

Absa Group Limited

Operational review

For the year ended 31 December 2008

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Introduction

Absa's business operations is segmented into four key clusters which provide banking and financial services products and services to the personal, commercial and corporate market segments, primarily in South Africa. In addition to this the Group has a number of support/specialist Group functions.

Business clusters/segments

Retail banking









Corporate and commercial banking

Investment banking

Bancassurance

Other Group activities¹

Highlights for the year under review

	 Earnings diversification	The Group's non-retail contribution increased to 48,8% and its non-banking contribution increased to 15,4% for the year.
	 Growth in the customer base	The Group increased its customer base to 10,7 million at 31 December 2008.
	 Core acquisition undertaken	Absa acquired a 50% + 1 share in Woolworths Financial Services (Proprietary) Limited, the pension fund administration portfolio from Glenrand MIB Benefit Services (Proprietary) Limited and an additional 50,3% in Meeg Bank Limited.
	 Formation of Absa Wealth	Absa Wealth was established during the year. The unit made good progress towards the achievement of its strategic objectives in 2008.

Note

¹ Other Group activities consist of the Group's corporate and capital and funding centre including the Group's head office functions.

Looking ahead

The Group's strategy in the near future will continue to focus on maintaining profitability, preserving capital and ensuring risk and cost discipline.

The Group's long-term strategy is aimed at making Absa the best provider of financial services in South Africa and selected African markets. The Group has five key objectives on which emphasis is placed, which are to:

- build a well-diversified business;
- retain market leadership in retail financial services;
- build a leading investment bank;
- accelerate growth in commercial business; and
- grow and build wealth management.

The Group will continue to anticipate and manage its business within the parameters of the evolving testing environment, while enhancing its competitiveness.

Absa's business operations

For the year ended 31 December 2008

	Retail banking	Corporate and commercial banking	Investment banking	Bancassurance
Scope	Provides banking services and products to personal customers and small and micro enterprises.	Provides banking services and solutions to corporates and medium and large businesses.	Provides large corporates, governments, hedge funds, asset managers and institutional clients with solutions to their financing and risk management needs.	Provides life and short-term insurance, investment and fiduciary services and products to all segments in South Africa.
Business units	<ul style="list-style-type: none"> • Retail Bank² • Absa Wealth • Absa Home Loans • Absa Card³ • Absa Vehicle and Asset Finance (AVAF) 	<ul style="list-style-type: none"> • Absa Corporate and Business Bank (ACBB) • Absa Development Company Holdings (Proprietary) Limited 	<ul style="list-style-type: none"> • Absa Capital 	<p>Insurance:</p> <ul style="list-style-type: none"> • Absa Life Limited • Absa Insurance Company Limited <p>Investments:</p> <ul style="list-style-type: none"> • Absa Fund Managers Limited • Absa Mortgage Fund Managers (Proprietary) Limited • Absa Stockbrokers (Proprietary) Limited • Absa Investment Management Services (Proprietary) Limited • Absa Asset Management (Proprietary) Limited • Absa Portfolio Managers (Proprietary) Limited

Notes

² Including Meeg Bank Limited, AllPay Consolidated Investment Holdings (Proprietary) Limited and the Group's retail African operations.

³ Including Woolworths Financial Services (Proprietary) Limited .

	Retail banking	Corporate and commercial banking	Investment banking	Bancassurance				
Business units (continued)				Fiduciary: <ul style="list-style-type: none"> Absa Trust Limited Absa Consultants and Actuaries (Proprietary) Limited Absa Health Care Consultants (Proprietary) Limited Other: <ul style="list-style-type: none"> Absa Brokers (Proprietary) Limited Absa Manx Insurance Company Limited 				
Highlights for the year	<ul style="list-style-type: none"> Growth in the customer base Improved customer service excellence Increased adoption of digital channels Robust deposit growth 	<ul style="list-style-type: none"> Strong growth in attributable earnings Solid growth in transaction volumes Impairments well controlled Cost efficiency focus 	<ul style="list-style-type: none"> Very strong growth in attributable earnings Increased contribution to Group earnings Exceptional performance from Secondary Markets Primary Markets performed well 	<ul style="list-style-type: none"> Solid operating income growth Shareholder value creation Expansion of distribution capacity Investment performance by Absa Asset Management 				
Financial performance								
For the year ended 31 December								
Attributable earnings (Rm)	2008	2007	2008	2007	2008	2007	2008	2007
RoEC (%)	3 706	4 943	2 806	2 167	2 249	1 733	1 597	1 502
RoE (%)	19,5	n/ a	24,8	n/a	21,3	n/a	n/a	n/ a
Cost-to-income ratio (%)	n/a	28 ,3	n/a	29 ,5	n/a	33 ,3	39,5	37 ,8
Impairment ratio (%)	54,3	54 ,7	49,8	51 ,8	41,0	35 ,4	38,5	35 ,9
	1,68	0,74	0,28	0,37	0,00	0,00	n/a	n/a

Looking forward

	Retail banking	Corporate and commercial banking	Investment banking	Bancassurance
	<p>Emphasis will be placed on:</p> <ul style="list-style-type: none"> • improving customer retention through cross-selling, superior service and an aspirational brand; • becoming the most recommended bank to attract new customers through providing innovative financial solutions; • embedding world-class risk management practices and lead in regulatory compliance; and • maintaining a market-leading delivery footprint, with highly motivated, talented employees. 	<p>Focus will be placed on providing innovative solutions and service to customers. The business is positioned to leverage off Absa Capital's expertise in structuring complex transactions and its international syndication and distribution capabilities.</p>	<p>Absa Capital will continue to invest in the support infrastructure and robust controls to manage all the types of risk inherent in the investment banking business.</p> <p>Other strategic focus areas for the business include:</p> <ul style="list-style-type: none"> • further growing its client distribution franchise and optimising the usage of its balance sheet and capital; • retaining the best talent and entrenching its position as employer of choice for top talent; • increasing risk management penetration with its clients, by providing them with tailor-made and innovative products; and • developing and pursuing opportunities jointly with other Absa Group businesses. <p>The sub-Saharan region continues to be an important growth opportunity for Absa Capital, and the business will actively pursue increasing its presence in selected markets.</p>	<p>The focus for the bancassurance cluster in 2009 will be on the diversification of income streams and improvement of cross-sell ratios, customer retention, and growth in assets under management.</p>

Retail banking

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

Absa retail product solutions are tailored to meet customers' particular financial needs. This product offering is delivered through an integrated multi-delivery approach, including physical outlets, self service channels, remote sales points and digital channels.

Business units

Retail Bank¹





Absa Wealth

Absa Home Loans

Absa Card²

Absa Asset and Vehicle Finance

Highlights for the year under review

 Growth in the customer base	Over 10 million South African customers bank with Absa, with one in three adults in South Africa banking with Absa and one in three homes in South Africa financed by Absa.
 Improved customer service excellence	Absa was rated second for service excellence in the Orange Index survey.
 Increased adoption of digital channels	Absa has one million registered mobile and internet banking customers.
 Robust deposit growth	Absa has the largest individual deposit base, with a market share of 27,5% as at 31 December 2008.

¹ Including Meeg Bank Limited, AllPay Consolidated Investment Holdings (Proprietary) Limited and the Group's retail African operations.

² Including Woolworths Financial Services (Proprietary) Limited.

Looking ahead

Emphasis will be placed on:

- improving customer retention through cross-selling, superior service and an aspirational brand;
- becoming the most recommended bank to attract new customers through providing innovative financial solutions;
- embedding world-class risk management practices and lead in regulatory compliance; and
- maintaining a market-leading delivery footprint, with highly motivated, talented employees.

Salient features

Year ended 31 December

	2008 Rm	2007 ¹ Rm	Change %
Balance sheet			
Total assets	476 386	418 904	13,7
Loans and advances to customers	347 084	311 803	11,3
Deposits due to customers	134 985	101 944	32,4
Income statement			
Net interest income	14 647	12 547	16,7
Impairment losses on loans and advances	(5 551)	(2 144)	>(100,0)
Non-interest income	10 262	9 023	13,7
Depreciation and amortisation	(356)	(288)	(23,6)
Operating expenses	(13 182)	(11 510)	(14,5)
Indirect taxation	(362)	(341)	(6,2)
Share of retained earnings from associates and joint ventures	18	20	(10,0)
Operating profit before income tax	5 476	7 307	(25,1)
Taxation expense	(1 652)	(2 289)	27,8
Profit for the year	3 824	5 018	(23,8)
Attributable to:			
Ordinary equity holders of the Group	3 706	4 943	(25,0)
Selected ratios			
Financial performance (%)			
Return on average equity ² (RoE)	n/a	28,3	
Return on average economic capital ² (RoEC)	19,5	n/a	
Return on average assets (RoA)	0,84	1,35	
Operating performance (%)			
Net interest margin on average assets	3,33	3,30	
Impairment losses on loans and advances as a percentage of average loans and advances to customers	1,68	0,74	
Non-interest income as a percentage of total operating income	41,2	41,8	
Cost-to-income ratio	54,3	54,7	
Cost-to-assets ratio	3,1	3,3	
Other salient features			
Attributable income from the rest of Africa (Rm)	54	81	(33,3)

Notes

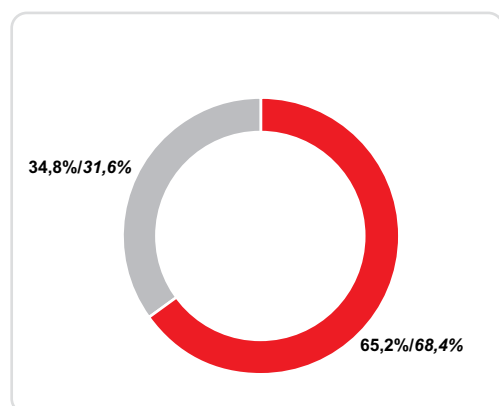
¹ December 2007 comparatives have been restated for structure changes.

² In December 2007, capital was allocated to segments based on Basel I principles. In 2008 the Group adopted a new measurement basis whereby capital is no longer allocated to segments. In order to measure a return per segment a notional economic capital amount has been used as a denominator. The return on average equity and return on average economic capital are not comparable. December 2007 comparatives have not been restated.

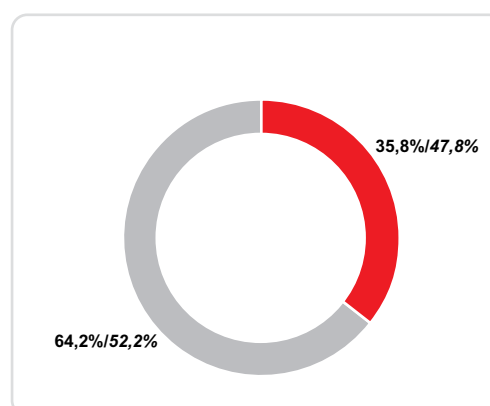
Contribution analysis

Year ended 31 December

Contribution to total loans and advances to customers (%)



Contribution to attributable earnings (%)



● Retail banking ● Rest of Absa

● Retail banking ● Rest of Absa

Note

Figures for the prior year are indicated in italics

Non-financial salient features

Year ended 31 December

	2008 Rm	2007 Rm	Change %
Customer base			
South African customers (million)	9,9	8,9	11,2
African customers (million)	0,7	0,6	16,7
Employee complement			
Permanent employee complement ³	21 762	22 327	(2,5)
Delivery footprint			
Absa's point of presence			
• South Africa ⁴	975	892	9,3
• Africa	217	119	82,4
Absa's self-service network			
• South Africa			
– Absa standard ATMs	4 316	4 053	6,5
– Non-standard ATMs	3 796	3 640	4,3
– Internet kiosks	385	362	6,4
– Self-service kiosks	343	269	27,5
• Africa	264	200	32,0
Telephone banking (South Africa)			
Absa Group telephone banking customers ⁵	688 907	653 253	5,5
Online banking (South Africa)			
Absa Group online banking users ⁵	1 048 664	900 610	16,4
Cellphone banking (South Africa)			
Absa Group cellphone banking customers ⁵	708 646	409 129	73,2
NotifyMe (South Africa)			
Absa Group NotifyMe customers	3 755 157	1 789 903	>100

Notes

³ Includes the Africa desk but excludes NBC, BBM and BCA employees.

⁴ Includes a small percentage non-retail points of presence.

⁵ A small percentage of these customers reside in the Group's commercial and corporate market segments.

Business unit attributable earnings

Year ended 31 December

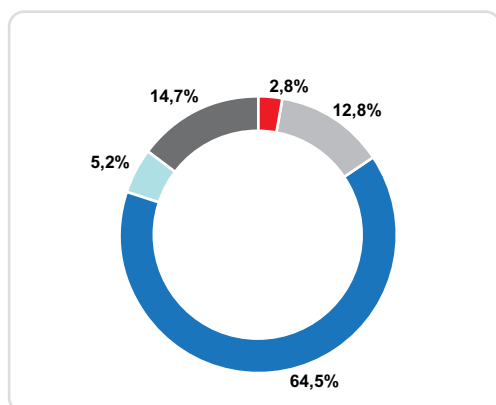
	2008 Rm	2007 ⁶ Rm	Change %
Absa Wealth → High net worth and ultra high net worth individuals	27	46	(41,3)
Retail Bank → Affluent to entry level individuals and SME enterprises	2 635	2 350	12,1
Absa Home Loans → Home loans	191	1 296	(85,3)
Absa Card → Credit cards	554	706	(21,5)
Absa Vehicle and Asset Finance → Instalment finance for individuals and SMEs	299	545	(45,1)
Retail banking	3 706	4 943	(25,0)

Note

⁶ December 2007 comparatives have been restated for structure changes.

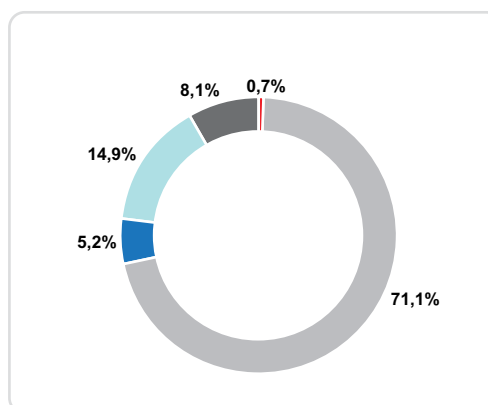
Business unit contribution analysis 2008

Contribution to loans and advances to customers (%)



● Absa wealth ● Retail bank ● Absa home loans
● Absa card ● Absa vehicle and asset finance

Contribution to total attributable earnings (%)



● Absa wealth ● Retail bank ● Absa home loans
● Absa card ● Absa vehicle and asset finance

Retail Bank

Retail Bank offers financial solutions to individuals ranging from those who are just entering the banking market, with basic formal banking needs, up to affluent individuals, who require more sophisticated banking solutions, and small and micro business owners. This diverse product range is delivered through an integrated multi-delivery approach, including a diverse range of physical outlets, remote sales points and digital channels.

Products and services

- **Transactional products** → A range of current account products for the core middle and retail affluent market, as well as the Prepaid Debit Card, Flexi, Mzansi and Sekulula accounts for entry-level banking customers. The unit also provides the Absa Islamic Banking Cheque Account and business transactional accounts for the SME market.
- **Cash distribution** → Cash distribution to social grant beneficiaries.
- **Savings and investment products** → A range of savings and investment options.
- **Credit products** → Unsecured/secured personal loans and loans to the SME market.
- **Asset finance** → Absa Islamic Banking Vehicle and Asset Finance and Vehicle and asset financing and commercial property finance for the SME market.
- **Micro enterprise finance** → Graduated enterprise loans (Yanda), retail enterprise loans and group lending.
- **Fiduciary services** → Islamic wills.
- **International banking** → Travellers cheques, Cash Passport debit card and foreign bank notes.
- **Exchange traded funds** → New Gold and Shari'ah Top 40 Exchange Traded Fund .

Salient features

Year ended 31 December

	2008	2007 ¹	Change %
Balance sheet (Rm)			
Total assets	142 698	118 172	20,8
Loans and advances to customers	44 413	38 246	16,1
Deposits due to customers	126 049	94 844	32,9
Total liabilities	140 346	114 249	22,8
Income statement (Rm)			
Attributable earnings	2 635	2 350	12,1
Selected ratios (%)			
Contribution to the Group's attributable earnings	24,9	24,5	
Return on average equity ²	n/a	90,4	
Return on average economic capital ²	48,5	n/a	
Impairment losses on loans and advances as a percentage of average loans and advances to customers	2,47	1,87	
Cost-to-income ratio	65,2	65,7	
Other salient features			
Number of customers (million)			
• Affluent individuals	151k	146k	3,6
• Middle and retail affluent individuals	3,8	3,4	13,3
• Mass/entry level individuals	5,4	4,9	10,5
• Small and micro enterprises	465k	451k	3,1

Notes

¹ December 2007 comparatives have been restated for structure changes.

