	**1 169**	958
Unlisted equity and hybrid instruments	**5 438**	4 297
	11 003	6 405

Included above are investments with the Company's ultimate parent company of R435 million (2007: Rnil). Refer to note 39 for the full disclosure of related party transactions.

	COMPANY 2008 Rm	2007 Rm
11.1 Available-for-sale investments		
Carrying value at the beginning of the year	**494**	463
Cost plus fair value movements	**537**	506
Impairment[1]	**(43)**	(43)
Movement in investments	**706**	31
Acquisitions and disposals	**333**	277
Fair value movements	**373**	(246)
Movement in impairments (refer to note 33)	**(1)**	—
Carrying value at the end of the year	**1 199**	494
Cost plus fair value movements	**1 243**	537
Impairment[1]	**(44)**	(43)

Note

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

Certain comparatives have been reclassified (refer to note 1.1).

	COMPANY 2008 Rm	2007 Rm
12. Investments in associates and joint ventures		
Listed investments	**1 635**	555
Unlisted investments	**94**	97
	1 729	652
12.1 Movement in carrying amount		
Balance at the beginning of the year as previously reported	**1 096**	408
Reclassification to investments (refer to note 1.1)	**(444)**	(196)
Reclassified balance at the beginning of the year	**652**	212
Net movement in the cost of investments of associates and joint ventures (refer to note 12.4)	**1 077**	419
Other movements	**—**	21
Balance at the end of the year	**1 729**	652
12.2 Analysis of carrying amount		
Listed investments		
Shares at cost	**1 635**	555
Unlisted investments		
Shares at cost	**94**	97

Other commercial loans to associates and joint ventures included in "Loans and advances to customers" amounted to R8 290 million (2007: R7 495 million). Refer to note 8 for further details.

	COMPANY 2008 Rm	COMPANY 2007 Rm
12. Investments in associates and joint ventures *(continued)*		
12.3 Valuation		
Directors' valuation of unlisted investments	**367**	311
Market value of listed investments	**1 576**	568
	1 943	879
12.4 Net movement in the cost of investments of associates and joint ventures		
The following acquisitions were concluded during the current year, at cost:		
Ambit Properties Limited	**90**	n/a
During the year, the Company acquired an additional 4,0% interest in Ambit Properties Limited.		
Integrated Processing Solutions (Proprietary) Limited	**11**	n/a
On 1 November 2008, the Company made an additional contribution to maintain a 50,0% interest in Integrated Processing Solutions (Proprietary) Limited.		
Pinnacle Point Group Limited	**931**	n/a
On 9 December 2008, the Company acquired a 27,5% interest in Pinnacle Point Group Limited.		
Sekunjalo Investments Limited	**59**	n/a
During the year, the Company acquired an additional 17,2% interest in Sekunjalo Investments Limited at a cost of R39 million. Sekunjalo Investments Limited was previously recognised as an investment at a carrying amount of R20 million. The Company's shareholding is now 27,2%.		
The following acquisitions were concluded during the previous year, at cost:		
Ambit Properties Limited	**n/a**	412
During the previous year, the Company acquired an additional 9,3% interest in Ambit Properties Limited.		
Maravedi Group (Proprietary) Limited	**n/a**	7
On 20 November 2007, the Company acquired an additional interest in Maravedi Group (Proprietary) Limited.		
The following disposals were concluded during the current year:		
Maravedi Group (Proprietary) Limited	**(14)**	—
On 1 January 2008, the Company sold its share in Maravedi Group (Proprietary) Limited.		
The following disposals were concluded during the previous year:		
Ambit Properties Limited	**n/a**	(0)
On 16 July 2007, the Company sold a share in Ambit Properties Limited to a third party.		
Axial Finance (Proprietary) Limited	**n/a**	(0)
On 16 February 2007, the Company sold its share in Axial Finance (Proprietary) Limited to a third party.		
The following associate has been recognised as a subsidiary during the previous year:		
Ambit Management Services (Proprietary) Limited	**n/a**	(0)
Net movement in the cost of investments in associates and joint ventures (refer to note 12.1)	**1 077**	419

	COMPANY 2008 Rm	2007 Rm
12. Investments in associates and joint ventures *(continued)*		
12.5 Details of the purchase consideration on net assets acquired on the aforementioned acquisitions are as follows:		
Cash paid	**1 060**	148
Elimination of profits to the extent of interest in Ambit Properties Limited	**—**	(32)
Property and equipment	**11**	303
Transfer from investments	**20**	—
	1 091	419
12.6 Details of the consideration received on net assets disposed of on the aforementioned disposals are as follows:		
Transferred to parent company	**(14)**	—

For further information on the Company's associates and joint ventures, refer to note 43 of the Bank's financial statements.

Certain comparatives have been reclassified (refer to note 1.1).

13. Subsidiaries

	COMPANY 2008 Rm	2007 Rm
Dividends receivable	**—**	228
Loans to subsidiary companies	**2 318**	2 252
Shares at cost	**615**	427
	2 933	2 907

14. Intangible assets

COMPANY

	2008 Cost Rm	2008 Accumulated amortisation and/or impairments Rm	2008 Carrying value Rm	2007 Cost Rm	2007 Accumulated amortisation and/or impairments Rm	2007 Carrying value Rm
Computer software development costs	**460**	**(330)**	**130**	327	(226)	101

Reconciliation of intangible assets

	2008 Opening balance Rm	2008 Additions Rm	2008 Amortisation Rm	2008 Impairment charge Rm	2008 Closing balance Rm
Computer software development costs	**101**	**133**	**(103)**	**(1)**	**130**

	2007 Opening balance Rm	2007 Additions Rm	2007 Amortisation Rm	2007 Impairment charge Rm	2007 Closing balance Rm
Computer software development costs	35	150	(63)	(21)	101

15. Property and equipment

	COMPANY					
	2008			2007		
	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm
Computer equipment	**3 944**	**(2 581)**	**1 363**	3 864	(2 471)	1 393
Freehold property	**1 653**	**(172)**	**1 481**	1 615	(154)	1 461
Furniture and other equipment	**4 175**	**(1 731)**	**2 444**	2 936	(1 697)	1 239
Leasehold property	**490**	**(376)**	**114**	490	(350)	140
Motor vehicles	**3**	**(3)**	**—**	3	(3)	—
	10 265	**(4 863)**	**5 402**	8 908	(4 675)	4 233

Reconciliation of property and equipment

	COMPANY				
	2008				
	Opening balance Rm	Additions Rm	Disposals Rm	Depre-ciation Rm	Closing balance Rm
Computer equipment	**1 393**	**443**	**(13)**	**(460)**	**1 363**
Freehold property	**1 461**	**132**	**(83)**	**(29)**	**1 481**
Furniture and other equipment	**1 239**	**1 542**	**(64)**	**(273)**	**2 444**
Leasehold property	**140**	**—**	**—**	**(26)**	**114**
	4 233	**2 117**	**(160)**	**(788)**	**5 402**

	2007				
	Opening balance Rm	Additions Rm	Disposals Rm	Depreciation Rm	Closing balance Rm
Computer equipment	1 194	708	(48)	(461)	1 393
Freehold property	1 034	466	(9)	(30)	1 461
Furniture and other equipment	1 042	508	(87)	(224)	1 239
Leasehold property	166	—	—	(26)	140
	3 436	1 682	(144)	(741)	4 233

Freehold property is officially revalued every three years by both external and internal valuers. The most recent valuation was performed during December 2007 and indicated that the fair value of the freehold property amounts to R1 631 million.

Leasehold property and computer equipment with a carrying value of R46 million (2007: R36 million) are encumbered under finance leases (refer to note 19).