² In December 2007, capital was allocated to segments based on Basel I principles. In 2008 the Group adopted a new measurement basis whereby capital is no longer allocated to segments. In order to measure a return per segment a notional economic capital amount has been used as a denominator. The return on average equity and return on average economic capital are not comparable. December 2007 comparatives have not been restated.

The year under review

Achievement of objectives

Commentary	2008 objectives	Achievement
<p>Retail Bank performed well during 2008, despite the challenging economic conditions.</p> <p>The customer base continued to grow as did transactions volumes. Continued focus was also given to optimise the Group's points of presence, with the Group increasing its footprint during the year thereby increasing the accessibility to financial services.</p> <p>Absa's digital channels maintained their strong industry position, with record sales growth in internet banking, cellphone banking, and NotifyMe. This was backed by various service enhancements, including real time opening of savings and investment accounts, personal loans and unit trust portfolios, CashSend payments and traffic fine payments, among others.</p> <p>The contact centre continued to entrench its position as a shared centre of excellence for all Absa Group business units, and continued to play a critical role in a multi-channel distribution environment.</p> <p>During the year, Absa Wealth was created thereby allowing Absa Private Bank to focus its efforts on the retail affluent market.</p>	<p>A strong focus on customer excellence</p> <hr/> <p>Focusing on attracting savings and investments, with the aim of positioning the Group as the savings bank of the nation</p> <hr/> <p>Profitable operations in the unsecured lending arena</p>	<p>✔ Absa was rated second for service excellence in the Orange Index survey.</p> <p>✔ The Group optimised its points of presence during the year under review.</p> <hr/> <p>✔ The Group significantly enhanced its position in the individual savings market and achieved a leading market share of 27,5% as at December 2008.</p> <hr/> <p>✔ Absa's market share in the microlending industry increased from 7,6% at 31 December 2007 to 9,3% by end December 2008.</p>

Business unit commentary

Absa Private Bank

The formation of Absa Wealth during 2008 resulted in Absa Private Bank being repositioned to focus solely on the affluent market segment. During the year, emphasis was placed on enhancing the value proposition to the affluent customer base through innovative product offerings and improved accessibility.

In enhancing the performance of the unit, improved sales and risk management processes were successfully implemented.

Absa Islamic Banking

Absa Islamic Banking experienced strong growth in 2008, mainly as a result of solid growth in customer numbers. Emphasis during the year was placed on mobilising Absa's resources, product development and sales to assist in achieving a successful Islamic banking offering. However, product development was slower than expected owing to complexity of compliance with Shari'ah and local laws.

Growth, particularly in deposits, was good and this, in conjunction with international recognition supports the delivery of a successful Islamic banking offering.

Transactional and Deposits

The core focus for the year was enabling the Group to achieve its objective of 10 million customers and the positioning of Absa as the savings bank of the nation. Both these objectives were achieved with the Group significantly expanding its customer base.

The Group also significantly enhanced its position in the individual savings market and achieved a leading market share of 27,5% as at December 2008.

Continued focus was also given to improve the Group's points of presence, with the Group increasing its footprint during the year under review. The Group's ATM footprint also expanded thereby increasing accessibility to financial services.

Absa Personal Loans

The Absa Personal Loans business enjoyed a successful year in terms of outlet expansion, balance sheet growth and customer growth. Gross advances on micro loans showed strong growth as did the growth in active customers.

The unit gained market share during the year and as a result, Absa's market share in the microlending industry increased from 7,6% at 31 December 2007 to 9,3% by end December 2008.

Emphasis was also placed on increasing Absa Personal Loans' delivery footprint. As at 31 December 2008, 58 loan centres and 26 hubs were operational, compared to 42 loan centres at December 2007.

Absa Small Business

During 2008, Absa Small Business focussed on embedding its target operating model, differentiating the customer base into core and priority markets and providing relevant value propositions. A review was undertaken of the lending value chain resulting in loan applications being processed and paid out seamlessly and credit limits not lapsing.

In addition, a relationship-based model was implemented through the introduction of relationship managers and business managers. Absa Small Business also continued to expand its distribution footprint.

A division of Absa Small Business, Absa Micro Enterprise Finance, was further embedded during the year. The unit increased its presence in the market by rolling out additional micro enterprise service centres and thereby increasing its customer base.

Digital Channels

Absa's digital channels maintained their strong industry position, with record sales growth in internet banking, cellphone banking, and NotifyMe. This was backed by various service enhancements, including real time opening of savings and investment accounts, personal loans and unit trust portfolios, CashSend payments and traffic fine payments, among others.

Telephony

The contact centre continued to entrench its position as a shared centre of excellence for all Absa Group business units, and continued to play a critical role in a multi-channel distribution environment.

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

- The official launch of the Absa Coega contact centre.
- The set-up of a "hosted" call centre with regard to collection operations.
- The launch of the Debt Repair Line to assist customers in financial distress.

African operations

Barclays Bank Mozambique S.A (Mozambique)

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

The bank posted a profit of MT 130 million for the year ended 31 December 2008, equalling its record performance since inception for a second consecutive year. This growth was on the back of enhancement of the corporate proposition as well as driving transactional volumes in the retail space.

2008 was a year of consolidation and investment in preparation for growth in 2009 and beyond. Investment in new branches, suites, ATMs and other points of presence as well as appointment of lead generators (LGs) provides the necessary footprint and launch pad for growth in the coming years.

On the governance front, the bank paid particular attention to honing its already robust governance and control framework by more closely aligning to Group best practice.

Banco Comercial Angolano (Angola)

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

BCA's activities during the course of 2008 were focused on reorganisation and implementation of best practices in the systems of internal controls and compliance to bring them to a level that is equivalent to international standards. This would better enable the bank to respond to the challenges it will face in future. The principle areas of focus were the areas of governance, finance, risk and credit, treasury, the branch network human resources, compliance and supplier management.

The major challenges faced in 2008 were:

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

On 11 June 2009, Absa Group, holding 50% of BCA at the time, sold its interest in BCA to certain existing Angolan shareholders.

National Bank of Commerce Limited (Tanzania)

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

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

In 2008 NBC grew non-interest income as a result of an increase in transaction volumes and enhanced foreign exchange trading.

AllPay Consolidated Investment Holdings (Proprietary) Limited

The Sekulula bank account grew steadily in 2008. AllPay, along with other service providers, have seen more beneficiaries migrate to bank accounts. This unfortunately continues to negatively affect the growth of AllPay.

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

As at December 2008, AllPay had a footprint in four provinces and 2,31 million beneficiaries.

Looking ahead

The overall objective for 2009 is to maintain profitability and asset quality, with focus on the following:

- Realignment of the Group's distribution network with focus on optimising existing infrastructure.
- Further employment of risk-based pricing.
- Retention of the customer base.
- Continued focus on quality credit, scorecard refinements and enhanced collection and recovery strategies.
- Driving deposit growth and exploring alternative product offerings.
- Continue to drive cost management culture in the business.

Absa Wealth

Absa Wealth services the onshore and offshore needs of high net worth and ultra high net worth customers, with the aim of redefining wealth management through world-class advice, relevant and durable solutions and integrated product and service offerings. Absa Wealth leverages the product capabilities of Absa Capital and the global presence of Barclays Wealth to provide holistic onshore and offshore wealth management solutions.

Products and services

Absa Wealth provides a full range of wealth management products and services, including:

- banking and credit;
- investment management;
- financial planning; and
- wealth advisory.

In partnership with Absa Capital and Barclays Wealth, Absa Wealth also offers customers access to a broad range of onshore and offshore banking, alternative investment and risk management products.

Salient features

Year ended 31 December

	2008	2007 ¹	Change %
Balance sheet (Rm)			
Total assets	10 357	8 206	26,2
Loans and advances to customers	9 566	7 567	26,4
Deposits due to customers	7 032	5 021	40,1
Total liabilities	10 341	7 763	33,2
Income statement (Rm)			
Attributable earnings	27	46	(41,3)
Selected ratios (%)			
Contribution to the Group's attributable earnings	0,3	0,5	
Return on average equity ²	n/a	11.4	
Return on economic capital ²	3,8	n/a	
Impairment losses on loans and advances as a percentage of average loans and advances to customers	0,33	0,38	
Cost-to-income ratio	76,6	61,6	
Other salient features			
Permanent employee complement			
Number of customers	10 072	8 396	20,0

Notes

¹ December 2007 comparatives have been restated for structure changes.

² In December 2007, capital was allocated to segments based on Basel I principles. In 2008 the Group adopted a new measurement basis whereby capital is no longer allocated to segments. In order to measure a return per segment a notional economic capital amount has been used as a denominator. The return on average equity and return on average economic capital are not comparable. December 2007 comparatives have not been restated.

The year under review

Achievement of objectives

Commentary	2008 objectives	Achievement
<p>Absa Wealth was established as a separated division during 2008.</p> <p>During the year under review, the business unit made good progress towards the achievement of its strategic objectives by placing emphasis on increasing the number of customer-facing professionals, developing a dedicated product capability and upgrading infrastructure platforms.</p>	Attracting and retaining talent	<ul style="list-style-type: none"> ✔ Increased the number of customer-facing professionals. ✔ Undertook significant senior management hires both locally and offshore.
	Leveraging organisational synergies	<ul style="list-style-type: none"> ✔ Business management was transferred to Absa Capital and Barclays Wealth. ✔ Improved operating constructs with retail and corporate and business banking divisions.
	Build a distinct proposition	<ul style="list-style-type: none"> ↔ Defined a unique customer value proposition. ↔ Building out a product office to deliver customised advice and differentiated products.

Looking ahead

Absa Wealth will continue to enhance delivery of its value proposition by:

- deepening and broadening customer relationships;
- accelerating advice and product development;
- realising the synergies of the Barclays Wealth relationship; and
- strengthening the talent base.

Absa Home Loans

Absa Home Loans (AHL) offers innovative residential property-related ownership solutions to Absa's target market segments. The home loan products are offered through the Group's internal channels (specialist and generic branch sales consultants, branch sales outlets, workplace banking, telephone, internet and mobile express agents), as well as through external intermediaries (estate agents, aggregators, mortgage originators, developers, as well as lead generators).

Products and services

- **Core products** ➔ Absa Home Loan and Pension Supported Housing Loan.
- **Tailor-made home loans** ➔ MyHome and the Private Bank home loan.
- **Home loan options** ➔ FastForward, FlexiReserve, Building Loan, Further Advance, Re-advance, Multiplan and variable and fixed interest rates.
- **Value adds** ➔ Homeowners Comprehensive insurance, Home Mortgage Protection cover, BondSaver, Absa Rewards, early access to funds, International Mortgages, Buy-to-Let, Absa One Call Home Solution, HomeBuy and Telkom SmartMoves.

Salient features

Year ended 31 December

	2008 Rm	2007 ¹ Rm	Change %
Balance sheet (Rm)			
Total assets	240 617	219 813	9,5
Loans and advances to customers	223 870	202 497	10,6
Deposits due to customers	-	-	-
Total liabilities	240 577	210 000	14,6
Income statement (Rm)			
Attributable earnings	191	1 296	(85,3)
Selected ratios (%)			
Contribution to the Group's attributable earnings	1,7	12,9	
Return on average equity ²	n/a	15,2	
Return on average economic capital ²	2,7	n/a	
Impairment losses on loans and advances as a percentage of average loans and advances to customers	1,19	0,26	
Cost-to-income ratio	30,6	33,8	
Other salient features			
Permanent employee complement	1 439	1 243	15,8
Number of accounts	704 729	697 306	1,1
Market share (%)			
• Residential mortgage advances (BA 900)	32,2	33,3	
• New bonds registered (Deeds Office)	29,6	28,9	
Business origination at registration (%)			
• Mortgage originators and other external intermediaries	61	63	
• Other	39	37	
Business origination at application (%)			
• Electronic	65	62	
• Manual	29	32	
• Internet	6	6	
Average loan to value (%)			
• Total book ³	49,2	48,9	
• New bonds registered ⁴	68,2	73,9	
Average purchase price of properties (R) ³	957 592	963 570	(0,6)

Notes

¹ Repossessed properties was moved from Home Loans to the Corporate centre during the year under review.

² In December 2007, capital was allocated to segments based on Basel I principles. In 2008 the Group adopted a new measurement basis whereby capital is no longer allocated to segments/business units. In order to measure a return per segment a notional economic capital amount has been used as a denominator. The return on average equity and return on average economic capital are not comparable. December 2007 comparatives have not been restated.

³ Based on all houses (80 – 400m²)

⁴ Based on historical values

The year under review

Achievement of objectives

Commentary	2008 objectives	Achievement
<p>The household sector was under severe financial pressure in the year under review on the back of rising inflation and interest rates. These and other deteriorating economic conditions led to AHL giving specific attention to initiatives that:</p> <ul style="list-style-type: none"> ensured the strengthening of its control environment; focused on customer retention and acquisition; and optimised intellectual capital. 	Improving customer acquisition and retention	<ul style="list-style-type: none"> Increased emphasis on the affordable housing market segment. Marked increase in the retention of existing customers. Further evolved the customer segmentation model.
	Strengthening the control environment	<ul style="list-style-type: none"> Key risks in the business were reassessed, and risk thresholds adjusted accordingly. Emphasis on regulatory compliance and the overarching governance landscape remained a priority throughout the year.
	Innovation	<ul style="list-style-type: none"> Launched the Absa one call home solution and an energy efficiency initiative in conjunction with Eskom.
	Technology enablement	<ul style="list-style-type: none"> Further strengthened the strategic pricing capability.
	Technology enablement Improving intellectual capital	<ul style="list-style-type: none"> Implemented a number of leadership and resource programmes.

Looking ahead

The current economic climate and its subsequent negative impact on the residential property market is set to continue through 2009, despite expectations of lower interest rates during the year. With some improvement in these conditions only expected into 2010, consumers will continue to experience financial strain in the short to medium term.

In the short term, AHL will continue to focus on the customer (by providing an enhanced customer experience and bringing value to the customer) and on its people (by pushing the transformation agenda and ensuring skills upliftment). There will be a continued focus on containment of cost growth, maximisation of non-interest income and collections.

In the medium to long term the business unit has the following focus areas:

- Optimise economic profit and grow headline earnings.
- Grow and retain relevant and profitable target segments.
- Enhance customer experience.
- Align and optimise the sales and distribution network.
- Create a sales leadership and management process.
- Create an embedded risk unit management process.
- Create the platform to enable a culture of innovation within AHL.
- An integrated skills and capacity management capability.
- Transformation and culture.

Absa Card

Absa Card provides global card acceptance, electronic payment and financial solutions in selected market segments. Services are distributed through the Group's multi-channel network. Product users include individuals and businesses from small and medium enterprises to corporates. The Merchant Acquiring team is responsible for providing a point-of-sale solution for merchants, be they retailers, restaurants or the travel industry.

Products and services

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

Salient features

Year ended 31 December

	2008 ¹ Rm	2007 Rm	Change %
Balance sheet (Rm)			
Total assets	24 812	13 995	77,3
Loans and advances to customers	18 069	11 817	52,9
Deposits due to customers	1 888	2 065	8,6
Total liabilities	23 933	12 807	86,9
Income statement (Rm)			
Attributable earnings	554	706	(21,5)
Selected ratios (%)			
Contribution to the Group's attributable earnings	5,2	7,4	
Return on average equity ²	n/a	70,7	
Return on average economic capital ²	25,1	n/a	
Impairment losses on loans and advances as a percentage of average loans and advances to customers	5,65	3,50	
Cost-to-income ratio	46,4	40,8	
Other salient features			
Permanent employee complement	2 087	1 208	72,8
Number of accounts (million) ³	3,9	1,9	105,3
Market share (%) (excl WFS)	26,3	25,1	4,6

Notes

¹ 2008 salient features include Woolworths Financial Services (Proprietary) Limited (WFS)

² In December 2007, capital was allocated to segments based on Basel I principles. In 2008 the Group adopted a new measurement basis whereby capital is no longer allocated to segments/business units. In order to measure a return per segment a notional economic capital amount has been used as a denominator. The return on average equity and return on average economic capital are not comparable. December 2007 comparatives have not been restated.

³ The 2008 number includes WFS's accounts.

The year under review

Achievement of objectives		
Commentary	2008 objectives	Achievement
Growth within Absa Card was subdued in 2008 owing to the testing economic conditions. Processes were reviewed and the operation was downsized. Products were assessed and removed from the market and sales channels were closely scrutinised and optimised, while numerous proactive credit risk actions were taken to retain customers and assets.	Increasing the card penetration of Absa customers	✔ Analytics and segmentation resulted in increase product usage.
	More actively recruit non-Absa customers under the Absa brand	↔ Open market account acquisition strategies were fine-tuned and adjusted to reflect the state of the economy and the market opportunity.
During the year, focus was placed on the improvement of the risk management decisioning capability and collections capacity.	Optimising account terms and business models	↔ Numerous actions were taken to improve Absa Card's yield and average margin.
	Improving operational efficiency and flexibility	✔ Absa Card's operations were rigorously analysed and right-sized.
On 1 October 2008, Absa concluded negotiations with Woolworths and established a joint venture, Woolworths Financial Services (Proprietary) Limited (WFS), in which Absa Group owns 50,0% plus 1 share of the issued shares.	Develop and grow the merchant acquiring business	✔ A number of new merchants were acquired during the year.
	Bring together the best capabilities of Absa, Absa Card, Barclays and Barclaycard	✔ An engagement model was concluded with Barclaycard that allows Absa Card to draw on their world-wide resource and capabilities.