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

	COMPANY 2008 Rm	2007 Rm
16. Deferred tax		
16.1 Reconciliation of net deferred tax liability		
Balance at the beginning of the year	**2 175**	2 092
Deferred tax asset (released)/raised on STC credits (refer to note 16.3)	**(31)**	12
Deferred tax on amounts charged directly to equity	**966**	(188)
Available-for-sale investments	**(66)**	33
Fair value measurement	**(90)**	15
Transfer to income statement	**24**	18
Cash flow hedges	**1 032**	(221)
Fair value measurement	**574**	(530)
Transfer to income statement	**458**	309
Income statement charge (refer to note 35)	**(538)**	274
Tax effect of translation and other differences	**(4)**	(15)
Balance at the end of the year	**2 568**	2 175
16.2 Deferred tax liability/(asset)		
Tax effects of temporary differences between tax and book value for:		
Accruals and provisions	**3 416**	2 220
Gains on investments	**(257)**	(161)
Impairment of advances	**(962)**	(415)
Lease and rental debtor allowances	**512**	490
Property allowances	**(100)**	51
Deferred tax liability	**2 609**	2 185
Deferred tax asset		
Deferred tax asset – STC (refer to note 16.3)	**(41)**	(10)
Net deferred tax liability	**2 568**	2 175
16.3 Secondary taxation on companies (STC)		
Accumulated STC credits	**410**	92
Deferred tax asset raised (refer to note 16.2)	**41**	10
Raised at 10,0%	**41**	6
Raised at 12,5%	**—**	4
Movement in deferred tax asset for the year (refer to note 16.1)	**31**	(12)

If the total reserves of R29 402 million (2007: R24 024 million) as at the balance sheet date were to be declared as dividends, the secondary tax impact at a rate of 10,0% (2007: 10,0%) would be R2 940 million (2007: R2 402 million).

	COMPANY 2008 Rm	2007 Rm
17. Deposits from banks		
Call deposits	**7 299**	16 299
Fixed deposits	**2 228**	1 296
Foreign currency deposits	**6 119**	749
Other deposits	**16 285**	18 352
Repurchase agreements (refer to note 41 of the Bank's financial statements)	**27 774**	28 603
	59 705	65 299
Portfolio analysis		
Designated at fair value through profit or loss	**9 002**	10 663
Financial liabilities at amortised cost	**50 703**	54 636
	59 705	65 299

Deposits with variable rates are R29 703 million (2007: R35 400 million) and fixed rates are R30 002 million (2007: R29 899 million).

Included above are deposits with the Company's ultimate parent company of R14 615 million (2007: R16 254 million). Refer to note 39 for the full disclosure of related party transactions.

	COMPANY 2008 Rm	2007 Rm
18. Trading and hedging portfolio liabilities		
Derivative liabilities (refer to note 47.3)	**67 838**	22 043
Commodity derivatives	**4 619**	2 183
Credit derivatives	**322**	14
Equity derivatives	**4 116**	1 560
Foreign exchange derivatives	**32 141**	7 748
Interest rate derivatives	**26 640**	10 538
Short sold positions	**281**	904
Total trading portfolio liabilities	**68 119**	22 947
Hedging portfolio liabilities (refer to note 47.3)	**1 080**	2 226
	69 199	25 173
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**285**	1 626
Derivatives designated as fair value hedging instruments	**795**	600
Held for trading	**68 119**	22 947
Derivative liabilities	**67 838**	22 043
Short sold positions	**281**	904
	69 199	25 173

Included above are derivative positions with the Company's ultimate parent company of R15 373 million (2007: R5 496 million). Refer to note 39 for the full disclosure of related party transactions.

	COMPANY 2008 Rm	COMPANY 2007 Rm
19. Other liabilities and sundry provisions		
Accruals	**88**	32
Audit fee accrual	**25**	20
Creditors	**3 934**	3 718
Deferred income	**378**	587
Liabilities under finance leases (refer to note 19.1)	**828**	884
Provisions (refer to note 19.2)	**2 316**	2 669
Settlement balances	**906**	1 217
Share-based payment liability (refer to note 49 of the Bank's financial statements)	**304**	195
	8 779	9 322
Portfolio analysis		
Designated at fair value	**304**	195
Financial liabilities at amortised cost	**6 210**	5 871
Non-financial liabilities	**2 265**	3 256
	8 779	9 322

Included above are settlement accounts with the Company's ultimate parent company for R284 million (2007: R121 million). Refer to note 39 for the full disclosure of related party transactions.

19.1 Liabilities under finance leases

COMPANY

2008	Minimum lease payments due Rm	Interest Rm	Principal Rm
Less than one year	**268**	**(132)**	**136**
Between one and two years	**229**	**(110)**	**119**
Between two and three years	**235**	**(87)**	**148**
Between three and four years	**262**	**(55)**	**207**
Between four and five years	**193**	**(21)**	**172**
More than five years	**47**	**(1)**	**46**
	1 234	**(406)**	**828**

2007	Minimum lease payments due Rm	Interest Rm	Principal Rm
Less than one year	230	(148)	82
Between one and two years	252	(130)	122
Between two and three years	223	(108)	115
Between three and four years	231	(86)	145
Between four and five years	257	(55)	202
More than five years	240	(22)	218
	1 433	(549)	884

Under the terms of the lease, no contingent rentals are payable. Refer to note 15 for details of property, subject to finance leases.

19. Other liabilities and sundry provisions *(continued)*

19.2 Provisions

COMPANY

	Leave pay provision Rm	Redundancy and restructuring provision Rm	Staff bonus and incentive provision Rm	Sundry provisions Rm	Total Rm
2008					
Balance at the beginning of the year	**476**	**—**	**1 501**	**692**	**2 669**
Additions	**209**	**3**	**1 438**	**265**	**1 915**
Amounts used	**(279)**	**—**	**(1 647)**	**(342)**	**(2 268)**
Balance at the end of the year	**406**	**3**	**1 292**	**615**	**2 316**

	Leave pay provision Rm	Redundancy and restructuring provision Rm	Staff bonus and incentive provision Rm	Sundry provisions Rm	Total Rm
2007					
Balance at the beginning of the year	418	—	1 215	491	2 124
Additions	222	—	1 414	320	1 956
Amounts used	(164)	—	(1 128)	(119)	(1 411)
Balance at the end of the year	476	—	1 501	692	2 669

Provisions expected to be recovered or settled within no more than 12 months after the balance sheet date were R1 689 million (2007: R1 411 million). Sundry provisions are made with respect to commissions, clawbacks, warranties and litigation claims.

A portion of the staff bonus and incentive provision is subject to an equity-settled share-based payment arrangement, the amount of which is determined after year-end.

COMPANY

	2008 Rm	2007 Rm
20. Deposits due to customers		
Call deposits	**62 055**	45 726
Cheque account deposits	**96 510**	94 776
Credit card deposits	**2 051**	2 173
Fixed deposits	**123 752**	101 925
Foreign currency deposits	**10 035**	8 330
Liabilities to clients under acceptances	**121**	108
Notice deposits	**7 148**	6 863
Other deposits	**6 760**	999
Repurchase agreements with non-banks (refer to note 41 of the Bank's financial statements)	**2 217**	1 115
Saving and transmission deposits	**56 982**	35 270
	367 631	297 285
Portfolio analysis		
Designated at fair value	**11 419**	11 465
Financial liabilities at amortised cost	**356 212**	285 820
	367 631	297 285

	COMPANY 2008 Rm	2007 Rm
21. Debt securities in issue		
Floating rate notes	**55 832**	35 949
Negotiable certificates of deposit	**69 260**	75 925
Other debt securities in issue	**23 487**	14 939
Promissory notes	**3 823**	7 210
	152 402	134 023
Portfolio analysis		
Designated at fair value		
Other debt securities in issue	**5 890**	3 764
Financial liabilities at amortised cost	**135 788**	121 938
Floating rate notes	**55 832**	35 949
Negotiable certificates of deposit	**69 012**	75 925
Other debt securities in issue	**7 121**	2 854
Promissory notes	**3 823**	7 210
Hedged item in fair value hedging relationship	**10 724**	8 321
Negotiable certificates of deposit	**248**	—
Other debt securities in issue	**10 476**	8 321
	152 402	134 023
22. Loans from Absa Group companies		
Fellow subsidiaries	**646**	500
Portfolio analysis		
Financial liabilities at amortised cost	**646**	500

23. Borrowed funds

23.1 Subordinated callable notes

The subordinated debt instruments listed below qualify as secondary capital in terms of the Banks Act, No 94 of 1990 (as amended).

Interest rate	Final maturity date	2008 Rm	2007 Rm
14,25%	22 March 2014	**3 100**	3 100
10,75%	26 March 2015	**1 100**	1 100
8,75%	1 September 2017	**1 500**	1 500
8,10%	27 March 2020	**2 000**	2 000
8,80%	7 March 2019	**1 725**	1 725
Three-month JIBAR + 0,75%	26 March 2015	**400**	400
Three-month JIBAR + 0,97%	31 March 2018	**1 080**	—
Three-month JIBAR + 1,00%	31 March 2018	**179**	—
Three-month JIBAR + 1,09%	31 March 2018	**361**	—
Three-month JIBAR + 1,20%	31 March 2018	**266**	—
Accrued interest		**378**	297
Fair value adjustment[1]		**54**	(326)
		12 143	9 796

Note

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

23. Borrowed funds *(continued)*

23.1 Subordinated callable notes *(continued)*

The 14,25% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 22 March 2009. Interest is paid semi-annually in arrear on 22 March and 22 September of each year, provided that the last date for payment shall be 22 March 2009. If Absa Bank Limited does not exercise the redemption option, 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 8,75% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 1 September 2012. Interest is paid semi-annually in arrear on 1 March and 1 September of each year, provided that the last date for payment shall be 1 September 2012. If Absa Bank Limited does not exercise the redemption option, interest is payable thereafter at a floating rate of three-month JIBAR plus 1,13% quarterly in arrear on 1 March, 1 June, 1 September and 1 December.

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

The 8,80% fixed rate 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.

The three-month JIBAR plus 0,75% 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%.

23. Borrowed funds *(continued)*

23.1 Subordinated callable notes *(continued)*

The three-month JIBAR plus 0,97% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 31 March 2013. Interest is paid semi-annually in arrear on 31 March and 30 September of each year, provided that the last date for payment shall be 31 March 2013. If Absa Bank Limited does not exercise the redemption option, then the floating rate payable after 31 March 2013 reprices from three-month JIBAR plus 0,97% to three-month JIBAR plus 1,47% quarterly in arrear on 31 March, 30 June, 30 September and 31 December.

The three-month JIBAR plus 1,00% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 31 March 2013. Interest is paid semi-annually in arrear on 31 March and 30 September of each year, provided that the last date for payment shall be 31 March 2013. If Absa Bank Limited does not exercise the redemption option, then the floating rate payable after 31 March 2013 reprices from three-month JIBAR plus 1,00% to three-month JIBAR plus 1,50%, quarterly in arrear on 31 March, 30 June, 30 September and 31 December.

The three-month JIBAR plus 1,09% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 31 March 2013. Interest is paid semi-annually in arrear on 31 March and 30 September of each year, provided that the last date for payment shall be 31 March 2013. If Absa Bank Limited does not exercise the redemption option, then the floating rate payable after 31 March 2013 reprices from three-month JIBAR plus 1,09% to three-month JIBAR plus 1,59%, quarterly in arrear on 31 March, 30 June, 30 September and 31 December.

The three-month JIBAR plus 1,20% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 31 March 2013. Interest is paid semi-annually in arrear on 31 March and 30 September of each year, provided that the last date for payment shall be 31 March 2013. If Absa Bank Limited does not exercise the redemption option, then the floating rate payable after 31 March 2013 reprices from three-month JIBAR plus 1,20% to three-month JIBAR plus 1,70%, quarterly in arrear on 31 March, 30 June, 30 September and 31 December.

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.

In accordance with the Company's articles of association, the borrowing powers of the Company are unlimited.

	COMPANY	
	2008 Rm	2007 Rm
Portfolio analysis		
Designated at fair value through profit or loss	**671**	—
Financial liabilities at amortised cost	**4 917**	4 951
Hedged item in fair value hedging relationship	**6 555**	4 845
	12 143	9 796

	COMPANY 2008 Rm	COMPANY 2007 Rm
24. Share capital and premium		
24.1 Ordinary share capital		
Authorised		
320 000 000 (2007: 320 000 000) ordinary shares of R1,00 each	**320**	320
250 000 000 (2007: 250 000 000) "A" ordinary shares of R0,01 each	**3**	3
	323	323
Issued		
302 609 359 (2007: 302 609 359) ordinary shares of R1,00 each	**303**	303
56 444 764 (2007: 34 676 057) "A" ordinary shares of R0,01 each	**0**	0
	303	303
Total issued capital		
Share capital	**303**	303
Share premium	**9 415**	5 415
	9 718	5 718

Unissued shares

The unissued shares are under the control of the directors subject to a limit of 5% of issued ordinary share capital as at the balance sheet date, in terms of a general authority to allot and issue them on such terms and conditions and at such times as they deem fit. This authority expires at the forthcoming Absa Group Limited annual general meeting.

Shares issued during the year

On 17 March 2008, 21 768 707 "A" ordinary shares were issued by Absa Bank Limited at R183,75 per share, being R0,01 par value and R183,74 share premium.

All shares issued by the Company are paid in full.

	COMPANY 2008 Rm	COMPANY 2007 Rm
24.2 Preference share capital – listed		
Authorised		
30 000 000 (2007: 30 000 000) non-cumulative non-redeemable preference shares of R0,01 each	**1**	1
Issued		
4 944 839 (2007: 4 944 839) non-cumulative non-redeemable preference shares of R0,01 each	**1**	1
Total issued capital		
Share capital	**1**	1
Share premium	**4 643**	4 643
	4 644	4 644

The preference shares have a dividend rate of 63% of the prime overdraft lending rate.

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

24. Share capital and premium *(continued)*

24.2 Preference share capital – listed *(continued)*

Shares issued during the previous year

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

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

25. Other reserves

Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

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 or impaired, in which case the cumulative amount recognised in equity is released to the income statement.

Cash flow hedging reserve

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

Regulatory general credit risk reserve

Total impairments, consisting of identified and unidentified impairments, calculated in terms of IAS 39 – *Financial Instruments: Recognition and Measurement*, should exceed the provisions calculated for regulatory purposes. Should this not be the case, the additional general credit risk reserve 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 is transferred to share capital and/or share premium. If the options lapse after vesting, the related reserve is transferred to retained earnings. If the options lapse before vesting, the related reserve is reversed through the income statement.

Notes to the Company financial statements

For the year ended 31 December

	COMPANY 2008 Rm	COMPANY 2007 Rm
26. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	**66**	108
Fair value adjustments on hedging instruments	**(2 235)**	(547)
Investments	**43**	894
Loans and advances to banks	**3 954**	1 797
Other loans and advances to banks	**2 323**	848
Reverse repurchase agreements	**1 631**	949
Loans and advances to customers	**64 824**	46 801
Cheque accounts	**3 575**	2 475
Corporate overdrafts and specialised finance loans	**1 102**	650
Credit cards	**2 772**	2 134
Foreign currency loans	**745**	653
Instalment credit agreements	**8 909**	6 963
Interest on impaired financial assets (refer to note 9)	**521**	271
Loans granted under resale agreements	**662**	504
Loans to associates and joint ventures	**181**	107
Microloans	**1 027**	314
Mortgages	**37 588**	27 683
Other advances[1]	**1 405**	741
Overnight finance	**1 438**	1 147
Personal loans	**3 044**	2 649
Preference shares	**436**	286
Wholesale overdrafts	**1 419**	224
Other interest and hedging income	**905**	397
Statutory liquid asset portfolio	**4 065**	1 656
	71 622	51 106
Portfolio analysis		
Fair value adjustments on hedged items		
Statutory liquid asset portfolio (refer to note 47.2)	**1 156**	(343)
Fair value adjustments on hedging instruments	**(2 235)**	(547)
Cash flow hedges	**(1 301)**	(1 004)
Fair value hedges (refer to note 47.2)	**(934)**	457
Interest on financial assets held at amortised cost	**72 071**	49 604
Interest on financial assets designated at fair value	**630**	2 392
Debt instruments	**43**	894
Loans and advances	**299**	1 360
Statutory liquid asset portfolio	**288**	138
	71 622	51 106

Included above is interest received from the Company's ultimate parent company of R1 018 million (2007: R94 million). Refer to note 39 for the full disclosure of related party transactions.