Looking ahead

Absa Card has revised its vision after significant review during 2008. Absa Card's vision is to "own the world of simple payments". Customers are at the heart of its vision – future success depends on Absa Card's ability to make customers lives more convenient.

- **"Payment"** - by any means, not just card.
- **"Simple payment"** - making customers' lives easier.
- **"World"** - speaks to everything customers need and being the best, anywhere.
- **"Owning"** - means customers and competitors recognise Absa Card as the best port of call for making payments.

Significant work will be completed during 2009 to align Absa Card's customer plan, product propositions and operational capability with this vision.

Absa Vehicle and Asset Finance

Absa Vehicle and Asset Finance (AVAF) offers customised vehicle and asset finance products (ranging from the financing of manufacturing and mining equipment, to leases, office automation and the financing of private vehicles) and services to customers in the personal market.

AVAF accesses customers through a multi-channel approach encompassing AVAF's managed sales force situated in the Absa branches, the contact centre, approved motor dealers, suppliers and manufacturers, and the internet.

Products and services

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

Salient features

Year ended 31 December

	2008 Rm	2007 ¹ Rm	Change %
Balance sheet (Rm)			
Total assets	57 902	58 718	(1,4)
Loans and advances to customers	51 166	51 676	(1,0)
Deposits due to customers	16	14	14,3
Total liabilities	57 198	54 291	5,4
Income statement (Rm)			
Attributable earnings	299	545	(45,1)
Selected ratios (%)			
Contribution to the Group's attributable earnings	2,7	5,4	
Return on average equity ²	n/a	11,4	
Return on average economic capital ²	8,6	n/a	
Impairment losses on loans and advances as a percentage of average loans and advances to customers ¹	2,31	1,14	
Cost-to-income ratio	37,6	43,8	
Other salient features			
Permanent employee complement	1 365	1 564	(12,7)
Number of accounts	678 890	702 915	(3,4)

Notes

¹ December 2007 comparatives have been restated for structure changes - Commercial Asset Finance was moved from AVAF to Absa Corporate and Business Bank during the year under review.

² In December 2007, capital was allocated to segments based on Basel I principles. In 2008 the Group adopted a new measurement basis whereby capital is no longer allocated to segments/business units. In order to measure a return per segment a notional economic capital amount has been used as a denominator. The return on average equity and return on average economic capital are not comparable. December 2007 comparatives have not been restated.

The year under review

Achievement of objectives		
Commentary	2008 objectives	Achievement
<p>The total new vehicle market contracted by approximately 20,0% year on year in 2008 owing to the effects of the current economic downturn exerting pressure at all levels of the industry. With high interest rates, reduced levels of disposable income and rising inflation amongst other factors all contributing to the contraction in the vehicle and asset market in the year under review.</p> <p>The business unit's performance was negatively impacted by increased impairments, largely brought about by the continuing indebtedness of customers on the back of the high interest rate environment.</p> <p>Continued efficiency enhancements led to a decrease in the cost-to-income ratio mainly owing to the streamlining of head office and back office costs while maintaining the frontline sales capability.</p>	Increased focus on writing quality business	<ul style="list-style-type: none"> ✓ Focus for the year was placed on writing profitable business. ✓ Credit initiatives for new business resulted in improved business quality.
	Strengthening the collections and recovery capability	<ul style="list-style-type: none"> ✓ Intensive and detailed daily management of all credit and arrears related matters. ✓ Debt manager position implemented.
	Process efficiency and effectiveness	<ul style="list-style-type: none"> ✓ Continuous process improvement.
	Cost containment	<ul style="list-style-type: none"> ✓ Improved the cost-to-income ratio.
	Drive customer retention initiatives	<ul style="list-style-type: none"> ↻ Solid performance from value-added products .
	Increased penetration of the Absa customer base	<ul style="list-style-type: none"> ✓ Increased penetration into the retail customer base.
Extension of the product range extension	<ul style="list-style-type: none"> ✓ New products were successfully launched. 	

Looking ahead

The current economic climate and subsequent contraction of the vehicle market will continue to have a negative impact on new vehicle sales in 2009, with a recovery not expected until 2010. This may lead to some consolidation within the industry and knock-on effects on related industries.

In the short term, AVAF will continue to review credit assessment scorecards to restrict lending to customers with certain risk profiles, in conjunction with an emphasis on writing quality business, strengthening collections and recovery capabilities, continued containment of cost growth, and a focus on exploring new revenue-generating opportunities.

In the medium to long term, AVAF will emphasise:

- Embedding world-class risk management practices and regulatory compliance.
- Designing and implementing new business models to enable AVAF to service niche sub-segments of the vehicle and asset finance market.
- Continuously streamline processes and bed down key technology projects to improve efficiency and effectiveness.
- Driving customer retention and cross selling into the Absa Group customer base.
- Extending the current product range.

Corporate and commercial banking

Absa's corporate and commercial banking operations provide banking services and solutioning to corporates and medium and large businesses. The segment also provides integrated housing development solutions.

Business units

Absa Corporate and Business Bank (including Commercial Asset Finance and Africa Corporate)^{1, 2}





Absa Development Company (Holdings) Proprietary) Limited

Notes

¹ Absa's African operations' financial reporting is based on the nature of the specific operations. The corporate and commercial component of these operations is reported under corporate and commercial banking, whereas the retail and investment banking components are reported under retail and investment banking respectively.

² For Group reporting purposes, corporate and commercial banking is in general referred to as Absa Corporate and Business Bank (ACBB).

Highlights for the year under review

 Strong growth in attributable earnings	Absa's corporate and commercial operations recorded a 29,8% growth in attributable earnings to R2,8 billion for the year ended 31 December 2008.
 Solid growth in transaction volumes	Transaction volumes increased by a robust 10% for the year.
 Impairments well controlled	The impairment ratio for the Group's corporate and commercial operations was 0,28% for 2008.
 Cost efficiency focus	The cost-to-income ratio for the Group's corporate and commercial operations improved to 49,8% (51,8% for 2007).

Looking ahead

Focus will be placed on providing innovative solutions and service to customers.

The business is positioned to leverage off Absa Capital's expertise in structuring complex transactions and its international syndication and distribution capabilities.

Salient features

Year ended 31 December

	2008 Rm		2007 ¹ Rm	Change %
Balance sheet				
Total assets	139 250	11	3 569	22,6
Loans and advances to customers	120 280	90	340	33,1
Deposits due to customers	100 046	77	554	29,0
Income statement				
Net interest income	5 937	4	725	25,7
Impairment losses on loans and advances	(287)	(2)	88)	0,3
Non-interest income	2 763	2	500	10,5
Depreciation and amortisation	(30)	(21)		(42,9)
Operating expenses	(4 306)	(3)	723)	(15,7)
Indirect taxation	(107)	(57)		(87,7)
Share of retained earnings from associates and joint ventures	41		49	(16,3)
Operating profit before income tax	4 011	3	185	25,9
Taxation expense	(1 168)		(975)	(19,8)
Profit for the year	2 843		2 210	28,6
Attributable to:				
Ordinary equity holders of the Group	2 806		2 167	29,5
Selected ratios				
Financial performance (%)				
Return on average equity ² (RoE)	n/a	29	,5	
Return on average economic capital ² (RoEC)	24,8	n/a		
Return on average assets (RoA)	2,04	2,0	7	
Operating performance (%)				
Net interest margin on average assets	4,42	4,7	0	
Impairment losses on loans and advances as a percentage of average loans and advances to customers	0,28		0,37	
Non-interest income as a percentage of total operating income	31,8	34	,6	
Cost-to-income ratio	49,8	51	,8	
Cost-to-assets ratio	3,2	3,7		
Other salient features				
Attributable income from the rest of Africa (Rm)	20		7	>100,0

Notes

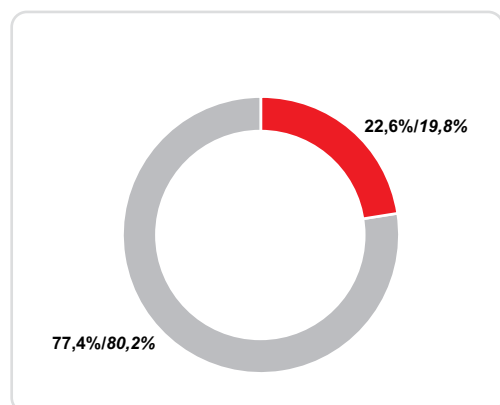
¹ December 2007 comparatives have been restated for structure changes

² In December 2007, capital was allocated to segments based on Basel 1 principles. In 2008 the Group adopted a new measurement basis whereby capital is no longer allocated to segments. In order to measure a return per segment a notional economic capital amount has been used as a denominator. The return on average equity and return on average economic capital are not comparable. December 2007 comparatives have not been restated.

Contribution analysis

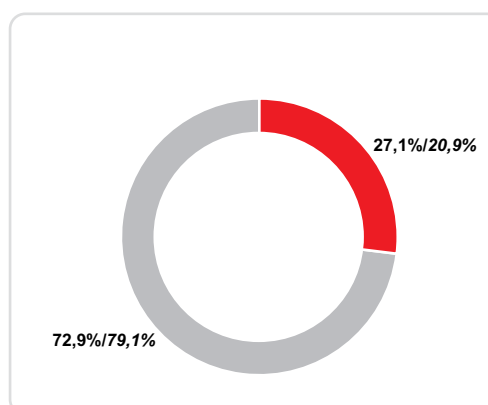
Year ended 31 December

Contribution to loans and advances to customers (%)



● ACBB ● Rest of Absa

Contribution to attributable earnings (%)



● Retail banking ● Rest of Absa

Note

¹Includes realised and unrealised profits

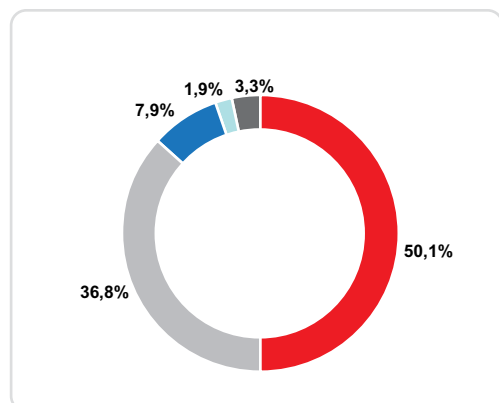
Income statement split

	Excluding listed equities		2007 Rm	Excluding listed equities 2007 Rm	Change %	Excluding listed equities Change %
	2008 Rm	2008 Rm				
Income statement						
Net interest income	5 937	5 937	4 725	4 725	25,7	25,7
Impairment losses on loans and advances	(287)	(287)	(288)	(288)	0,3	0,3
Non-interest income	2 763	2 861	2 500	2 305	10,5	24,1
Operating expenses	(4 336)	(4 336)	(3 744)	(3 744)	(15,8)	(15,8)
Other	(66)	(66)	(8)	(8)	>(100,0)	>(100,0)
Operating profit before income tax	4 011	4 109	3 185	2 990	25,9	37,4
Taxation expense	(1 168)	(1 195)	(975)	(919)	(19,8)	(30,0)
Profit for the year	2 843	2 914	2 210	2 071	28,6	40,7
Attributable to:						
Ordinary equity holders of the Group	2 806	2 877	2 167	2 028	29,5	41,9
Minority interest – ordinary shares	36	36	42	42	(14,3)	(14,3)
Minority interest – preference shares	1	1	1	1	—	—
	2 843	2 914	2 210	2 071	28,6	40,7

Operating profit before income tax by business area

	2008 Rm		2007 Rm	Change %
Large	2 008	1	515	32,5
Medium	1 477	1	205	22,6
Corporate	317	20	4	55,4
Africa	76	66		15,2
CPF equity portfolio ¹	133	19	5	(31,8)
– Listed	(98)		195	>(100,0)
– Unlisted	231		—	100,0
	4 011		3 185	25,9

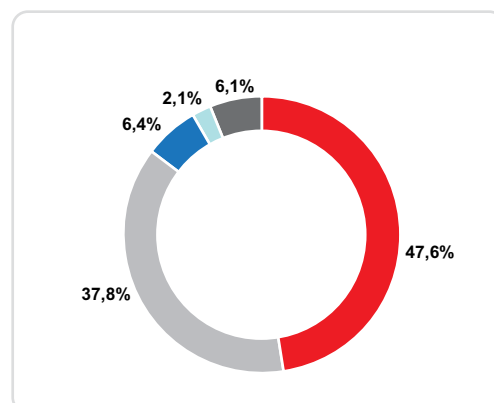
Contribution analysis – profit before income tax (%) 2008



● Large ● Medium ● Corporate ● Africa
● CPF equity portfolio¹

Note
¹Includes realised and unrealised profits

Contribution analysis – profit before income tax (%) 2007



● Large ● Medium ● Corporate ● Africa
● CPF equity portfolio¹

Note
¹Includes realised and unrealised profits

Absa Corporate and Business Bank (ACBB)

Absa Corporate and Business Bank (ACBB) offers a comprehensive range of corporate and commercial banking products and specialised services, ranging from off-the-shelf transactional products to complex financial solutions, to meet corporate and commercial customer needs. A relationship banking model combined with deep sector specialisation and specific commercial product capabilities build a strong differentiated position in the market.

ACBB provides bespoke propositions per sector and other specific commercial product capabilities. Absa provides sector specialisation in eight sectors, allowing ACBB to assemble bespoke customer value propositions (CVPs) for customers according to sector needs. Commercial product capabilities include quality transactional payment capabilities and working capital products.

Products and services

ACBB's products and services are indicated below:

- Transactional banking products.
- Short- and long-term loans.
- Commercial property finance loans.
- Investment products.
- Islamic banking.
- Electronic banking and payments products.
- Cash devices.
- Derivatives.
- Debtor financing products.
- Commercial Asset Finance (CAF)
- International banking products.
- Specialist funding products in the trade, commodity acquisition and project finance areas, as well as advisory services and feasibility studies.
- Agricultural products, such as crop insurance and funding.
- Fleet management products.

Salient features

Year ended 31 December

	2008 Rm		2007 Rm	Change %
Permanent employee complement ¹	3 534	3	594	(1,4)
Number of customers ² (South Africa)	90 893	88	475	2,7
Attributable income from the rest of Africa (Rm)	20		7	>100,0

Notes

¹ Employee numbers have been restated to include Commercial Asset Finance (CAF), but excludes the African operations. The numbers only include full-time equivalents.

² Customer numbers were restated to include all migrations.

The year under review

Commentary	Achievement of objectives	
	2008 objectives	Achievement
<p>For ACBB, the year 2008 was characterised by:</p> <ul style="list-style-type: none"> • good growth in profit after tax of 28,6%; • increased diversification of income streams. This included establishing a secondary markets team, which includes forex as well as derivative products; • increased functionality of the payments platform to facilitate the migration from cheques to other payment mechanisms; • growing the customer base and enhancing cross-selling ratios; • integration of Commercial Asset Finance into ACBB; and • focus on margin and capital management, as well as cost and process efficiencies. <p>Corporate:</p> <ul style="list-style-type: none"> • Good deposit growth, compared to 2007. • Excellent growth in profit before tax (PBT) of 55,4%. <p>Medium:</p> <ul style="list-style-type: none"> • Good growth in PBT of 22,6%. <p>Large:</p> <ul style="list-style-type: none"> • Very good growth in PBT of 32,5%. • Strongly advances-driven segment. <p>Africa Corporate:</p> <ul style="list-style-type: none"> • Good growth in PBT of 15,2%. 	<p>Building the platforms for success</p>	<ul style="list-style-type: none"> ✓ Up-skilled and trained employees. ✓ Successfully integrated the corporate and CAF franchises. ✓ Dedicated credit function housed within ACBB.
	<p>Strategies to diversify income streams</p>	<ul style="list-style-type: none"> ✓ Strong growth from secondary markets. ✓ Payments volume growth of 15,0% was achieved. ✓ Robust performance from new products.
	<p>Customer and business acquisition strategies</p>	<ul style="list-style-type: none"> ✓ Customer cross-sell ratios increased owing to increased product usage.
	<p>Strategies to build infrastructure</p>	<ul style="list-style-type: none"> ✓ Processes were made more efficient. ✓ Improved the payment platform functionalities and physical infrastructure.
	<p>Strategies to build the organisation and culture</p>	<ul style="list-style-type: none"> ✓ Emphasis was placed on margin management, capital management and cost efficiency programmes.

Business unit commentary

ACBB placed emphasis on the following main segments of the corporate and business market:

Corporates – Businesses with a turnover of greater than R750 million.

Large businesses – Businesses with an annual turnover of between R100 million and R750 million.

Medium businesses – Businesses with an annual turnover between R10 million and R100 million.

ACBB's customers are spread over the whole spectrum of industry sectors, including real estate, construction, financial markets, transport, manufacturing, agriculture, wholesale/retail, as well as the public sector.

Corporate segment

The corporate segment was formed in 2008 to manage the relationships with all Absa Capital clients' transactional accounts and the full banking requirements of ACBB customers with turnover of greater than R750 million. The division's vision is to become the premier customer-centred corporate bank demonstrating humility, confidence and vibrancy.

During the first eight months of operations, ended 31 December 2008, the focus was on recruiting a team of top corporate bankers both from within the bank and from the competition and gaining a better understanding of the financial solutioning needs of the customer base. The division's main competitors are the other three local full service banks, with the global banks playing a declining role owing to the global financial crisis.

Large business segment

ACBB's large business segment increased its operating income in 2008 by 32,5% to R2 008 million, from R1 515 million in 2007. Advances grew strongly, asset and deposit margins widened while impairments remained low.

Total advances and deposits increased by 35,4% and 13,7% respectively. The impairment ratio for advances was 0,13%, which reflects the aggressive manner in which the impairments have been managed. Costs were also managed very well to reflect an increase well below the inflation rate.

Strong emphasis has been placed on the attraction of new customers to move their business to Absa. A huge focus has also been placed on identifying stand alone customers (CPF, CAF) in order to introduce products to them and to increase their business with Absa as a whole. Large business customers increased by 3,8% for the 2008 financial year.

The operating model has also been adjusted to provide a bigger solution to the customer.

Medium business segment

The year 2008 commenced with the expansion of the operating model and a drive on new acquisition business in order to expand market share. The role of acquisition bankers was instilled within the total medium business sector. Towards the latter part of the year, the drive on advances was steered towards an aggressive deposit acquisition. This acquisition drive was sector specific, wherein selected customers were targeted.

Despite the incorporation of the National Credit Act, a big demand for credit remained in the medium business environment.

As part of the customer value proposition based on customer relationships and solutioning, an increased focus was placed on cross-selling, which led to the increase in non-interest income. The Group's value proposition was embraced by hosting activities in order to strengthen and build relationships with new and existing customers. This segment endeavoured to build the brand and become the bank of choice.

Staff members were continuously upskilled in order to leverage off existing relationships and to grow market share. The increased staff morale led to better overall customer service and Absa being recognised as the employer of choice. Recognition was given to deserving employees at all appropriate levels. Employees were also able to acquired from competitors.

Evidence was present of a tight credit policy amongst some competitors, which were used to ACBB's advantage.

Africa

In 2008, a full team was in place at the Africa centre to provide the required support to the in-country corporate businesses, primarily in the product, business development and compliance areas.

The key focus areas were:

- Deepening and actively marketing product set using Group product/market specialists and centre resources:
 - The new product approval (NPA) process was embedded in (Mozambique and Tanzania) and formed part of the strategy to enhance product offering in line with identified customer needs. Products in the pipeline include debtor finance and vehicle and asset finance.
 - Customer and product profile analysis were conducted to assess the profitability of products, cross-sell ratios and opportunities for development of revenue streams.
 - A customer value proposition was completed and distributed to countries to enable them formulate customer-centric strategies.

- Segmenting the market to enable the Africa centre to deliver tailor-made solutions for each segment:
 - Segmented customer database which allows the extraction of segmented financial data for the corporate business was made available.
 - Corporate customers were further segmented into tiers.
 - Corporate business centres were opened across the countries - six in Tanzania and two in Mozambique.
- Attracting, recruiting and retaining high-quality staff and top performers:
 - Key vacancies in the countries and at the Africa centre were filled.
 - Performance development plans for staff members were in place and reviewed regularly.
 - Key talent was identified and succession plans were developed.
 - Support was provided to the Absa Africa graduate programme by placing a candidate within each of the various business units.
- Significantly improving the quality of lending books and leveraging off relationships with Group support functions:
 - Guidance and support was provided on country, sovereign and credit limits.
 - The centre liaised with the relevant stakeholders in the Group and the countries to facilitate the approval of quality credit deals.
 - Relationships with Group product specialist functions and Barclays Africa countries were strengthened.
 - The business development role at the centre was filled, mainly to develop relationships and to attract and facilitate business with existing and potential Pan African customers.

These focus areas remain in place, in addition to new strategic themes set for 2009.

Commercial Property Finance (CPF)

Absa CPF experienced a change of leadership in 2008. A new operating model was initiated, the main objectives being to increase efficiencies and to enable an enhanced customer value proposition. (The new operating model was implemented in May 2009.)

2008 also brought a change in landscape with the sentiment in the property market moving to the downside, evidenced by an increase in non-performing loans and new business volumes.

The focus areas for 2008 were capital management, risk management, book management and customer engagement. Numerous initiatives and action plans were initiated and implemented to bolster the efficiency and effectiveness of these areas. An increased emphasis on these areas was also necessitated owing to the downturn in the local and global economy. Risk profiles and risk tendencies increased across most industries, including property, resulting in capital becoming scarce and thus more expensive. Although the risk and capital management focus intensified, customer engagement through regular visitations and networking events has remained at the forefront of CPF's business activities.

Absa CPF remains a strong and committed player within the industry. The continued focus into 2009 is to transform CPF into a stronger, leaner and more effective property financier, which will ultimately position the unit very well to capitalise on new market opportunities when the market conditions change for the better.

Looking ahead

ACBB's vision is to be the best corporate and business bank in South Africa and selected African markets. This vision will aim to empower customers with information that will support them to identify the best solutions for their financial needs and utilise ACBB's best-of-breed transactional capabilities to establish primary banking relationships that, when further supplemented by a full range of financial products, will deepen Absa's share of the corporate and business market.

The strategic priorities and focuses for 2009, in light of the current economic conditions are as follows:

- Managing efficiencies and optimise operating models thus driving costs down.
- Closing the funding gap through driving deposits and responsibly limiting advances.

- Focusing on growing non-interest revenue.
- Strengthening the balance sheet to improve RoEC.
- Diversifying advances growth and penetrating the sub-Saharan Africa market.
- Driving operating income and recover leakage.
- Strengthening the control environment.
- Managing risk-weighted assets, impairments and credit risk.
- Retaining and building strong proxy for trust and future business with customers by re-framing the relationships.
- Building future resilience through a transformation and talent drive and by emphasising communication.
- Driving deeper collaboration with Barclays, Absa Capital and Absa Group.

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.

Emphasis will continue to be placed on product and income diversification so as to meet the business unit's longer term strategy of further earnings diversification.

Absa Development Company Holdings (Proprietary) Limited

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

The year under review

Commentary	Achievement of objectives	
	2008 objectives	Achievement
<p>Rising interest rates during the course of 2008, the implementation of the National Credit Act, and the stringent mortgage loan conditions imposed by financial institutions, have resulted in the sale of serviced residential stands in Absa DevCo's middle-market developments coming under severe pressure.</p> <p>The lack of capacity in respect of municipal bulk infrastructure (water, sanitation and electricity) has also delayed implementation of township developments and in conjunction with ACBB (Specialised Finance) and provincial housing departments, discussions with affected local authorities are pursued in an endeavour to facilitate financing arrangements for the upgrade, replacement and installation of new municipal bulk infrastructure. This initiative will result in delays being obviated and at the same time unlocking new development opportunities.</p>	<p>Provision of 100 000 residential units in sustainable integrated developments</p>	<ul style="list-style-type: none"> ✓ Absa DevCo is involved in a number of "Breaking New Ground" (BNG) projects in partnership with government at local, provincial and national level. Examples of national priority projects being implemented include Chief Albert Luthuli in Ekurhuleni, Klarinet in Witbank, Chief Mogale at Kagiso in Mogale City, and Olievenhoutbosch in Tshwane. ✓ Measured against its strategic objective of creating 100 000 housing opportunities, Absa DevCo has already created in excess of 50 000 housing opportunities, translating into a potential committed investment value in excess of R6 billion. ✓ Substantial progress was achieved on DevCo's first fully sustainable integrated development, Olievenhoutbosch located in Centurion, Tshwane. All internal and bulk civil engineering services work was completed for all phases of the development, while 2 985 subsidised BNG units had been constructed and handed over to the municipality. The bondable phases 2 and 3 were launched during 2008, effectively placing all 1 026 affordable (in terms of the FSC) residential erven of the project on the market. 142 residential 2 (town house) building opportunities and 1 250 residential 3 (high-density flats) erven were also released to the open market. ✓ The Chief Albert Luthuli project is situated west of Daveyton in Gauteng and comprises 7 278 mixed housing opportunities. During 2008, a fast track component of the project encompassing installation of civil engineering infrastructure for phases 1 and 2, was completed and followed by the commencement of construction contracts for 1 000 fully subsidised top structures.

Achievement of objectives (continued)

Commentary	2008 objectives	Achievement
<p>Despite the worsening market conditions, sales in the second and third phases of the Zambezi development in Tshwane and the fourth phase of the Amberfield development in Centurion were still being recorded. New marketing initiatives to stimulate sales in these developments as well as the two phases of the Cedar Creek development in Fourways have been launched.</p> <p>Although Absa DevCo has acquired land for middle-market residential township development in Hazyview (Mpumalanga), Ballito (KwaZulu-Natal), Gonube (East London), Bronkhorstspuit and in the vicinity of the Hartbeespoort Dam, the required township establishment and environmental approvals will be pursued to add value to the properties but implementation of the developments will only proceed when market conditions improve. This also applies to the remainder of Absa DevCo's Brakfontein, Centurion land on which it has already developed four Amberfield townships.</p> <p>The phased installation of civil and electrical engineering infrastructure in respect of Absa DevCo's first fully sustainable integrated development, known as Olievenhoutbosch, has almost been completed and the first transfers of houses to beneficiaries have also been registered at the Deeds Office.</p> <p>Negotiations with Mogale Local Municipality and Emalahleni Local Municipality for implementation of similar developments, which will yield 21 800 housing units, are at an advanced stage and commencement with fast track fully subsidised components of the projects commenced towards the end of 2008. The phased fast track fully subsidised components of Chief Albert Luthuli Ext 6 (Ekurhuleni) and Thornhill (Ndlambe) also commenced towards the end of 2008.</p>	<p>Provision of 100 000 residential units in sustainable integrated developments (continued)</p>	<ul style="list-style-type: none"> ✓ The joint development agreement for the Klarinet project situated in Witbank, was signed in the latter part of 2008 between the National Department of Housing, Mpumalanga Department of Housing, Emalahleni Local Municipality and Absa DevCo. This Greenfield project will deliver a 12 500 mix of housing opportunities in total, embodying government's BNG principles. This is a pioneering project in Mpumalanga province and has been awarded National Priority status by the national government. ✓ Absa DevCo was appointed by the Gauteng Department of Housing to manage the implementation of the priority phase of the Chief Mogale sustainable integrated housing development, which represents an extension of the existing Kagiso residential township. The priority phase entails the delivery of 765 fully serviced subsidy housing units. The total development will yield 9 315 residential units of which 4 244 are subsidy housing units, 2 539 are institutional housing units and 2 532 are bondable units. In addition to the residential units, the integrated township development will make provision for education facilities, clinics, churches, sports facilities, community centres and commercial opportunities. ✓ Construction on the priority phase for the Thornhill project, located in Port Alfred, commenced during November 2008. Absa DevCo is managing the implementation of the project on behalf of the Eastern Cape Department of Housing and the Ndlambe Local Municipality. The priority phase entails the provision of 509 fully serviced subsidy housing units. Owing to a shortage of potable water in the area, the remainder of the project, a fully integrated development consisting of 5 000 residential units, will only be realised once the planned bulk water project is completed. ✓ The Knysna affordable housing project was initiated by Knysna Local Municipality to address the predominantly affordable housing shortage in the municipality. A proposal call was advertised during December 2007 and ✓ Absa DevCo's development proposal was accepted as the successful bid. It will comprise of approximately 2 200 units. ✓ The section 52-applications for joint venture consortiums between Absa and Standard Bank in respect of the Blueberry Hill project in the Western Cape and between Absa DevCo and Randfontein Estate (Harmony) in respect of Middelvlei (Mohlakeng Ext 11) Randfontein, were submitted to the South African Reserve Bank for approval. The developments will yield approximately 3 560 and 2 146 housing units respectively.

Achievement of objectives (continued)

Commentary	2008 objectives	Achievement
<p>Land earmarked for development of sustainable integrated human settlements has been acquired in Mangaung (Bloemfontein), Meyerton and Polokwane and approval of development rights is receiving attention.</p>	<p>Knowledge transfer to municipal and provincial role players</p>	<ul style="list-style-type: none"> ✓ Absa DevCo has concluded a number of memorandums of understanding with various tiers of government in respect of sustainable integrated developments in general on a country-wide basis, as well as project-specific memorandums of understanding. ✓ Absa has also concluded memorandums of understanding with the National Housing Finance Corporation and the Development Bank of Southern Africa. ✓ An underlying theme in all memorandums of understanding is Absa and Absa DevCo's willingness to assist all role players in all tiers of government in the development of sustainable integrated developments and in so doing, to transfer their knowledge and expertise to all the role players. ✓ Networking with all tiers of government in conjunction with Absa Home Loans, CPF, Public Sector, and ACBB (Specialised Finance) to identify and pursue opportunities to assist government to meet its housing and bulk infrastructure targets, remains a key objective.

Looking ahead

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

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

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

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





In respect of its middle-market developments, it is Absa DevCo's intention in 2009 to focus on the sale of its serviced erven in its Zambezi, Cedar Creek and Amberfield developments and to add value to land acquired for development by obtaining the required township establishment and environmental approvals. Approval to proceed with the installation of municipal services in this market segment will, however, only be sought if market conditions improve significantly.

Investment banking - Absa Capital

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

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

Highlights for the year under review

 Very strong growth in attributable earnings	Absa Capital increased attributable earnings by 29,8% to R2 249 million for the year, from R1 733 million in 2007.
 Increased contribution to Group earnings	Absa Capital's contribution to Group earnings for the year increased to 21,7% from the 16,8% recorded for 2007.
 Exceptional performance from Secondary Markets	The Secondary Markets business continued to improve, leveraging off a strong working relationship with Barclays Capital.
 Primary Markets performed well	Primary Markets achieved solid revenue growth of 14,1% for the year.

Products and services

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

Salient features

Year ended 31 December

	2008 Rm		2007 ¹ Rm	Change %
Balance sheet				
Total assets	435 385	42	6 228	2,1
Loans and advances to customers	64 332	53	011	21,4
Deposits due to customers	146 670	1	30 683	12,2
Income statement				
Net interest income	2 098	1	638	28,1
Impairment losses on loans and advances	(2)	(1)	(100,0)
Non-interest income	3 250	2	231	45,7
Depreciation and amortisation	(24)	(6)		>(100,0)
Operating expenses	(2 169)	(1	362)	(59,3)
Other impairments	(1)	–		(100,0)
Indirect taxation	(60)	(78)	23,1
Share of retained earnings from associates and joint ventures	–		–	–
Operating profit before income tax	3 092	2	422	27,7
Taxation expense	(843)		(689)	(22,4)
Profit for the year	2 249		1 733	29,8
Attributable to:				
Ordinary equity holders of the Group	2 249	1	733	29,8
Selected ratios				
Financial performance (%)				
Return on average equity ² (RoE)	n/a	33,	3	
Return on average economic capital ² (RoEC)	21,3	n/	a	
Return on average assets (RoA)	0,52	0,4	5	
Operating performance (%)				
Net interest margin on average assets	n/a	n/	a	
Impairment losses on loans and advances as a percentage of average loans and advances to customers	0,00		0,00	
Non-interest income as a percentage of total operating income	60,8	57,	7	
Cost-to-income ratio	41,0	35,	4	
Cost-to-assets ratio	0,5	0,	4	
Other salient features				
Attributable income from the rest of Africa (Rm)	219		59	>100,0

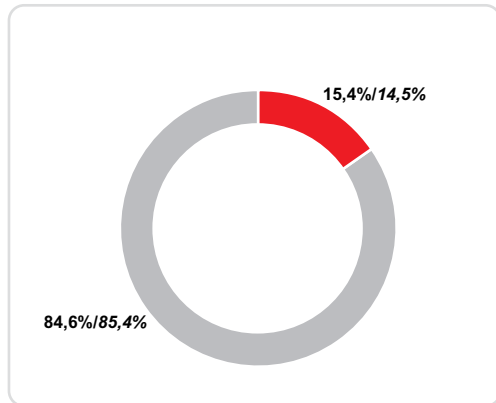
Notes

¹ December 2007 comparatives have been restated for structure changes.