Note

[1]*Includes items such as interest on factored debtors' books.*

	COMPANY	
	2008 Rm	2007 Rm
27. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	**1 784**	796
Debt securities in issue	**17 927**	10 905
Deposits due to customers	**31 398**	20 237
Call deposits	**7 095**	4 075
Cheque account deposits	**5 626**	4 548
Credit card deposits	**75**	63
Fixed deposits	**13 010**	8 675
Foreign currency deposits	**965**	1 266
Notice deposits	**585**	470
Other deposits	**933**	7
Saving and transmission deposits	**3 109**	1 133
Deposits from banks	**1 097**	1 235
Call deposits	**658**	658
Fixed deposits	**161**	261
Other	**278**	316
Fair value adjustments on hedging instruments	**(829)**	560
Interest incurred on finance leases	**148**	156
Other interest	**377**	—
	51 902	33 889
Portfolio analysis		
Fair value adjustments on hedged items (refer to note 47.2)	**818**	(417)
Borrowed funds	**368**	(241)
Debt securities in issue	**450**	(176)
Fair value adjustments on hedging instruments (refer to note 47.2)		
Fair value hedges	**(829)**	560
Interest paid on financial liabilities designated at fair value	**1 666**	—
Debt securities in issue	**706**	—
Deposits due to customers	**960**	—
Interest paid on financial liabilities held at amortised cost	**50 247**	33 746
Borrowed funds	**1 416**	1 037
Debt securities in issue	**16 771**	11 081
Deposits from banks	**1 097**	1 235
Deposits due to customers	**30 438**	20 237
Interest incurred on finance lease	**148**	156
Other interest	**377**	—
	51 902	33 889

Included above is interest paid to the Company's ultimate parent company of R259 million (2007: R250 million). Refer to note 39 for the full disclosure of related party transactions.

	COMPANY 2008 Rm	2007 Rm
28. Net fee and commission income		
Fee and commission income		
Asset management and other related fees	**72**	87
Credit-related fees and commissions	**10 846**	9 442
Credit cards	**1 570**	1 543
Cheque accounts	**2 990**	2 536
Electronic banking	**3 013**	2 657
Other	**1 168**	911
Saving accounts	**2 105**	1 795
External administration fees	**230**	192
Insurance commission received	**385**	346
Other fees and commissions	**97**	88
Trust and other fiduciary services	**714**	547
Project finance fees	**690**	519
Portfolio and other management fees	**16**	16
Unit and property trust income	**8**	12
	12 344	10 702
Fee and commission expense	**(635)**	(567)
	11 709	10 135

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

	COMPANY 2008 Rm	2007 Rm
28.1 Included above is net fees and commissions linked to financial instruments not at fair value		
Fee and commission income		
Credit cards	**725**	740
Cheque accounts	**2 990**	2 536
Electronic banking	**3 013**	2 657
Other	**649**	476
Saving accounts	**2 105**	1 795
	9 482	8 204
Fee and commission expense	**(168)**	(147)
	9 314	8 057

	COMPANY 2008 Rm	2007 Rm
29. Gains and losses from banking and trading activities		
Associates and joint ventures	**—**	2
Dividends received	**—**	8
(Loss)/profit realised on disposal	**—**	(6)
Designated at fair value through profit or loss	**(494)**	1 288
Debt instruments	**19**	—
Debt securities in issue	**(750)**	(116)
Deposits due to customers	**(1 794)**	183
Deposits from banks	**(1 606)**	(435)
Equity instruments	**1 255**	867
Loans and advances to banks	**1 491**	510
Loans and advances to customers	**891**	333
Statutory liquid asset portfolio	**—**	(54)
Held for trading		
Derivatives and trading instruments	**3 889**	192
Ineffective hedges	**34**	79
Cash flow hedges (refer to note 47.2)	**76**	(60)
Fair value hedges (refer to note 47.2)	**(42)**	139
	3 429	1 561
30. Gains and losses from investment activities		
Associates and joint ventures		
Dividends received	**—**	3
Designated at fair value through profit or loss		
Equity instruments	**8**	43
Subsidiaries	**762**	533
Dividends received	**331**	497
Profit realised on disposal	**431**	36
	770	579
31. Other operating income		
Exchange differences	**125**	93
Internal banking income	**—**	175
Profit on disposal of intangible assets	**740**	68
Profit on disposal of property and equipment	**48**	80
Rental income from property subleases	**109**	92
Sundry income[1]	**52**	141
	1 074	649

Note

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

Notes to the Company financial statements

For the year ended 31 December

	COMPANY 2008 Rm	2007 Rm
32. Operating expenses		
Amortisation on intangible assets (refer to note 14)	**103**	63
Auditors' remuneration	**64**	51
Audit fees	**53**	45
Audit fees – under provision from prior periods	**6**	2
Other fees	**5**	4
Cash transportation	**320**	268
Depreciation (refer to note 15)	**788**	741
Equipment rental and maintenance	**206**	257
Information technology	**1 390**	1 076
Marketing costs	**895**	885
Operating lease expenses on property	**813**	761
Other operating costs	**1 458**	1 177
Other professional fees	**1 102**	1 204
Printing and stationery	**224**	234
Staff costs	**10 305**	9 038
Bonuses	**1 438**	1 414
Employer contributions to post-retirement funds	**609**	525
Other staff costs	**484**	340
Salaries	**7 468**	6 426
Share-based payments (refer to note 49 of the Bank's financial statements)	**120**	186
Training costs	**186**	147
Telephone and postage	**742**	650
	18 410	16 405
Average number of employees employed by the Company	**32 959**	32 167
Number of employees employed by the Company at year-end	**33 074**	32 843
33. Other impairments		
Financial instruments		
Available-for-sale instruments (refer to note 11.1)	**1**	—
Other	**(12)**	58
Computer software development costs (refer to note 14)	**1**	21
Repossessed properties	**(13)**	37
	(11)	58

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

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

- Impairments on available-for-sale financial instruments are reported in the "Other" segment.
- Impairments on computer software development costs are reported in the "Other" segment.
- The impairment reversal of repossessed properties are reported in the retail banking segment.

The previous year's impairment losses were reported in the following segments:

- Repossessed properties were reported in the retail banking segment.
- Impairments on computer software development costs were reported in the "Other" segment.

	COMPANY	
	2008 Rm	2007 Rm
34. Indirect taxation		
Payments to third parties	**46**	35
Training levy	**74**	66
Value added tax net of input credits	**508**	540
	628	641
35. Taxation expense		
Current		
Foreign taxation	**402**	189
Secondary taxation on companies	**119**	182
South African current taxation	**2 996**	2 520
South African current taxation – prior year	**(11)**	(16)
	3 506	2 875
Deferred tax		
Deferred taxation (refer to note 16.1)	**(538)**	274
Accelerated tax depreciation	**(149)**	174
Allowances for loan losses	**(547)**	(75)
Other provisions	**14**	(21)
Other temporary differences	**144**	196
	2 968	3 149
Reconciliation between accounting profit and the tax expense		
Operating profit before income tax	**12 070**	10 857
Tax calculated at a tax rate of 28% (2007: 29%)	**3 380**	3 149
Effect of different tax rates in other countries	**(33)**	(23)
Effect on opening deferred taxes resulting from the reduction in the income tax rate	**(27)**	—
Expenses not deductible for tax purposes	**15**	292
Income not subject to tax	**(506)**	(438)
Other	**20**	(13)
Secondary taxation on companies	**119**	182
	2 968	3 149

	COMPANY 2008 Rm	COMPANY 2007 Rm

36. Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

	2008 Rm	2007 Rm
Profit attributable to ordinary equity holder of the Company	8 645	7 395
Weighted average number of ordinary shares in issue (millions)	354,6	337,3
Issued shares at the beginning of the year (millions)	337,3	337,3
Effect of shares issued during the year (weighted millions)	17,3	—
Basic earnings per share (cents)	**2 438,0**	2 192,4
Diluted earnings per share (cents)	**2 438,0**	2 192,4

37. Headline earnings

	COMPANY 2008 Gross Rm	COMPANY 2008 Net[1] Rm	COMPANY 2007 Gross Rm	COMPANY 2007 Net[1] Rm
Headline earnings is determined as follows:				
Net profit attributable to ordinary equity holder of the Company		8 645		7 395
Adjustments for:				
IAS 16 – Net profit on disposal of property and equipment (refer to note 31)	(48)	(35)	(80)	(57)
IAS 21 – Recycled foreign currency translation reserve, disposal of investments in foreign operations	—	—	(25)	(30)
IAS 27 – Net profit on disposal of subsidiaries (refer to note 30)	(431)	(431)	(36)	(36)
IAS 28 and 31 – Net loss on disposal of associates and joint ventures (refer to note 29)	—	—	6	6
IAS 38 – Net profit on disposal and impairment of intangible assets (refer to notes 31 and 33)	(739)	(636)	(47)	(43)
IAS 39 – Release of available-for-sale reserves	127	92	83	69
IAS 39 – Impairment of available-for-sale-assets (refer to note 33)	1	1	—	—
Headline earnings		**7 636**		7 304
Diluted headline earnings		**7 636**		7 304
Headline earnings per share (cents)		**2 153,4**		2 165,4
Diluted headline earnings per share (cents)		**2 153,4**		2 165,4

Note

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

	COMPANY 2008 Rm	2007 Rm
38. Dividends per share		
Dividends paid to the ordinary equity holder during the year		
19 February 2008 final dividend number 43 of 323,8 cents per ordinary share (20 February 2007: 208,2 cents)	**980**	630
Special dividend paid to Absa Group Limited – March 2008	**4 000**	—
7 August 2008 interim dividend number 44 of 322,2 cents per ordinary share (2 August 2007: 465,9 cents)	**975**	1 409
	5 955	2 039
Dividends paid to the ordinary equity holder relating to income for the year		
7 August 2008 interim dividend number 44 of 322,2 cents per ordinary share (2 August 2007: 465,9 cents)	**975**	1 409
Special dividend paid to Absa Group Limited – March 2008	**4 000**	—
9 February 2009 final dividend number 45 of 429,6 cents per ordinary share (19 February 2008: 323,8 cents)	**1 300**	980
	6 275	2 389
The STC payable by the Company in respect of the dividend approved and declared subsequent to the balance sheet date, amounts to R130 million. No provision has been made for this dividend and the related STC in the financial statements at the balance sheet date.		
Dividends paid to preference equity holders during the year		
19 February 2008 final dividend number 4 of 4 436,00 cents per preference share (20 February 2007: 3 784,00 cents)	**219**	114
7 August 2008 interim dividend number 5 of 4 797,49 cents per preference share (2 August 2007: 4 043,00 cents)	**238**	199
	457	313
Dividends paid to preference equity holders relating to income for the year		
7 August 2008 interim dividend number 5 of 4 797,49 cents per preference share (2 August 2007: 4 043,00 cents)	**238**	199
9 February 2009 final dividend number 6 of 4 734,49 cents per preference share (19 February 2008: 4 436,00 cents)	**236**	219
	474	418

The STC payable by the Company in respect of the dividend approved and declared subsequent to the balance sheet date amounts to R23,6 million. No provision has been made for this dividend and the related STC in the financial statements at the balance sheet date.

39. Related parties

Refer to note 43 of the Bank's financial statements for the disclosure of related party transactions.

Notes to the Company financial statements

For the year ended 31 December

	COMPANY 2008 Rm	COMPANY 2007 Rm
40. Managed funds		
Other	**2 237**	2 111
Portfolio management	**1 955**	1 420
Unit trusts	**133**	155
	4 325	3 686
41. Financial guarantee contracts		
Financial guarantee contracts	**4 590**	824

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

	COMPANY 2008 Rm	COMPANY 2007 Rm
42. Commitments		
Authorised capital expenditure		
Contracted but not provided for	**455**	83

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

	COMPANY 2008 Rm	COMPANY 2007 Rm
Minimum lease payments due		
No later than one year	**1 094**	857
Later than one year and no later than five years	**2 221**	1 780
Later than five years	**473**	274
	3 788	2 911

Operating lease payments represent rentals payable by the Company for certain of its office properties and equipment. Leases are negotiated for an average term of three to five years and rentals are renegotiated annually.

	COMPANY 2008 Rm	COMPANY 2007 Rm
43. Contingencies		
Guarantees	**10 224**	13 815
Irrevocable facilities	**42 788**	40 040
Letters of credit	**6 069**	2 790
Other contingencies	**25**	23
	59 106	56 668

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

Guarantees include the following:
- Performance guarantee contracts: Contracts where the Company undertakes to make specified payments to a counterparty should a specified third party not perform in terms of its specified contractual obligations.
- Payment guarantee contracts: Contracts where the Company undertakes to make specified payments to a counterparty should a specified third party not make payments to the counterparty in terms of its specified contractual obligations.

43. Contingencies *(continued)*

Legal proceedings

The Company has been party in proceedings against it during the year, and as at year-end the following few cases need further disclosure:

- During 2001, a US$100 million facility was granted to Trans Sahara Trading (IOM) Limited (TST). The government of Zambia (GRZ) breached an undertaking it gave to the Company and in addition interfered in the operations of TST leading to TST's inability to service the facility. The Company contends that this conduct gives rise to a liability on the part of TST, which the GRZ denies. MNB attorneys, previously acting on behalf of TST, have obtained an interim charging order entitling them to dispose of a portion of the oil stock owned by TST in settlement of legal fees due. In view of the Company's obvious interest in these proceedings, application for leave to intervene has been launched. Since the presiding court will be required to make a ruling as to ownership, and therefore the validity of the Company's security, these proceedings are considered crucial to the outcome of the recovery effect. Leave to intervene was granted to the Company on 22 July 2008, at which time the attorney general (AG) of the GRZ was joined to the proceedings. The proceedings were then postponed to 8 December 2008 in order to afford the AG an opportunity to file an answering affidavit. In order to prevent the prescription of its claim, the Company issued summons against the GRZ directly. Although these proceedings constituted an aggressive step, every effort was made to sensitise stakeholders within the GRZ of the reason for the Company doing so in an effort to maintain amicable settlement negotiations. The Company held credit insurance in respect of the facility. After protracted negotiation, an agreement was concluded in terms whereof the insurers paid to the Company an amount of US$12 million.
- A Company employee has been accused of opening an incorrectly designated bank account within the Ovation Group of companies, which was subsequently used for fraudulent purposes. The Company has received 22 letters of demand from persons who deposited money (approximately R3,5 million) into the incorrectly opened account. All these monies appear to have been lost. During the year a portion of these claimants have instituted claims in respect of which the Company has entered appearance to defend, and a summary judgement application is now pending. It is anticipated that the claim will be both legally and factually difficult. The curators of other entities within the Ovation Group are currently investigating its affairs from which further claims may conceivably flow. This matter is closely linked to the Fidentia group.
- Rotrax Cars SA CC (the customer) has made a claim against the Company for allegedly closing a facility in an inappropriate manner. From initial investigations it appears that the customer failed to comply with its obligations in terms of the facility granted to it. The Company proceeded to institute recovery action against the customer. The summons served by Bernert and CAFA (plaintiffs), does not disclose a cause of action against the Company and the Company filed notices for the plaintiffs to clarify the cause of complaint. The plaintiffs withdrew their claim in June 2005, however they subsequently launched an application to withdraw the notice of withdrawal, which application was dismissed by the court in June 2006. The plaintiffs have launched an application for leave to appeal the judgement and have sought permission for their claim to be reinstated. It is expected that the application for leave to appeal will only be heard in the event that the plaintiffs proceed to set down the application. The chances of the plaintiffs being successful and the claim being reinstated are reasonably possible. If successful, damages are estimated at R50 million. The Company will defend the claim if the court grants the order to reinstate the claim.