² In December 2007, capital was allocated to segments based on Basel 1 principles. In 2008 the Group adopted a new measurement basis whereby capital is no longer allocated to segments. In order to measure a return per segment a notional economic capital amount has been used as a denominator. The return on average equity and return on average economic capital are not comparable. December 2007 comparatives have not been restated.

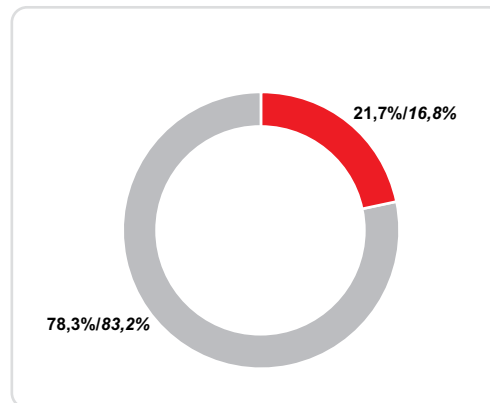
Contribution analysis 2008

Contribution to attributable earnings (%)



● Bancassurance ● Rest of Absa

Contribution to attributable earnings (%)



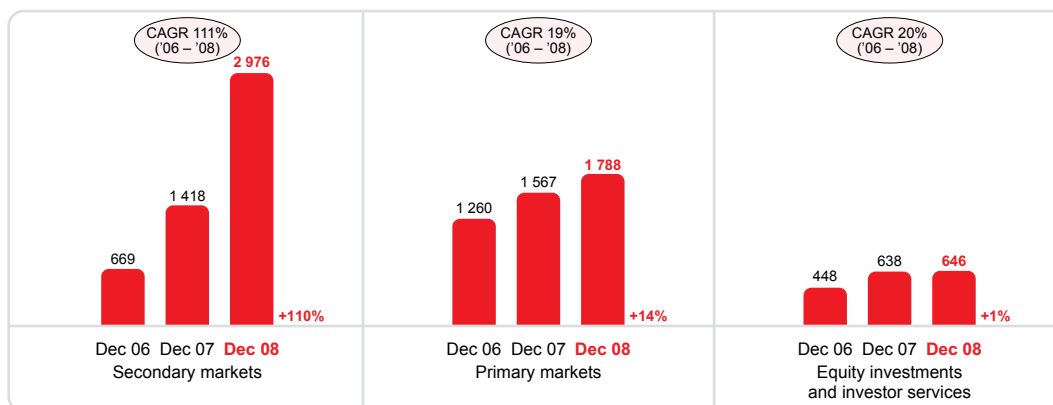
● Investment banking – Absa Capital ● Rest of Absa

Notes

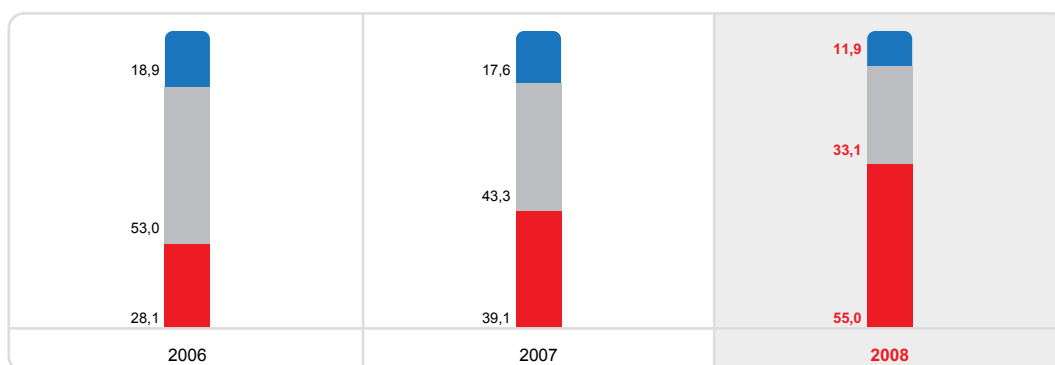
Contribution to attributable earnings is calculated after the allocation of capital, funding and corporate centre profits/losses.

Figures for the prior year are indicated in italics

Revenue per business unit



Absa Capital revenue contribution (%)



■ Secondary markets ■ Primary markets ■ Equity investments and investor services

The year under review

Achievement of objectives

Commentary	2008 objectives	Achievement
<p>Absa Capital delivered excellent performance in 2008, with exceptionally strong growth in total revenues and strong growth in attributable earnings. This performance was driven mainly by stellar growth in the Secondary Markets' business, and solid growth in Primary Markets' business.</p> <p>The year under review was characterised by:</p> <ul style="list-style-type: none"> • Absa Capital producing market-leading total revenues from South African trading activities (Source: Krzychylkiewicz, V. & Gresty, M. (2009): Absa FY08 results review, Deutsche Securities, 10 Feb 2009); • relocation into a "fit-for-purpose" head office, enabling seamless integration into a world-class investment banking technology platform and bringing the business closer to its clients through its location in the middle of the South African financial hub; • continued investment in talent and support infrastructure; • strong growth in the client franchise and in product innovation; • effective capital management and strengthening of the risk management and control framework; and • increased productivity and a strong focus on cost control. <p>Absa Capital received a number of industry awards in 2008, including:</p> <ul style="list-style-type: none"> • second place overall in the SA Risk Management survey, narrowing the gap to number one from 3,2% in 2007 to only 0,6% of the votes cast; • "Best Primary Markets House" and "Best Bond Sales Team" by the Bond Exchange of South Africa (BESA) at the BESA Spire Awards; • Euromoney Project Finance award for the Vodacom deal (hat-trick of awards following wins in 2007 for Bujagali deal and in 2006 for the Vodafone deal); • top-ranked credit analyst by the Financial Mail; and • "Best in Class" for "Proxy Voting" and "Best in Class" for "Securities Borrowing and Lending Administration" in the 2008 Global Custodian Survey. 	<p>Diversify revenue mix</p> <p>Grow the client franchise</p> <p>Derivatised the client base and developed innovative solutions</p> <p>Develop opportunities with other Absa business clusters</p> <p>Expand into sub-Saharan Africa</p>	<ul style="list-style-type: none"> ✓ The objective for Secondary Markets to contribute 50% of Absa Capital's revenue was achieved. ✓ Strong revenue growth and the change in business mix while RWAs remained fairly constant. ✓ Increased trading flows from new and existing clients. ✓ Broadened the product offering, leveraging off Barclays Capital global capabilities. ✓ Strong cumulative growth in revenue from risk management products. ✓ Introduced a number of product firsts into the South African market. ✓ Leveraged Barclays Capital risk management capabilities and products in concluding numerous significant trades. ✓ Successfully launched Retail Structured Products aimed at retail clients in collaboration with Absa Retail Bank and Absa Wealth (Index performer and Top 40 CPI Best of Note). ✓ Offered risk management solutions in foreign exchange, interest rates and agricultural commodities to ACBB clients. ✓ Integrated treasuries in Mozambique and Tanzania into Absa Capital. ✓ Significant revenue growth and revenue diversification in the sub-Saharan African franchise.

Business unit commentary

Secondary Markets

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

- an increase in client trading volumes and growth in the client franchise;
- a broadening and deepening of the product suite;
- greater use of risk management products by clients;
- good growth in sub-Saharan African business; and
- increased synergies with Barclays Capital across a broad range of risk management products.

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

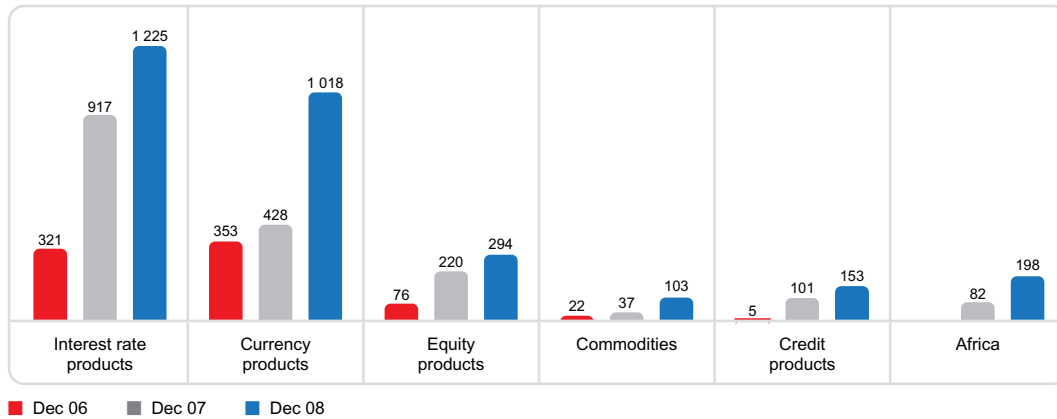
In addition to this, Absa Capital continued to innovate in the Secondary Markets space. This included:

- Listing South Africa’s first BEE Exchange Traded Fund, the New SA ETF;
- Closing the first PROSPER¹ transactions for South Africa with a leading South African life insurer; and
- Trading its first All Bond Index (ALBI) Credit Linked Note with a well established asset manager.

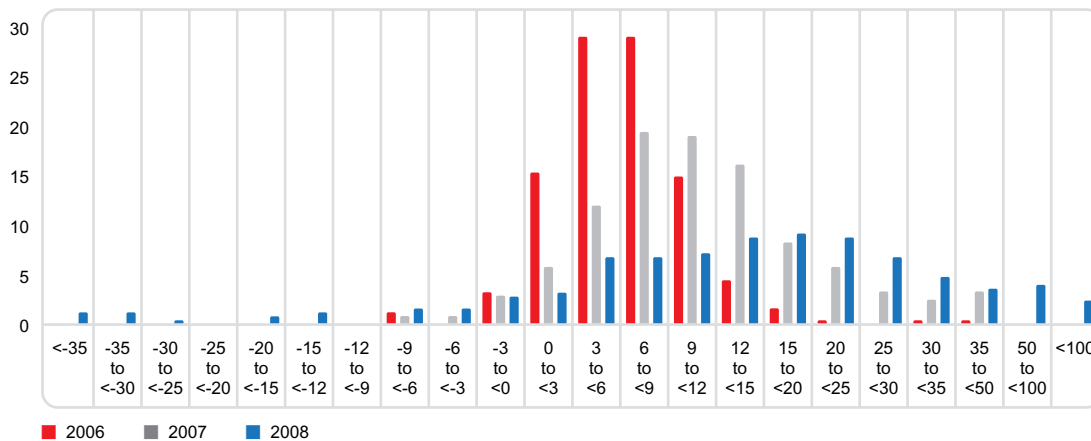
Note

¹PROSPER is a variant of CPPI (Constant Proportion Portfolio Insurance)

Net revenue (Rm)



P&L distribution (% of business days)



Primary Markets

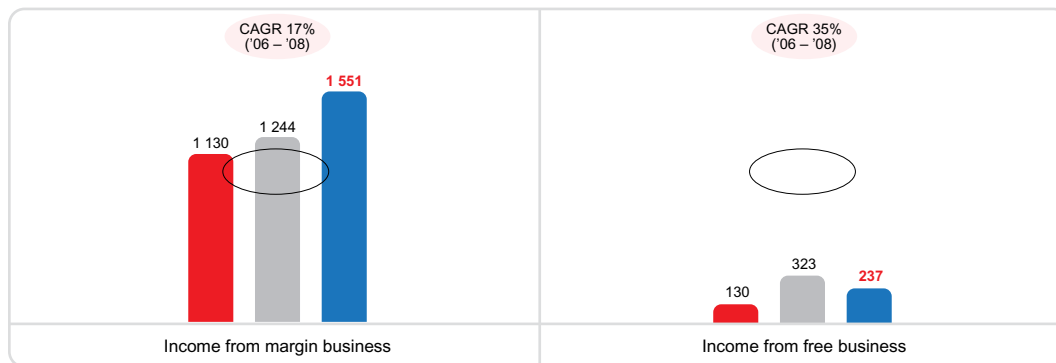
Primary Markets delivered solid growth while continuing to optimisze balance sheet usage, which was important for the business to navigate the challenging market conditions in the latter part of the yearperiod under review.

Compared to the prior year, there was a strong growth in margin income and a reduction in fee income. The reduction in fee income was largely as a result of self-imposed restrictions on the size of underwriting positions. The business continued to improve the overall quality of assets on the balance sheet.

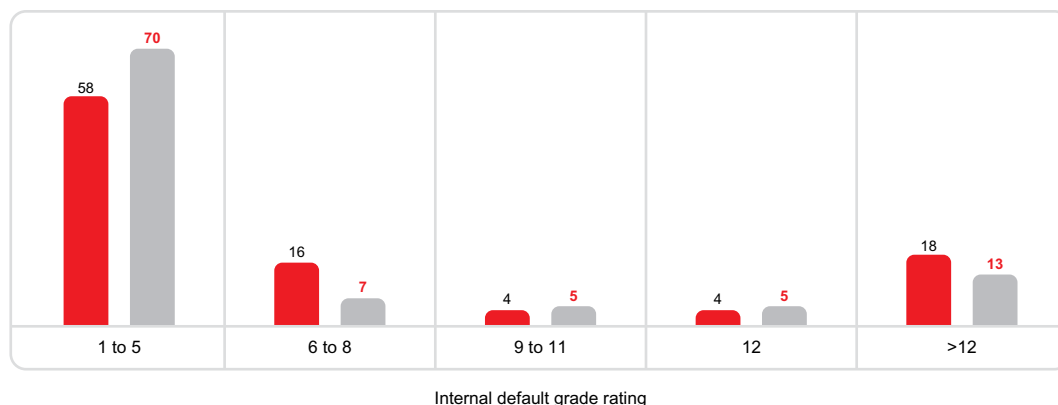
In addition to this, Absa Capital participated in several landmark transactions in 2008. These included:

- Joint mandated lead arranger on the Sonangol USD2,5 billion syndicated loan deal;
- Joint mandated lead arranger on R3,7 billion Tsogo Sun corporate debt raising exercise;
- Joint lead arranger on R3,5 billion Mercedes-Benz SA corporate debt raising exercise (the largest single-day debt raising in South Africa in 2008) ;
- Joint lead arranger on Mercedes-Benz SA R2,425 billion second issuance under the issuer’s R18 billion DMTN programme;
- Joint lead arranger on R2 billion South African National Road Agency Limited bond issue; and
- Lead arranger and bookrunner for R2,2 billion Telkom bond issue.

Revenue mix (Rm)



Quality of assets (% of total exposure)



Equity Investments and Investor Services

The Equity Investments and Investor Service business was affected by the challenging state of equity markets during the year under review. Despite a well diversified portfolio, the performance of the Private Equity business was adversely affected by a combination of higher funding costs, depressed asset prices and the cyclical nature of exits.

As at the end of the year under review, fund raising for the semi-captive private equity fund continued to be work-in-progress. Investor Services’ core performance was solid, however, the Safex clearing business suffered a loss owing to client defaults on single stock futures positions.

Looking ahead

Absa Capital will continue to invest in the support infrastructure and robust controls to manage all the types of risk inherent in the investment banking business.

Other strategic focus areas for the business include:

- further growing its client distribution franchise and optimising the usage of its balance sheet and capital;
- retaining the best talent and entrenching its position as employer of choice for top talent;
- increasing risk management penetration with its clients, by providing them with tailor-made and innovative products; and
- developing and pursuing opportunities jointly with other Absa Group businesses.

The sub-Saharan region continues to be an important growth opportunity for Absa Capital, and the business will actively pursue increasing its presence in selected markets.

Bancassurance

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

Business units

Insurance

- Absa Life Limited
- Absa Insurance Company Limited

Investments

- Absa Fund Managers Limited
- Absa Investment Management Services (Proprietary) Limited (AIMS)

Fiduciary

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





Other

- Absa Insurance and Financial Advisers (Proprietary) Limited¹
- Absa Manx Insurance Company Limited¹

Note

¹Not reported on in detail.

Highlights for the year under review

 Solid operating income growth	Absa's bancassurance operations increased operating earnings by 16,4% for 2008.
 Shareholder value creation	The bancassurance cluster achieved an RoE of 39,5% (December 2007: 37,8%).
 Expansion of distribution capacity	The distribution capacity increased by 269 additional sales staff, comprising insurance and financial advisers, tied agents and call centre agents.
 Investment performance by Absa Asset Management	Absa Investments continued to deliver an encouraging investment performance with a number of its unit trusts achieving top quartile performance over one-year and three-year periods.

Looking ahead

The focus for the bancassurance cluster in 2009 will be on the diversification of income streams and improvement of cross-sell ratios, customer retention, and growth in assets under management.