	COMPANY	
	2008 Rm	2007 Rm
44. Cash and cash equivalents		
Cash, cash balances and balances with central banks	**3 898**	4 658
Loans and advances to banks	**27**	347
	3 925	5 005

45. Non-current assets and liabilities held-for-sale

The Company, through the private equity division in Absa Capital, has transferred assets to the value of R2 686 million to a newly formed fund during the year. The Company remains exposed to some of the risks and rewards on these assets and consequently continued to recognise these assets within "Non-current assets held-for-sale" on the balance sheet. The associated liability representing third party investments already received by the fund was carried within "Non-current liabilities held-for-sale" and carried at fair value.

	COMPANY
	2008 Rm
Non-current assets held-for-sale	
Investments	**2 495**
Non-current liabilities held-for-sale	
Other liabilities and sundry provisions	**408**

46. Fair value of financial instruments

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not measured on the Company's balance sheet at their fair value.

	COMPANY			
	2008		2007	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Financial assets				
Balances with the SARB	**12 626**	**12 626**	10 395	10 395
Coins and bank notes	**3 898**	**3 898**	4 658	4 658
Cash, cash balances and balances with central banks (refer to note 2)	**16 524**	**16 524**	15 053	15 053
Loans and advances to banks (refer to note 4)	**24 878**	**24 884**	30 093	30 149
Other assets (refer to note 6)	**7 419**	**7 419**	4 219	4 219
Retail banking	**328 853**	**329 553**	301 215	300 979
Cheque accounts	**6 447**	**6 447**	6 036	6 036
Credit cards	**13 378**	**13 378**	12 941	12 941
Instalment credit agreements	**40 473**	**40 681**	37 346	37 186
Loans to associates and joint ventures	**5 441**	**5 441**	6 466	6 466
Microloans	**3 086**	**3 224**	2 459	2 459
Mortgages	**249 119**	**249 473**	225 575	225 520
Other	**1 065**	**1 065**	1 182	1 182
Personal loans	**9 844**	**9 844**	9 210	9 189
Absa Capital	**52 840**	**51 532**	39 339	38 162
Absa Corporate and Business Bank	**111 536**	**111 688**	78 236	78 315
Corporate	**27 556**	**27 556**	10 640	10 643
Large and Medium	**61 269**	**61 421**	50 166	50 242
Other	**22 711**	**22 711**	17 430	17 430
Other	**254**	**254**	468	468
Loans and advances to customers – net of impairment (refer to note 8)	**493 483**	**493 027**	419 258	417 924
Loans to Absa Group companies (refer to note 10)	**15 845**	**15 845**	11 431	11 431
Total	**558 149**	**557 699**	480 054	478 776

46. Fair value of financial instruments *(continued)*

	COMPANY			
	2008		2007	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Financial liabilities				
Deposits from banks (refer to note 17)	**50 703**	**50 708**	54 636	54 636
Other liabilities and sundry provisions (refer to note 19)	**6 210**	**6 210**	5 871	5 871
Call deposits	**62 055**	**62 051**	45 726	45 726
Cheque account deposits	**96 510**	**96 510**	94 776	94 776
Credit card deposits	**2 051**	**2 051**	2 173	2 173
Fixed deposits	**114 550**	**115 051**	91 575	113 330
Foreign currency deposits	**10 035**	**10 035**	8 330	8 330
Liabilities to clients under acceptances	**121**	**121**	108	108
Notice deposits	**7 148**	**7 148**	6 863	6 857
Other deposits	**6 760**	**6 760**	999	999
Saving and transmission deposits	**56 982**	**56 982**	35 270	35 270
Deposits due to customers (refer to note 20)	**356 212**	**356 709**	285 820	307 569
Debt securities in issue (refer to note 21)	**135 788**	**136 116**	121 938	158 331
Borrowed funds (refer to note 23)	**4 917**	**4 905**	4 951	5 118
Total	**553 830**	**554 648**	473 216	531 525

47. 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 Company's accounting policies.

At the balance sheet date, the Company did not have any compound financial instruments with multiple embedded derivatives in issue.

47.1 Derivatives held for trading

The Company trades derivative instruments mainly on behalf of customers while the Company's own positions are insignificant. The Company transacts derivative contracts to address customer demands both as a market maker in the wholesale markets and in structuring tailored derivatives for customers.

47.2 Derivatives held for hedging

The Company 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

Fair value hedges are used by the Company 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 Company's fair value hedges principally consist of interest rate swaps that are used to protect against changes in market interest rates.

The Company recognised the following gains and losses on hedging instruments and hedging items:

	COMPANY	
	2008 Rm	2007 Rm
Gains/(losses) on hedged items (assets) (refer to note 26)	**1 156**	(343)
Gains/(losses) on hedging instruments (assets) (refer to note 26)	**(934)**	457
Gains/(losses) on hedged items (liabilities) (refer to note 27)	**(818)**	417
Gains/(losses) on hedging instruments (liabilities) (refer to note 27)	**829**	(560)

Hedge effectiveness is measured using a statistical method and results would have to be within the 80% to 125% range in order for hedge accounting to be applied.

47. Derivatives *(continued)*

47.2 Derivatives held for hedging *(continued)*

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

	COMPANY	
	2008 Rm	2007 Rm
Ineffectiveness (outside range) (refer to note 29)	**(42)**	139
Ineffectiveness (inside range)	**12**	(14)

Derivatives designated as cash flow hedges

The objective of cash flow hedges 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 Company uses interest rate swaps to protect against changes in cash flows of certain variable rate debt issues. The Company applies hedge accounting for its non-trading interest rate risk in major currencies by analysing the expected cash flows on a group basis.

The Company is exposed to variability in future interest cash flows on non-trading portfolio assets and liabilities which bear interest at a variable rate. The Company 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:

	COMPANY						
	2008						
	Less than 1 year Rm	**1 – 2 years Rm**	**2 – 3 years Rm**	**3 – 4 years Rm**	**4 – 5 years Rm**	**More than 5 years Rm**	**Total Rm**
Forecast receivable cash flow[1]	**1 167**	**695**	**454**	**310**	**112**	**25**	**2 763**
Forecast payable cash flow[1]	**(99)**	**(39)**	**(9)**	**(4)**	**(4)**	**(50)**	**(205)**
Net cash outflow	**1 068**	**656**	**445**	**306**	**108**	**(25)**	**2 558**
	2007						
	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	Total Rm
Forecast receivable cash flow[1]	3	—	—	—	—	—	3
Forecast payable cash flow[1]	(629)	(354)	(178)	(73)	(19)	(8)	(1 261)
Net cash outflow	(626)	(354)	(178)	(73)	(19)	(8)	(1 258)

Note

[1] *These balances are shown before taxation.*

47. Derivatives *(continued)*

47.2 Derivatives held for hedging *(continued)*

The following net gain/(loss) on cash flow hedges was recycled from equity to the income statement:

	COMPANY 2008 Rm	COMPANY 2007 Rm
Interest and similar income (refer to note 26)	**(1 301)**	(1 004)
Gains and losses from banking and trading activities (refer to note 29)	**76**	(60)
	(1 225)	(1 064)
Taxation	**343**	309
	(882)	(755)

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

	COMPANY 2008 Rm	COMPANY 2007 Rm
Ineffectiveness (outside range) (refer to note 29)	**76**	(60)
Ineffectiveness (inside range)	**(88)**	(46)

47.3 Detailed breakdown of derivatives

The Company 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 Company'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 Company 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 Company and a customer.

47. Derivatives *(continued)*

47.3 Detailed breakdown of derivatives *(continued)*

	COMPANY					
	2008				2007	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
Trading						
Foreign exchange derivatives						
Foreign exchange forward	433 497	(1 469)	22 585	(24 054)	314 329	356
Currency swaps	97 606	1 561	7 758	(6 197)	93 746	(869)
Cross-currency swaps	20 569	(78)	571	(649)	17 404	10
OTC foreign exchange options	32 976	(96)	1 076	(1 172)	5 991	7
OTC foreign exchange options purchased	15 883	1 076	1 076	—	3 000	92
OTC foreign exchange options written	17 093	(1 172)	—	(1 172)	2 991	(85)
Other OTC foreign exchange derivatives	43 230	(9)	60	(69)	25 587	(7)
Total foreign exchange derivatives	627 878	(91)	32 050	(32 141)	457 057	(503)
Interest rate derivatives						
Forward rate agreements (FRAs)	1 416 653	200	3 525	(3 325)	862 847	30
Swaps	44 112	(128)	61	(189)	28 452	(79)
Interest rate swaps	1 127 631	(546)	21 654	(22 200)	759 819	(768)
OTC options on FRAs and swaps	185 412	89	664	(575)	15 781	(145)
OTC options on FRAs and swaps purchased	94 843	664	664	—	10 411	52
OTC options on FRAs and swaps written	90 569	(575)	—	(575)	5 370	(197)
OTC bond option contracts	7 106	(126)	225	(351)	4 446	6
OTC bond options purchased	4 065	225	225	—	2 945	15
Other bond options written	3 041	(351)	—	(351)	1 501	(9)
Non-qualifying hedges						
Interest rate swaps	—	—	—	—	49 384	230
Total interest rate derivatives	2 780 914	(511)	26 129	(26 640)	1 720 729	(726)
Balance carried forward	3 408 792	(602)	58 179	(58 781)	2 177 786	(1 229)

47. Derivatives *(continued)*
47.3 Detailed breakdown of derivatives *(continued)*

	COMPANY					
	2008				2007	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
Balance brought forward	3 408 792	(602)	58 179	(58 781)	2 177 786	(1 229)
Equity derivatives						
OTC options purchased	47 873	2 018	2 018	—	13 468	1 010
OTC options written	40 715	(4 026)	—	(4 026)	11 357	(1 384)
Equity futures	1 059	193	210	(17)	1 529	1 304
Other OTC equity derivatives	2 278	21	94	(73)	83 839	12
OTC equity derivatives	91 925	(1 794)	2 322	(4 116)	110 193	942
Exchange traded derivatives	178 160	—	—	—	99 578	(15)
Exchange traded options purchased	60 957	—	—	—	38 340	—
Exchange traded options written	60 343	—	—	—	39 213	(15)
Exchange traded futures	56 860	—	—	—	22 025	—
Total equity derivatives	270 085	(1 794)	2 322	(4 116)	209 771	927
Commodity derivatives						
Agricultural forward	—	—	—	—	42	3
OTC agricultural options	18	(2)	—	(2)	81	—
OTC agricultural options purchased	—	—	—	—	21	2
OTC agricultural options written	18	(2)	—	(2)	60	(2)
OTC options on gold	11 144	173	2 903	(2 730)	8 276	80
OTC gold options purchased	5 572	2 903	2 903	—	4 138	1 664
OTC gold options written	5 572	(2 730)	—	(2 730)	4 138	(1 584)
Other OTC commodity derivatives	8 819	(68)	1 819	(1 887)	3 308	(94)
OTC commodity derivatives	19 981	103	4 722	(4 619)	11 707	(11)
Exchange traded agricultural derivatives	4 159	—	—	—	466	—
Exchange traded agricultural options purchased	309	—	—	—	32	—
Exchange traded agricultural options written	84	—	—	—	85	—
Exchange traded agricultural futures	3 766	—	—	—	349	—
Total commodity derivatives	24 140	103	4 722	(4 619)	12 173	(11)
Credit derivatives						
Swaps	6 717	(178)	54	(232)	3 328	39
Embedded derivatives	7 367	199	289	(90)	(3 514)	(12)
Total credit derivatives	14 084	21	343	(322)	(186)	27
Total trading	3 717 101	(2 272)	65 566	(67 838)	2 399 544	(286)

47. Derivatives *(continued)*
47.3 Detailed breakdown of derivatives *(continued)*

	COMPANY					
	2008				2007	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
Balance brought forward	**3 717 101**	**(2 272)**	**65 566**	**(67 838)**	2 399 544	(286)
Hedging						
Cash flow hedges						
Interest rate swaps	**130 354**	**2 280**	**2 530**	**(250)**	87 159	(1 608)
Forward foreign exchange	**376**	**(35)**	**—**	**(35)**	304	(13)
	130 730	**2 245**	**2 530**	**(285)**	87 463	(1 621)
Fair value hedges						
Interest rate swaps	**24 943**	**(315)**	**480**	**(795)**	1 969	(60)
Currency swaps	**6 005**	**129**	**129**	**—**	—	180
	30 948	**(186)**	**609**	**(795)**	1 969	120
Total hedges	**161 678**	**2 059**	**3 139**	**(1 080)**	89 432	(1 501)
Total derivative instruments	**3 878 779**	**(213)**	**68 705**	**(68 918)**	2 488 976	(1 787)

To the extent that the Company has ISDA agreements with the same counterparty, the Bank's net exposure was R33 329 million (2007: R11 127 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 Company'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 Company'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. Positive amounts reflect positive fair values, while amounts indicated in brackets reflect negative fair values.

Contents

Shareholder and administrative information

Shareholder and administrative information

Shareholders' information

Ordinary shareholders

As at 31 December

	Shares held			
	2008		2007	
	Number of shares held	%	Number of shares held	%
Major ordinary shareholder				
Absa Group Limited (including "A" ordinary shares)	**359 054 123**	**100,0**	337 285 416	100,0
Shareholder type				
Principal shareholder	**359 054 123**	**100,0**	337 285 416	100,0
Private investors	—	—	—	—
Total	**359 054 123**	**100,0**	337 285 416	100,0

Ordinary shareholders – public and non-public shareholders

As at 31 December

	Shares held					
	2008			2007		
	Number of shareholders	Number of shares held	%	Number of shareholders	Number of shares held	%
Public shareholders	—	—	—	—	—	—
Non-public shareholders						
Absa Group Limited	**1**	**359 054 123**	**100,0**	1	337 285 416	100,0
Total	**1**	**359 054 123**	**100,0**	1	337 285 416	100,0

Major preference shareholders

As at 31 December

	Shares held			
	2008		2007	
	Number of shares held	%	Number of shares held	%
Coronation Fund Managers	**498 757**	**10,08**	746 735	15,10
Liberty Group	**433 591**	**8,77**	492 349	10,00
Investment Solutions	**140 871**	**2,85**	144 367	2,90
Solar Spectrum Trading 311 (Proprietary) Limited	**90 000**	**1,82**	90 000	1,82
Sanlam Limited	**78 250**	**1,58**	100 918	2,00
Printing Industry Pension Fund	**72 348**	**1,46**	65 913	1,33
Stanlib Asset Management	**69 925**	**1,41**	117 925	2,40
Outsurance Insurance Company Limited	**62 477**	**1,26**	62 477	1,26
Capital Alliance Shareholder Fund	**59 379**	**1,20**	n/a	n/a
Old Mutual Group	**55 280**	**1,12**	133 473	2,70