Salient features

Year ended 31 December

Balance sheet

	Note	2008 Rm		2007 Rm	Change %
Assets					
Cash balances and money market assets		8 295	6	638	25,0
Insurance operations	1	5 544		3 666	51,2
Other insurance subsidiaries		1 045	97	7	7,0
Other subsidiaries		1 706		1 995	(14,5)
Other assets ¹		13 737	19	281	(28,8)
Financial assets backing investment and insurance liabilities		10 912	1	1 570	(5,7)
Investments					
Insurance operations	1	10 289	10	640	(3,3)
Other insurance subsidiaries		44	72	2	(93,9)
Other assets backing policyholder investment liabilities					
Insurance operations	1	481	23	1	>100,0
Derivatives backing shareholder investments					
Insurance operations	1	98		(23)	>100,0
Property and equipment		71		37	91,9
Total assets		33 015		37 526	(12,0)
Liabilities					
Current tax liabilities		59	12	9	(54,3)
Liabilities under investment contracts		10 377	7	908	31,2
Policyholder liabilities under insurance contracts		3 076	3	250	(5,4)
Other liabilities and sundry provisions ¹		15 533	22	089	(29,7)
Deferred tax liabilities		61		242	(74,8)
Total liabilities		29 106	33	618	(13,4)
Total equity		3 909		3 908	0,0
Total equity and liabilities		33 015		37 526	(12,0)

Note

¹Other assets and liabilities include settlement account balances in Stockbrokers.

Balance sheet note

Note 1 – Cash balances, money market assets and investments (insurance operations)

	2008					
	Listed equity Rm	Unlisted equity Rm	Capital market assets Rm	Derivatives and other Rm	Cash and money market assets Rm	Total Rm
Shareholder investments	832	179	1 322	98	454	2 886
Life	472	77	246	40	126	961
Non-life	360	102	1 076	58	328	1 925
Policyholder investment	1 476	5 453	1 027	481	5 090	13 526
Investment contracts ¹	1 476	4 755	285	481	3 450	10 447
Insurance contracts ¹	–	698	742	–	1 640	3 079
Total	2 308	5 632	2 349	579	5 544	16 412

20 07

	Listed equity Rm	Unlisted equity Rm	Capital market assets Rm	Derivatives and other Rm	Cash and money market assets Rm	Total Rm
	Shareholder investments	2 585	181	136	(23)	211
Life	789	113	65	(4)	21	984
Non-life	1 796	68	71	(19)	190	2 106
Policyholder investment	1 692	3 651	2 395	231	3 455	11 424
Investment contracts ¹	1 692	2 834	363	231	2 808	7 928
Insurance contracts ¹	–	817	2 032	–	647	3 496
Total	4 277	3 832	2 531	208	3 666	14 514

Note

¹ Includes R607 million (December 2007: R758 million) in unlisted insurance contracts representing Absa Life Limited's investment in the General Fund. This fund is consolidated as an investment contract at an Absa Group level and disclosed as such in the consolidated financial statements. In managing the policyholder liability, certain assets have been allocated specifically for the purpose of backing this liability. The above disclosure reflects this split of assets between policyholders and shareholders.

Income statement

		Life		
	Note	2008 Rm	2007 Rm	Change %
Net earned premium		1 155	142	1,1
Net insurance claims		(390)	01)	2,7
Investment income	1			
Policyholder investment contracts		653	495	31,9
Policyholder insurance contracts		(14)	170	>(100,0)
Changes in investment and insurance liabilities				
Policyholder investment contracts		(620)	(482)	(28,6)
Policyholder insurance contracts		368	45	>100,0
Other income		37	24	54,2
Gross operating income		1 189	99	3
Net commission paid by insurance companies ¹		(230)	(1	96)
Operating expenses		(171)	(1	50)
Other		(42)	(37)	(13,5)
Net operating income		746	61	0
Investment income on shareholder funds ²	1	102	1	67
Net profit on disposal of subsidiary ²		–	–	–
Taxation expense		(217)	(253)	14,2
Profit attributable to ordinary equity holders		631	524	20,4
Income statement note 1. Investment income				
Policyholder – investment contracts				
		653	49	5
Net interest income		257		44
Dividend income		20	13	
Fair value gains		376		438
Policyholder – insurance contracts		(14)	1	70
Net interest income		105		93
Dividend income		15	13	
Fair value gains		(134)		54
Shareholder funds		102	1	67
Net interest income		12		9
Dividend income		27	15	
Fair value gains		63		143
Total		741	8	32
Net interest income		374		146
Dividend income		62	51	
Fair value gains		305		635

		Insurance		
	Note	2008 Rm	2007 Rm	Change %
Net earned premium		2 318	2 012	15,2
Net insurance claims		(1 531)	(1 244)	(23,1)
Investment income	1			
Policyholder investment contracts		–	–	–
Policyholder insurance contracts		127	73	74,0
Changes in investment and insurance liabilities				
Policyholder investment contracts		–	–	–
Policyholder insurance contracts		–	–	–
Other income		3	12	(75,0)
Gross operating income		917	85	3
Net commission paid by insurance companies ¹		(342)	(33)	(2,7)
Operating expenses		(210)	(20)	(3,4)
Other		(1)	(1)	–
Net operating income		364	3	16
Investment income on shareholder funds ²	1	211	29	2
Net profit on disposal of subsidiary ²		–	–	–
Taxation expense		(78)	(71)	(9,9)
Profit attributable to ordinary equity holders		497	537	(7,4)
Income statement note 1. Investment income				
Policyholder – investment contracts				
Net interest income		–	–	–
Dividend income		–	–	–
Fair value gains		–	–	–
Policyholder – insurance contracts		127	73	74,0
Net interest income		127	73	74,0
Dividend income		–	–	–
Fair value gains		–	–	–
Shareholder funds		211	29	2
Net interest income		61	13	>100,0
Dividend income		84	69	21,7
Fair value gains		66	210	(68,6)
Total		338	3	65
Net interest income		188	86	>100,0
Dividend income		84	69	21,7
Fair value gains		66	210	(68,6)

		Other		
	Note	2008 Rm	2007 Rm	Change %
Net earned premium		38	38	–
Net insurance claims		31	42	(26,2)
Investment income	1			
Policyholder investment contracts		(161)	84	>(100,0)
Policyholder insurance contracts		–	–	–
Changes in investment and insurance liabilities				
Policyholder investment contracts		182	(52)	>100,0
Policyholder insurance contracts		–	–	–
Other income		1 510	1 203	25,5
Gross operating income		1 600	1 315	21,7
Net commission paid by insurance companies ¹		–	–	–
Operating expenses		(997)	97	(25,1)
Other		(42)	(9)	>(100,0)
Net operating income		561	9	10,2
Investment income on shareholder funds ²	1	97	12	(13,4)
Net profit on disposal of subsidiary ²		32	–	1 00,0
Taxation expense		(221)	(180)	(22,8)
Profit attributable to ordinary equity holders		469	441	6,3
Income statement note 1. Investment income				
Policyholder – investment contracts				
Net interest income		4	4	–
Dividend income		78	44	77,3
Fair value gains		(243)	36	>(100,0)
Policyholder – insurance contracts				
Net interest income		–	–	–
Dividend income		–	–	–
Fair value gains		–	–	–
Shareholder funds				
Net interest income		96	51	88,2
Dividend income		7	17	(58,8)
Fair value gains		(6)	44	>(100,0)
Total		(64)	96	>(100,0)
Net interest income		100	55	81,8
Dividend income		85	61	39,3
Fair value gains		(249)	80	>(100,0)

		Total bancassurance		
	Note	2008 Rm	2007 Rm	Change %
Net earned premium		3 511	192	10,0
Net insurance claims		(1 890)	603	(17,9)
Investment income	1			
Policyholder investment contracts		492	579	(15,0)
Policyholder insurance contracts		113	243	(53,5)
Changes in investment and insurance liabilities				
Policyholder investment contracts		(438)	(534)	18,0
Policyholder insurance contracts		368	45	>100,0
Other income		1 550	1 239	25,1
Gross operating income		3 706	161	17,2
Net commission paid by insurance companies ¹		(572)	(529)	(8,1)
Operating expenses		(1 378)	150	(19,8)
Other		(85)	(47)	(80,9)
Net operating income		1 671	435	16,4
Investment income on shareholder funds ²	1	410	71	(28,2)
Net profit on disposal of subsidiary ²		32	–	1 00,0
Taxation expense		(516)	(504)	(2,4)
Profit attributable to ordinary equity holders		1 597	1 502	6,3
Income statement note 1. Investment income				
Policyholder – investment contracts				
Net interest income		492	79	(15,0)
Dividend income		261	48	>100,0
Fair value gains		98	57	71,9
Policyholder – insurance contracts		113	43	(53,5)
Net interest income		232	166	39,8
Dividend income		15	23	(34,8)
Fair value gains		(134)	54	>(100,0)
Shareholder funds		410	71	(28,2)
Net interest income		169	73	>100,0
Dividend income		118	10	16,8
Fair value gains		123	397	(69,0)
Total		1 015	393	(27,1)
Net interest income		662	287	>100,0
Dividend income		231	18	27,6
Fair value gains		122	925	(86,8)

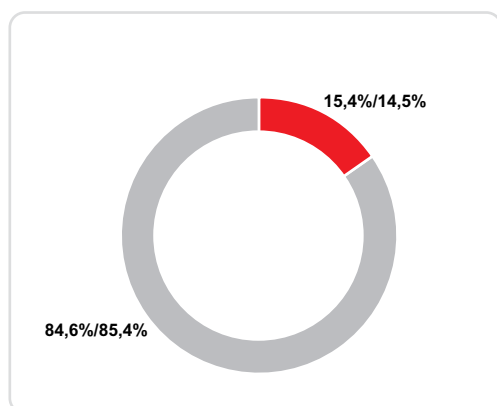
Notes

¹ Net commission paid includes internal commissions eliminated on consolidation of Absa Group.

² R37 million is accounted for as "Exchange differences" in "Other operating income" and R5 million loss is accounted for as part of "Investment income on shareholder funds" in "Gains and losses from investment activities". (Refer to page 43). In managing the short-term policyholder liability, certain assets have been allocated specifically for the purpose of backing this liability. The above disclosure reflects the income earned on these assets.

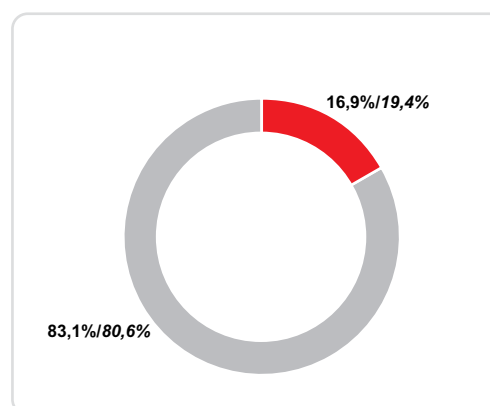
Contribution analysis

Contribution to attributable earnings (%)



● Bancassurance ● Rest of Absa

Contribution to non-interest income (%)



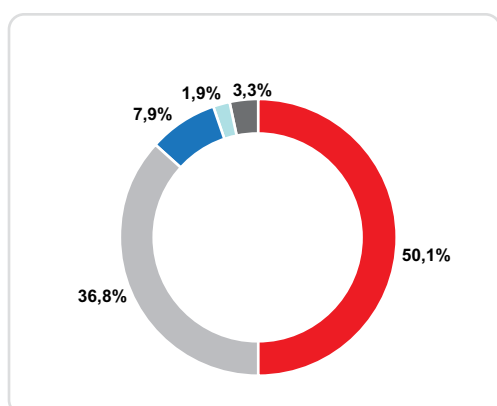
● Bancassurance ● Rest of Absa

Note

Figures for the prior year are indicated in italics

Business unit attributable earnings contribution

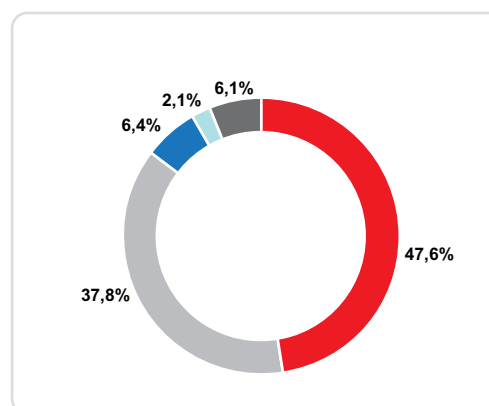
Contribution analysis –
profit before income tax (%)
2008



● Large ● Medium ● Corporate ● Africa
● CPF equity portfolio¹

Note
¹Includes realised and unrealised profits

Contribution analysis –
profit before income tax (%)
2007



● Large ● Medium ● Corporate ● Africa
● CPF equity portfolio¹

Note
¹Includes realised and unrealised profits

Insurance

Business units

Absa Life Limited

Absa Insurance Company Limited¹

Note

¹ Includes Absa iDirect Limited, a direct short term insurer, delivering a limited range of products directly to customers and Absa Insurance Risk Management Services Limited, which is a short-term insurance company offering cell captive facilities to third parties.

Absa Life Limited

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

Products and services

- **Home mortgage protection** ➔ Life insurance covering death, disability and retrenchment on mortgages.
- **Absa Life@Ease** ➔ Standalone life insurance covering death, disability and retrenchment, plus an investment option.
- **Credit life** ➔ Life insurance covering death, disability, critical illness and retrenchment for credit transactions.
- **Funeral cover** ➔ Funeral insurance focussing on the mass market.
- **Investment solutions** ➔ Local and offshore investment products in co-operation with AIMS.
- **Alternative risk transfer solutions** ➔ Customised solutions for corporate customers.

Salient features

Year ended 31 December

	2008	2007 ¹	Change %
Balance sheet (Rm)			
Embedded value	2 092	2 091	0,0
Embedded value of new business	331	213	55,4
Income statement (Rm)			
Gross premium income	1 207	1 202	0,4
Operating income	781	646	20,9
Profit attributable to ordinary equity holders	664	564	17,7
Selected ratios (%)			
Return on embedded value (annualised)	35,7	21,8	
Other salient features			
Permanent employee complement	231	159	45,3
Number of customers	3 365 816	3 206 277	5,0

Note

¹December 2007 comparatives have been restated for structure changes.

The year under review

Achievement of objectives

Commentary	2008 objectives	Achievement
Absa Life achieved excellent growth in the embedded value of new business of 55,4% to R331 million, as well as exceptional return on embedded value of 35,7%. These results were driven mainly by the strong growth in the sale of the Flexi Funeral product sold in the mass market space, backed by continued good support of mortgage and other credit-related products.	Distribution channels for mass market products	✔ While significantly growing the volumes sold through the existing channels (telesales and the branch network), new channels in the form of tied agents and partnerships with other entities operating in this space were successfully adopted.
	Growing Absa Insurance and Financial Adviser market share	✔ Absa Life has been able to increase its penetration of the intermediary channel and have significantly improved the quality of its product range over the year.

Achievement of objectives (continued)

Commentary	2008 objectives	Achievement
Volumes from lines supporting credit-related products came under pressure towards the second half of the year, in line with the deteriorating macro environment. Margins on the new underwritten life product, Absa Life @Ease, which was launched during the prior year, are very reassuring and bodes well for the long-term success of this product range.	Increasing penetration into Africa	✔ Absa Life has benefited from the Barclays relationship via inward reinsurance business from selected African countries.
	Enhancing current product offerings	✔ During 2008, significant product and distribution development was undertaken. The innovation was not only to create new offerings, but also to improve the design and competitiveness of existing offerings and distribution channels.

Looking ahead

In the year ahead, emphasis will be placed on executing the initiatives developed in 2008, in order to grow the customer base. This includes further distribution channels for mass market products and growing market share in the Insurance and Financial Adviser channel. In the prevailing economic climate, constructive cost management and the risk and control environment will remain major focus areas.

Under the Absa Life Change Programme (ACP) initiative that commenced in 2008, attention will be given to the implementation of the new administration system and to improving operational efficiencies and customer service.

Absa Insurance Company

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

Products and services

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

Salient features

Year ended 31 December

	2008	2007 ¹	Change %
Income statement (Rm)			
Gross premium income	2 764	2 305	19,9
Net operating income	376	329	14,3
Profit attributable to ordinary equity holders of the Group	498	537	(7,3)
Selected ratios (%)			
Solvency margin	78,7	83	,9
Loss ratio	66,1	62	,5
Underwriting margin	11,4	10	,3
Management expenses as a percentage of gross premiums	8,6	8	
Other salient features			
Permanent employee complement	651	463	51,8
Number of customers (million)	1,2	1,1	9,1

Note

¹December 2007 comparatives have been restated for structure changes.

The year under review

Commentary	Achievement of objectives	
	2008 objectives	Achievement
<p>A tough year was experienced in the short-term insurance industry with more large fire claims than normal. Weather conditions fluctuated and, while drought conditions were experienced during winter in the western and southern Cape crop regions, more favourable conditions were experienced inland. However, high storm activity in the last quarter of the year in urban areas led to a high incidence in weather-related claims.</p> <p>The downward trend in the underwriting margin that started in 2004 seemed to have started to bottom out in 2008 and stabilised at 6,0%. Underwriting experience for motor business continued to improve, but road conditions and traffic congestion continue to have a negative effect on claims frequency.</p> <p>Investment markets negatively influenced insurer results during the year. With South African insurers still heavily invested in equities generally, headline earnings came under pressure.</p>	<p>Growing profitable lines of business</p>	<p>✔ Targeted growth in personal accident and agricultural business was exceeded.</p>
	<p>Focus on controlling the cost of claims</p>	<p>✔ In-sourcing of specific claims cost control functions were successfully completed with, the planned expansion of other functions.</p>
	<p>Superior risk pricing</p>	<p>✔ Progress was made in pricing models.</p>
	<p>Design and development of new IT system</p>	<p>↔ A project commenced in this regard.</p>
	<p>Focus on customer centricity</p>	<p>✔ Customer service showed a marked improvement during the year.</p>

Looking ahead

Attention will be devoted to:

- growing profitable lines of business with specific focus on retention in these tough economic conditions,
- focusing on controlling the cost of claims and superior risk pricing,
- progress made on the implementation of the new IT system and focus on consistently having the customer at the centre of everything thereby increasing the penetration into the Absa customer base.

Absa Investments

Absa Investments is the preferred provider of investment and wealth products to the Absa Group. It offers high-quality investment products manufactured in-house, as well as selected third-party products via its linked investment platform. The key competencies of the Absa Investment's group of companies includes asset management, private client asset management, multi management, unit trusts, stock broking, participation bonds and linked investments. Absa Investments distributes its products and services to the retail market through the various Absa channels and through independent financial advisers (IFAs). Distribution to the wholesale (institutional) market is handled by an in-house sales team.

Business areas

Absa Asset Management (Proprietary) Limited	An institutional asset management company with a value-oriented investment philosophy. The company manages most of Absa Fund Managers' unit trusts, as well as a number of segregated mandates for the Absa Group and external customers.
Absa Portfolio Managers (Proprietary) Limited	Trades as Absa Asset Management Private Clients, manages segregated share portfolios for private clients. Portfolios are structured and managed to meet individuals' specific investment objectives.
Absa Mortgage Fund Managers (Proprietary) Limited	The manager of the Absa Participation Bond Fund, which is a collective investment scheme in participation bonds. The fund holds a portfolio of first mortgage bonds over commercial and industrial properties.
Absa Stockbrokers (Proprietary) Limited	Offers telephone and online trading services. In addition, Absa Stockbrokers (Proprietary) Limited provides a top-class administration and custody service.
Absa Fund Managers Limited	Offers a variety of unit trust investment products, ranging from low-risk fixed interest funds to higher-risk equity funds, investing both domestically and internationally.
Absa Investment Management Services (Proprietary) Limited (AIMS)	Offers an open architecture investment administration platform that enables clients to select from in-house and third-party unit trusts and other investment products. In addition, Absa Multi Management offers a range of retail investment portfolios, institutional mandates and specialist multi asset administration.

Salient features

Year ended 31 December

	2008	2007		Change %
Assets under management and administration (Rbn)	117	118		(1,1)
Net flows (including money market) (Rbn)	6,9	16	,0	(56,9)
Profit attributed to ordinary equity holders of the Group (Rm)	213	227		(6,3)
Number of customers	436 130	46	6 988	(6,6)
Average assets per customer (R)	268 190	25	3 230	5,9
Permanent employee complement	414		396	2,5

The year under review

Achievement of objectives

Commentary	2008 objectives	Achievement
Absa Investments is firmly established as a key market participant. The seven competencies that constitute the investment cluster provide a strong base on which to build a powerful investment house with Absa's backing and brand strength.	Broadening the product contribution in total assets under management	<ul style="list-style-type: none"> ✓ Assets of the Absa Absolute Fund grew significantly over the period year as it attracted solid inflows ✓ The Absa Participation Bond Fund recorded its highest new investment inflow in 2008.
Although the global and domestic financial markets experienced a significant downturn during 2008, Absa Investments was able to achieve net inflows of R6,9 billion. Over the past two years, Absa Investments has grown its assets under management by 28,0%.	Driving investment performance	<ul style="list-style-type: none"> ✓ Over the year, five of the seven ranked funds managed by Absa Asset Management were in the top quartile of their respective categories. ✓ Over the three-year period, five of the six funds were ranked in the top half of their respective categories, of which three funds were in the top quartile.

Looking ahead

In 2009, Absa Investments will continue building its profile in the retail and wholesale investment environments. For Absa Investments, the key focus is on providing a range of quality investment solutions that offer value for money and consistent performance.

Absa Fiduciary

Business units

Absa Trust Limited

Absa Consultants and Actuaries (Proprietary) Limited

Absa Health Care Consultants (Proprietary) Limited

Absa Trust Limited

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

Products and services

A comprehensive range of fiduciary services is offered:

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

Salient features

Year ended 31 December

	2008	2007	Change %
Assets under management (Rbn)	7,5	8,6	(12,8)
Value of deceased estates distributed (Rbn)	4,6	3,6	27,8
Number of trusts under administration	21 641	19 924	8,6
Permanent employee complement	419	412	1,7
Number of customers with filed wills (million)	1,3	1,3	0,0

The year under review

Achievement of objectives

Commentary	2008 objectives	Achievement
The decline in financial markets had a significant effect on asset values affecting both the estate management and trust management divisions. Notwithstanding, the value of estates distributed increased significantly mainly owing to an increase in the number of estates distributed.	Increasing profits	✔ Net operating income increased strongly for the year.
	Growing assets under management	✔ The growth of assets under management was severely hampered by declining financial markets.
	Expanding the administration of employee benefit trusts and beneficiary funds	✔ In terms of new legislation, beneficiary funds were established to be utilised in conjunction with employee benefit trusts.
	Forming strategic partnerships with actuaries and consultants, pension fund brokers and trustees	✔ These strategic relationships were successfully formed, as evidenced by the growth in employee benefit trusts.

Looking ahead

With the establishment of beneficiary funds, further emphasis will be placed on active interaction with retirement fund trustees and retirement fund consultants. Another key focus area will remain the drafting of new wills, from which a substantial benefit in terms of future revenue will be realised.

Absa Consultants and Actuaries (Proprietary) Limited

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

Products and services

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

Salient features

Year ended 31 December

	2008	2007	Change %
Permanent employee complement	467	343	36,2
Number of customers	400 000 members	350 000 members	14,3

The year under review

Achievement of objectives

Commentary	2008 objectives	Achievement
The company expanded its capacity with acquisition of Glenrand MIB. The advanced technology platform developed during previous years enabled the efficient integration of the Glenrand MIB acquisition. In addition to this, significant new business was acquired during the year.	Embedding customers and staff acquired from Glenrand MIB	✓ Glenrand MIB's staff members were successfully bedded in and all customers were successfully integrated onto Absa's platforms and methodology.
	Developing services and products to meet the needs of retirement fund customers and their members	✓ The further development of services, specifically asset consulting services, led to the expansion of services to existing customers, as well as increased acquisition of new customers.

Looking ahead

The focus will remain on customer service, ensuring customer retention. New customer acquisitions are also being focussed on, especially in the large corporate market.

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

Absa Health Care Consultants (Proprietary) Limited

Absa Health Care Consultants (AHCC) is the custodian of health care products and services in the Absa Group. AHCC is represented in all the main centres in South Africa and offers a comprehensive health care consulting service and absenteeism management services to employers, employees, unions, medical schemes, medical scheme administrators, managed-care providers and trustees. For the retail market, AHCC develops and/or sources products and services to be distributed via the various distribution channels and provides the necessary fulfilment and after-sales services.

Products and services

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

Salient features

Year ended 31 December

	2008	2007	Change %
Permanent employee complement	54	40	35,0
Number of customers	163 000	102 000	59,8

The year under review

Achievement of objectives

Commentary	2008 objectives	Achievement
The acquisition and successful integration of the Glenrand MIB book of business, including customers and staff members, significantly contributed to the company's aim of achieving critical mass. The current exposure of the company provides a springboard for further expansion.	Embedding the customers and staff members acquired from Glenrand MIB	✔ Customers have been converted successfully to Absa service methodology and staff members have been integrated fully.
	Expanding market share with respect to consulting and intermediary services	✔ The company has experienced growth in market share, specifically in relation to its absenteeism management services, where significant growth was experienced.

Looking ahead

Owing to the high value experienced by customers of the absenteeism management offering, strong emphasis will be placed on expanding this area of business.





Involvement in industry bodies will also continue in the light of significant regulatory changes expected in the health care industry.

Other Group activities

Introduction

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

Highlights for the year

 Brand leadership	In 2008, the Absa brand retained both the coveted "number-one banking brand" and "coolest bank" titles for the third year running.
 Leading financial services employer	Absa was rated the leading financial services institution among the top five employers in South Africa as part of the "Best Employers in SA" 2008 award.
 CSI leadership	Absa continued to be recognised as a leader in corporate social investment, based on a number of accolades received.
 Retention of A credit ratings	Absa Group and Bank both maintained their international A credit ratings.

Looking ahead

The focus over the longer term will continue to be placed on:

- Attracting and retaining the best people.
- Emphasising transformation.
- Enhancing operational excellence
- Risk, control and capital management
- Leveraging the Barclays relationship.
- Embedding brand leadership

Group Marketing

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

Absa's marketing strategy

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

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

The year under review

2008 was another successful year for the Absa brand, which retained both the coveted "number-one banking brand" and "coolest bank" titles for the third year running. Absa was rated the leading financial services institution among the top five employers in South Africa as part of the "Best Employers in SA" 2008 awards, and was ranked 5th in the 2008 Deloitte "Best Company to Work for" survey in the large companies category. Absa received the "Top Retailer Award in Banking" hosted by *The Times* and *Sowetan*, as well as the "Corporate Social Investment (CSI) Leadership Award" at the *Sunday Times* Top 100 Companies Awards. These awards contributed towards the strength of the Absa brand both in terms of the Group's image as well as its ability to appeal to top talent as an employer of choice.

The Absa brand had the largest share of mind in the marketplace through advertising and the strategic use of sponsorship properties. The Group's sponsorship properties received the following awards at the 2008 Marketing Excellence awards:

- Gold: Absa KKNK.
- Silver: Absa Currie Cup.
- Silver: Design Indaba.
- Silver: Gold: Absa KKNK.
- Silver: Absa Cape Epic – in partnership with Absa Corporate and Business Bank (ACBB).
- Bronze: Emirates Airlines SA Sevens.
- Special mention for 2008 "Put your best foot forward" Absa brand campaign.

These awards are particularly significant as they not only rate the brand exposure gained, but also the overall returns generated through effective leveraging of sponsorship properties.

Looking ahead

In 2009, Group Marketing will continue to build on the strategies that were established in 2006 and 2007. The focus for the year will be continued implementation of the 2008-2010 marketing strategy with high creativity and aggressive tactical marketing.

Group Communication and Public Relations

Group Communication and Public Relations (AGCPR) is a centrally-managed specialist communications unit, contributing towards building, nurturing and protecting Absa's reputation by establishing mutually beneficial relationships with Absa's stakeholders.

The unit is the custodian of the dissemination of information on corporate matters to the media, the broader community and the Group's employees.

Absa's communication and public relations strategy

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

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

The year under review

The main activities of AGCPR in 2008 were:

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

Looking ahead

In 2009, AGCPR will focus on the following strategic objectives:

- Enhancing the emotional commitment of Absa staff through effective employee engagement.
- Being responsive to stakeholders' material concerns by regular measurement of the Absa reputation.
- Effectively managing risk and controls in the communication environment.

Group Public Affairs

It is the mission of **Absa Group Public Affairs** to be the driver of innovation in championing Absa's transformational leadership, establishing a sound public policy agenda and directing sustainable social investment aimed at enhancing the Group's positive corporate image.

Corporate Social Investment (CSI) creates a platform for Absa's contribution to nation building by delivering on Absa's mandate towards social upliftment and supporting Absa's positioning as a transforming and caring brand. The focus is on social investment in peri-urban and rural communities through partnerships with civil society and the public and private sector, and the facilitation of sustainable community development. This is done in the areas of: early childhood development; mathematics, science and technology; entrepreneurship development; health and employee community involvement.

Government Relations grows and maintains mutually beneficial stakeholder relationships. This is achieved through focused strategic stakeholder engagement and relationship building with government, interest groups and civil society. The division drives positive stakeholder relationships and establishes the Absa public policy agenda.

Consumer Education empowers consumers to make more informed choices about their finances, thereby improving their financial health, wellbeing and inclusion through targeted consumer education. Deliberate and targeted consumer education facilitates access to financial services.

Black Economic Empowerment (BEE) is a division that seeks to establish Absa as a leader in transformation through the coordination and consolidation of Absa's BEE targets. The aim is to achieve and exceed the minimum requirements of the Financial Sector Charter (FSC) and the Department of Trade and Industry's (Dti) Codes of Good Practice (CoGP).

The year under review

The key highlights and achievements for 2008 were as follows:

- Absa continued to be recognised as a leader in corporate social investment, based on a number of accolades received.
- A deepening of relationships with project partners, including institutional capacity building, discussions on the monitoring and evaluation of projects, and identification of value adding project components (eg integration of literacy in the maths and science flagship, and an integrated approach to implementation of projects).
- Successful completion of the democracy support programme. Absa takes its role in supporting the country to achieve a healthy multi-party democracy very seriously. As a result, the Group provides financial support to all political parties that succeed in obtaining more than three seats in Parliament. The programme is governed by a policy-based on the South African Constitution which stipulates the rules of political party funding.
- Strategic partnerships with key government departments in support of the national priority areas. Government Relations partner with all three tiers of government on key focus areas, including education, health, housing, social development and public works programme.
- Provincial and national dialogue sessions with government, bringing together public and private sector players, eg the "City Meets Business" annual event in Cape Town, Limpopo and North West.
- National dialogue sessions between Absa employees and key interest groups. This included the Nepad Business Foundation, Business Unity South Africa and National Business Initiative.
- The creation of a strategic partnership with Absa new regulatory requirements (NRR) to provide support in the influencing of new legislation as part of Absa's public policy agenda. Relationships with interest groups who mobilise on behalf of business were built and include Business Unity South Africa, Nedlac, and South African Chamber of Commerce and Industry's Business Parliamentary Office.

- Consumer Education reached more than 140 000 consumers nationally through financial literacy education programmes. Absa met the FSC target to spend 0,2 % of net profit after tax on consumer education in financial literacy.
- In June, Absa implemented reporting on the Dti CoGP and thus undertaken to do dual (FSC and CoGP) reporting until the end of December 2008.

Looking ahead

Going forward, **the Group's Corporate Social Investment** focus will be placed on:

- implementing a Group-wide CSI strategy;
- developing and leveraging strategic partnerships;
- communicating the Absa CSI value to the business, brand and stakeholders;
- maximising CSI relevance to the business;
- implementing CSI projects effectively with geographical reach and measurable beneficiary impact;
- reporting and accountability;
- managing operational risk and compliance; and
- implementing financial management effectively.

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

- building relationships with internal and external stakeholders;
- providing Group-wide strategic leadership and guidance;
- developing a knowledge and information hub;
- effective public policy, global alignment and reporting;
- monitoring and evaluating Government Relations performance;
- effective governance and reporting;
- effective communication of Government Relations; and
- growing and maintaining strategic initiatives and partnerships.

Customer and Consumer Education will in future play a more prominent role within the Group's sustainable competitiveness framework. Its role will be expanded to include educational messages to all market segments. This capability will be hosted within the Transaction and Deposit unit of Retail Bank.

Going forward, the **BEE** division will again be:

- providing the framework and process for implementing Absa's BEE strategy;
- developing a Group-wide shared understanding and implementation framework on BEE through awareness creation and communication;
- tracking and monitoring Absa's BEE performance through a rigorous monitoring and evaluation progress;
- preparing Absa to report accurately and timeously on BEE, both internally and externally;
- focusing on the achievement of the objectives as stipulated in the FSC and CoGP governance and reporting policy;
- ensuring Absa targets are aligned to relevant and changing legislative requirements; and
- continuing with dual FSC and CoGP reporting.

Group Customer Experience

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

The year under review

The key highlights for the period under review included the following:

- The realisation of the customer experience policy. The policy enabled the Group to implement guidelines that affect every staff member in Absa resulting in improved execution of service commitment to its customers.