Distribution of preference shareholders

As at 31 December

	Shares held 2008 Number of shares held	2008 %	2007 Number of shares held	2007 %
Mutual funds	**1 625 487**	**32,9**	1 656 394	33,5
Individuals	**1 091 129**	**22,1**	1 041 518	21,1
Nominees and trust companies	**697 881**	**14,1**	660 402	13,4
Private companies	**487 505**	**9,9**	533 890	10,8
Pension funds	**331 400**	**6,7**	381 625	7,7
Insurance companies	**446 420**	**9,0**	348 261	7,0
Banks	**83 709**	**1,7**	85 587	1,7
Endowment funds	**43 404**	**0,9**	129 583	2,6
Public companies	**37 976**	**0,8**	38 826	0,8
Medical schemes	**30 315**	**0,6**	14 045	0,3
Other corporations	**27 123**	**0,6**	24 682	0,5
Close corporations	**32 271**	**0,7**	19 579	0,4
Investment companies	**9 719**	**0,2**	9 947	0,2
Share trusts	**500**	**0,0**	500	0,0
Total	**4 944 839**	**100,0**	4 944 839	100,0

Public and non-public preference shareholders

As at 31 December

	Number of shareholders	Number of shares held	%	2007 Number of shareholders	2007 Number of shares held	2007 %
Public shareholders	**4 404**	**4 943 577**	**99,97**	4 108	4 184 242	84,6
Non-public shareholders						
Directors and associates of the Company	**3**	**1 262**	**0,03**	8	13 862	0,3
Strategic holdings	**—**	**—**	**—**	1	746 735	15,1
Total	**4 407**	**4 944 839**	**100,00**	4 117	4 944 839	100,0

Shareholders' information

Preference dividends

The following preference dividends were declared for the year ended 31 December 2008:

	Dividend number	Dividend amount (cents per share)
1 March 2008 – 31 August 2008	**5**	**4 797,49**
1 September 2008 – 28 February 2009	**6**	**4 734,49**

Shareholders' diary

Financial year-end	31 December 2008
Announcement of results for the year ended 31 December 2008	9 February 2009
Announcement of interim results[1]	6 August 2009

Dividends

Dividend	Declaration date	Last day to trade	Ex dividend date	Record date	Payment date
Final – December 2008	**9 February 2009**	**27 February 2009**	**2 March 2009**	**6 March 2009**	**9 March 2009**
Interim – June 2009[1]	6 August 2009	21 August 2009	25 August 2009	29 August 2009	1 September 2009

Note
[1]*Subject to change.*

Administration[1]

Absa Bank Limited
Reg No 1986/004794/06

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Johannesburg, 2001
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Board of directors
G Marcus (Chairperson)
D C Brink (Deputy Chairperson)
D C Arnold
B P Connellan
Y Z Cuba
B de Vitry (French)
S A Fakie
G Griffin
M W Hlahla
M J Husain
A Jenkins (British)
R Le Blanc (British)
N P Mageza[2]
T Mokgosi-Mwantembe
E C Mondlane, Jr. (Mozambican)
T S Munday
S G Pretorius
M Ramos[2] (Chief Executive)
J H Schindehütte[2]
F A Sonn
L L von Zeuner[2]
B J Willemse

Transfer secretaries
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Auditors
PricewaterhouseCoopers Inc.

Ernst & Young Inc.

Company Secretary
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Absa Corporate and Business Bank
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Notes
[1]*As at March 2009.*
[2]*Executive in Absa Bank.*

Glossary

Abbreviations and acronyms used in the Absa Bank shareholder report for the year ended 31 December 2008

A

Abacas	Asset Backed Collateralised Securities (Proprietary) Limited
ACBB	Absa Corporate and Business Bank
ACCA	Association of Chartered Certified Accountants
ACSA	Airports Company South Africa
AEaR	annual earnings at risk
AG	attorney general
AGM	annual general meeting
Aids	acquired immune deficiency syndrome
AIRB	Advanced Internal Rating Based
AMA	Advanced Measurement Approach
AML	anti-money laundering
AMP	Advanced Management Programme
ASSA	Actuarial Society of South Africa
ATM	automated teller machine
AVAF	Absa Vehicle and Asset Finance

B

Basel II	Basel II Capital Accord
BEE	black economic empowerment

C

Cars	Collateralised Auto Receivables Securitisation (Proprietary) Limited
CLA	Corporate Laws Amendment Act, No 24 of 2006
CLGD	country loss-given default
CODM	chief operating decision maker
CoGP	Codes of Good Practice
CPF	Commercial Property Finance
CPI	consumer price index
CRC	Credit Risk Committee
CSA	Credit Support Annex
CSI	corporate social investment

D

DAC	Directors' Affairs Committee
DG	default grade
DVaR	daily value at risk

E

EAD	exposure at default
ECCG	Employee Compliance Conduct Guide
ECSAFA	Eastern, Central and Southern African Federation of Accountants
EL	expected loss
EPS	earnings per share
ESAS	Executive Share Award Scheme
Exco	Executive Committee

F

FAIS	Financial Advisory and Intermediary Services Act, No 37 of 2002
FASSA	Fellow of the Actuarial Society of South Africa
FCMA	Fellow of Chartered Institute of Management Accountants
FIA	Financial Intermediaries Association
FIAC	Fellow of the Institute of Administration and Commerce
FICA	Financial Intelligence Centre Act, No 38 of 2001
FIRB	Foundation Internal Ratings Based
FRA	forward rate agreement
FSB	Financial Services Board
FSC	Financial Sector Charter
FSCC	Financial Sector Charter Council

G

GACC	Group Audit and Compliance Committee
GBP	sterling/Great British pounds
GCC	Group Credit Committee
CE	Chief Executive
GIBS	Gordon Institute of Business Science
GIC	Group Investment Committee
GRCMC	Group Risk and Capital Management Committee
GRHRC	Group Remuneration and Human Resource Committee
GRI	Global Reporting Initiative
GRZ	Government of Zambia

H

HIV	human immunodeficiency virus
Homes	Homes Obligors Mortgage Enhance Securities (Proprietary) Limited

I

IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAAP	internal capital adequacy assessment process
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMA	Internal Models Approach
IMF	International Monetary Fund
IRB	internal ratings-based
ISDA	International Swaps and Derivatives Association

J

JIBAR	Johannesburg Interbank Agreed Rate
JSAP	Joiners Share Award Plan

K

King II	King Report on Corporate Governance for South Africa, 2002

L

LGD	loss-given default
LTV	loan to value

Glossary

M	
MRC	Market Risk Committee
N	
NCA	National Credit Act, No 34 of 2005
O	
OECD	Organisation for Economic Co-operation and Development
OTC	over the counter
P	
PD	probability of default
PEP	Politically Exposed Person
PIT	point-in-time
PRO	principal risk owner
PRP	principal risks policy
PSP	Performance Share Plan
R	
RoA	return on average assets
RoE	return on equity
RSA	Republic of South Africa
RT	risk tendency
RWA	risk-weighted asset
S	
SAICA	South African Institute of Chartered Accountants
SARB	South African Reserve Bank
SENS	Securities Exchange News Service
SIC	Standard Industry Classification
SPE	special purpose entity
STC	secondary taxation on companies
T	
TST	Trans Sahara Trading (IOM) Limited
TTC	through-the-cycle
U	
USD/US$	United States dollar
V	
VAT	value added tax
Z	
ZAR	South African rand

Other contact information

Shareholder contact information

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

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Other contacts

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Mr Patrick Wadula

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Mr Marthinus van Rensburg

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Head office switchboard

Telephone: +27 11 350 4000

Customer support

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

Actionline: 0800 414 141

Absa call centre: 0860 008 600 or (+27) 011 276 4000

Customer relationship e-mail: actionline@absa.co.za

General e-mail enquiries: absa@absa.co.za

Customers are encouraged to first approach the specific branch, area or line manager if a dispute arises.

Reporting fraud or corruption

Absa has a dedicated telephone line to facilitate reporting possible fraud and corruption in Absa. This line is available 24 hours a day, seven days a week and is open to the general public and Absa employees.

Calls may be made anonymously. They will not be recorded and no attempt will be made to determine the telephone number of the caller. The fraud and corruption hotline is 0860 557 557.

BASTION GRAPHICS