- Customer experience improvement projects resulted in some key improvements in service delivery and most of the actions resolved around:
 - customer education tools
 - queue experience initiatives
 - customer retention techniques
 - closer cooperation between business units and Group support functions (GSFs); and
 - expansion of the automated complaints system, the Customer Care Programme (CCP) ownership and efforts.
- All customer service levels remained relatively stable, in spite of severe financial and market pressures during 2008.
- The launch of “Leaders in Action”, which is aimed at senior leadership, to ensure that they stay close to the customer experiences delivered by all employees interacting with customers.
- “Treating Customers Fairly” (TCF) has become an embedded process within the organisation and there is now an increased awareness among both leaders and employees.
- Launch of the “Debt Repair Line” in order to assist customers who are experiencing financial difficulties.
- The successful launch of innovative pilots from Amaze II (Amaze the Customer) included: in-flight banking, in partnership with 1time airlines and an audio brochure which targeted both the visually impaired and audiophiles.
- The Customer Experience Forum (CEF) was formed and all business units are represented at this forum to discuss key service improvement actions and initiatives.

Looking ahead

2009 will see a drive towards the further embedment of a customer-centric culture in Absa by providing leading-edge knowledge (insights) and intelligence on customer experience, hence enabling excellent customer service and recovery. A focus on creating alignment across the Group and consideration of how to create synergies between business units is a key focus area.

Objectives for 2009 are as follows:

- Developing and embedding a good customer service personal aptitude into selected roles that often interact with customers.
- Entrenching customer-centric behavioural attributes in Absa employees (especially those at touch points) through training programmes.
- Enhancing the Leaders in Action concept by partnering with business units and ensuring that the concept becomes an embedded culture within each area.
- Applying consequence management for poor service delivery through a merit/demerit concept.

Group Strategy and Planning

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

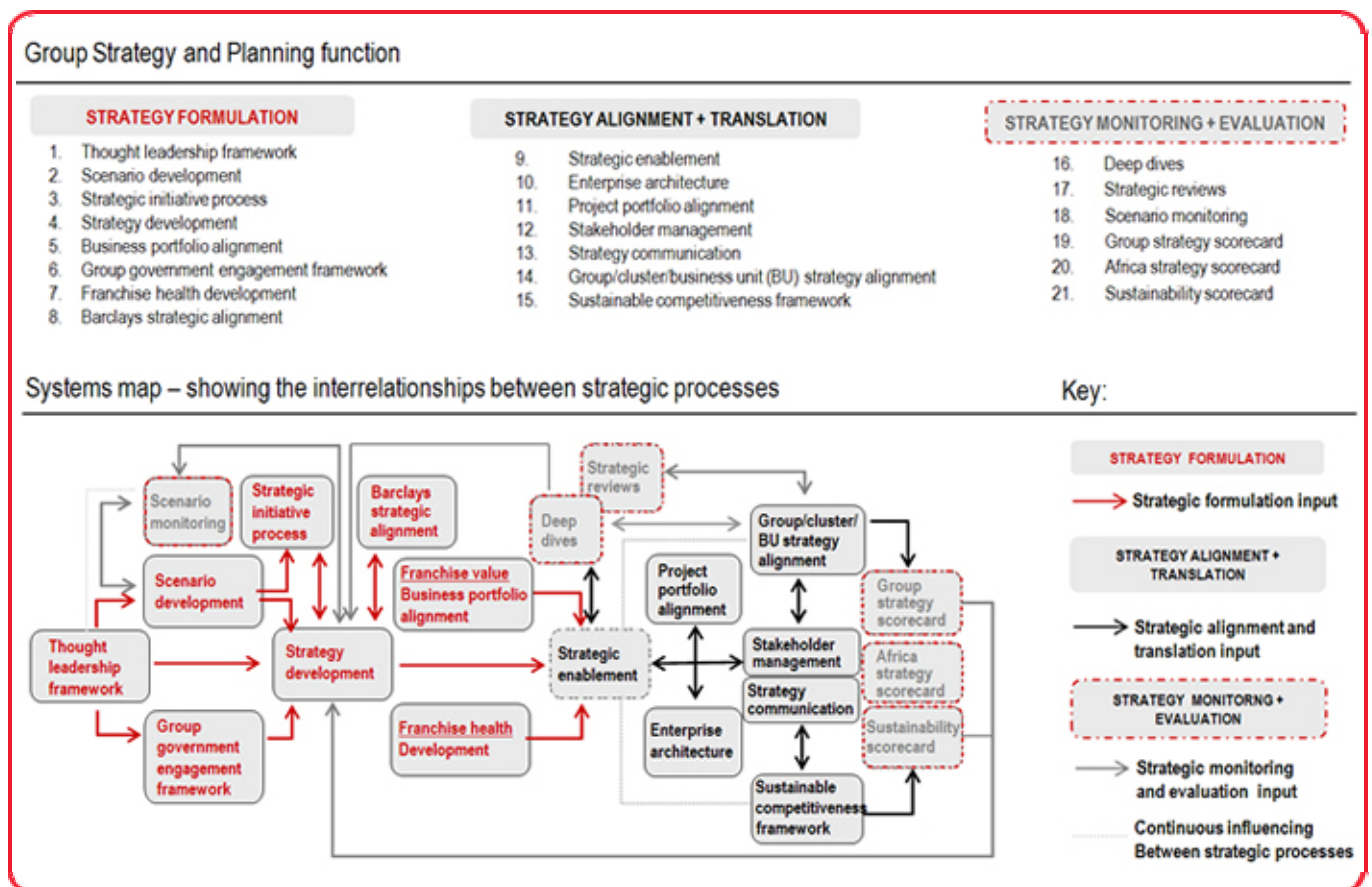
The role of Group Strategy and Planning involves the following:

- Providing input and facilitate strategic thinking to shape the strategic direction of the Absa Group.
- Ensuring alignment between Group and cluster strategies.
- Identifying and monitoring the strategic risk as defined for the Absa Group.
- Ensuring that the strategy of the Group is appropriately defined and described to allow effective communication thereof.
- Ensuring that the Group's strategy is fully understood.
- Monitoring execution of Group strategic objectives and reporting the status to the Group Chief Executive.
- Establishing an enterprise architecture capability to ensure optimal business and supporting designs.
- Formulating points of view through scenario analysis to support strategic processes and develop thought leadership.
- Driving consistent strategic direction and alignment within the Group through common, interactive and engaging strategic planning processes and templates.
- Co-ordinating the detailed cluster and business unit analysis (deep dives) in conjunction with the cluster strategy teams in order to ensure a proper fact base for strategic decision-making.
- Ensuring alignment between the strategic vision, organisational culture and stakeholder perceptions as reported in the Group strategy scorecard, financial scorecard and sustainability scorecard.

Absa's strategic planning and management processes

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

The diagram on the next page describes the Group Strategy and Planning function using twenty-one processes:



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

- Investigating strategic opportunities.
- Prioritising and evaluating project investments against business drivers.
- Translating Group-wide strategy into practical implementation plans.
- Evaluating the strength of the non-financial components of the business in executing the strategic objectives by understanding stakeholder needs. This involves facilitating the link between employee engagement and customer service to enhance strategy formulation relating to leadership, people management and customer service processes.
- Evaluating the deployment of business designs or architectures against the Group's strategic direction.

The year under review

During 2008, Group Strategy and Planning accomplished and executed the following:

- Coordinated and completed fact-based assessments in the form of strategic deep dives which contributed to the further strengthening of the level of mastery and degree of control each segment has over their current operations, strategic risks, and future strategy.
- All deep dives outcomes were taken to the Group Executive Committee (Exco) and board for further collaboration with business, creating the platform for strategy review and development.
- Revision of the 2012 Absa Group strategy with the Group Exco and the board, taking into account external global and local economic realities.
- Further embedding core capabilities supporting enterprise architecture.
- Development of a sustainable competitiveness framework underpinning the Absa sustainability agenda.

Looking ahead

The outlook for the next five years includes the translation of the Group's strategic direction for 2012, focusing on the following strategic objectives and strategic enablers:

Strategic objectives:

- Building a well diversified business
- Retaining market leadership in retail financial services
- Building a leading investment bank
- Accelerating growth in commercial business
- Growing and building wealth management

Strategic enablers:

- Attracting and retaining the best people
- Sustaining competitiveness through transformation
- Enhancing operational excellence
- Leading in risk, control and capital management
- Leveraging our global knowledge and network
- Embedding brand leadership

The Group strategy will be implemented by:

- a set of strategic themes focusing on a sustainable competitive advantage;
- translating the strategic objectives for all employees and business through a simpler strategic framework which drives alignment across the Group and results in aligned and consistent execution;
- embedding the deep-dive bottom-up fact-based strategic planning and analysis processes within the Group;
- evolving and embedding the Group's enterprise architecture capability to support investment decisions relating to deploying business designs;
- monitoring and developing the Group's ability to deliver against strategic objectives by implementing an evaluation process which takes the interdependencies between organisational culture, customer satisfaction, organisational capability and the Absa brand experience into account;
- embedding the Group's portfolio alignment capability to ensure that project investments are directly aligned with the Group's strategic direction.

Productivity and Efficiency Programme

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

The year under review

PEP tracked and challenged business units to improve performance, with specific focusing on increasingly on cost control thereby assisting the Group in achieving a cost-to-income ratio of 49,4% for the year. This was achieved through a combination of challenging operating models, actively tracking initiative benefits and challenging budgeted expenses to identify areas of improvement. These initiatives resulted in the:

- Implementation of overhead value analysis initiatives to further increase business control over cost base and employees.
- Achieving control and reduction of the Group's headcount.
- Driving further process automation and simplification.

Looking ahead

With the challenging conditions experienced towards the end of 2008, PEP's focus for 2009 will predominantly be on cost control activities, paired with further initiatives to tackle longer term process and efficiency improvements in specific areas.

Group Change and Support Services

Group Change and Support Services consists of:

- **Business Process Management (BPM)** which focuses on enterprise workflow, business service orientated architecture, the adoption and implementation of lean philosophy and practices, process design authority and enterprise process excellence.
- **Delivery Assurance** is positioned as an investment protection and monitoring mechanism, to management information on a project's ability to deliver within the outlined scope, budget and intended benefits.
- Group Change **Centre of Excellence** focuses on ensuring Group-wide standardisation of change methodologies and competencies, common shared services and reusability.
- **Contracted Change** enables Absa to respond rapidly to changing business demands through an enhanced integrated change management project delivery capability.

The year under review

The following was achieved during 2008:

- Evaluation and selection of various workflow tools to select those most appropriate for Absa at enterprise level.
- Commenced with an as-is analysis for workflow in Absa Home Loans and initiated an enterprise business case for workflow.
- Completed a draft set of enterprise process principles.
- Created a delivery assurance function with the aim of providing information on a project's ability to deliver within the outlined scope, budget and benefits.
- Established the Group Change Centre of Excellence function.

Looking ahead

Group Change and Support Services will continue to focus on change management services in 2009.

Emphasis will be placed on:

- ensuring process standardisation, reusability, centricity and consistency throughout the organisation;
- process improvement principles through the Lean methodology; and
- establishing Contracted Change's structure and role within the Group and delivering major initiatives.

Group Service Management and Support (SMS)

Group SMS functional areas mainly focus on the prioritisation of shared and contracted business system requirements, technology infrastructure management, policies and procedures support and workforce and service level management.

The year under review

During 2008, emphasis was placed on migrating the account opening process for the core retail products to the new branch delivery platform. The deployment of technology infrastructure was optimised through the implementation of a revised governance model for IT hardware forecasting and distribution.

Group SMS also implemented an automated system and process to ensure central co-ordination of all requests for technology.

Looking ahead

Optimal deployment of technology infrastructure remains a core focus. This will be achieved through:

- proper forecasting according to business needs;
- benefiting from bulk procurement/stock management; and
- redeployment of existing and surplus equipment.

Group Technology

Absa Group Technology manages Absa's information technology assets and enables business growth and change through its project and service delivery capability.

The year under review

Absa Group Technology has over the past year successfully focused on a number of aspects including:

- entrenching a strong business and Group Technology engagement model;
- delivering every technology project on-time and within budget;
- retaining technology employees and critical skills;
- risk and compliance management, and
- SLA (service level agreement) management and reducing severity 1 and 2 incidents.

Achievements for 2008/success stories include the following:

- The appointment of a new Group Chief Information Officer (CIO) coupled with several changes to the top management team.
- During 2008, 121 major projects were successfully implemented over four software releases and five interim software releases, thus controlling changes and limiting the impact on the business environment. Several of the newly implemented projects focus on providing new products or functionality for the customer.
- Single points of failure were identified and the effects of regular power outages during 2008 at three data centres were optimally managed to support system stability.
- The alignment of Group Technology with Barclays methodologies and processes enabled a more robust methodology of risk and control assurance within Absa.
- Regulatory requirements remained high on the agenda with the enhancement of disaster recovery and testing facilities. Business continuity management simulation tests as well as end-to-end disaster recovery tests were concluded.
- To mitigate fraudulent activity, a real time forensic management system for the early detection of fraud patterns in electronic banking was implemented.

Looking ahead

In the short-term, Absa Group Technology will focus on the following:

- The implementation of appropriate risk and compliance systems for Group Technology.
- Meeting all agreed SLAs signed by business and continuing to reduce the number of severity 1 and 2 incidents.
- Embedding a comprehensive technology strategic plan for Absa aligned to all business objectives and plans.

In the longer term, emphasis will be placed on:

- Delivering timeously on every technology project within budget, and support the business on innovation projects and enable business growth.
- Attract, develop and retain technology skills and talent in the financial services industry to Absa Group Technology and explore sourcing, outsourcing, off shoring and development of local competency strategies to counter the challenges of skills shortage in South Africa.

Group Human Resources

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

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

The year under review

Absa believes that the key to its success lies in highly capable, empowered and motivated employees, who, as stakeholders of the Group, assist in shaping its future in a sustainable way. Absa continues to strive to create a high-performance culture that values diversity and enables each individual to reach his or her full potential. Leadership is seen as key to creating a corporate culture that ensures organisational success.

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

In 2008, the capability of human resource practitioners, who directly support the business, has been further enhanced by capacity-building initiatives in HR through the HR capability development events, as well as master classes in key HR processes.

Highlights in 2008 include:

- Implementation of the Group's higher-performing organisation programme. This programme will assist the Group in achieving its strategic aspirations.
- Employee wellbeing – entrenching holistic wellness.
- Establishing a robust organisational design philosophy to enable effective structures and roles.
- The enterprise-wide leadership framework – leadership of abundant talent, which develops sustainable leadership practices and is an enabler of the higher-performing organisation agenda. This programme was designed and launched in 2007 and is being rolled out to all business units and all levels of management during 2008 and 2009.
- Continuing success of the Absa development initiative/Absa leadership development.
- Very satisfactory responses for the 2008 EOS, with a 95% response rate.
- Greater emphasis on attracting and acquiring the best available talent in the South African market.
- Entrenchment of performance development.
- Participating in and ending amongst the top performers for both the Corporate Research Foundation "Best Employers" and the Deloitte "Best Company to Work For" surveys.
- Graduation of the first intake of entry-level talent as part of graduates.

Achievements for 2008/success stories include the following:

- The appointment of a new Group Chief Information Officer (CIO) coupled with several changes to the top management team.
- During 2008, 121 major projects were successfully implemented over four software releases and five interim software releases, thus controlling changes and limiting the impact on the business environment. Several of the newly implemented projects focus on providing new products or functionality for the customer.
- Single points of failure were identified and the effects of regular power outages during 2008 at three data centres were optimally managed to support system stability.
- The alignment of Group Technology with Barclays methodologies and processes enabled a more robust methodology of risk and control assurance within Absa.

- Regulatory requirements remained high on the agenda with the enhancement of disaster recovery and testing facilities. Business continuity management simulation tests as well as end-to-end disaster recovery tests were concluded.
- To mitigate fraudulent activity, a real time forensic management system for the early detection of fraud patterns in electronic banking was implemented.

Looking ahead

Going forward, Group HR's key priorities will be:

- Transformation (moving to a culture of inclusivity, alignment with the CoGP and accelerating black talent).
- Employee engagement (enhancing the employee value proposition; implementing a "great" employee lifecycle, implementing the "Don't Sweat! Get fit for purpose" campaign and road shows by the GCE and Group Exco).
- Headcount and cost management.
- Talent management (including career management, succession planning, targeted development, electronic onboarding and socialisation).

Corporate Real Estate Services and Procurement Centre - Corporate Real Estate Services

Corporate Real Estate Services (CRES) is an integrated real estate asset management business unit established to be the custodian of the Group's real estate assets. It was repositioned and transformed in 2008 from Real Estate Asset Management (REAM) and comprises key property support functions: Strategy and Planning, Retail Property Management, Projects and Programmes, Corporate Facilities Management, Real Estate and Engineering.

The year under review

As the custodian of property services within the Absa Group, 2008 was characterised by major transformation as the business unit strived to move from being a task manager to strategic adviser to other business units on their property needs. A world-class property function was created during a four-month programme that delivered a new operating model, a step change in cost control, enhanced compliance and a completely re-invigorated, re-branded service offering within Absa.

2008 was also a year of solid delivery on business-as-usual property management and support services to all business units within the Group. Branch rollouts, ATMs, refurbishments, office moves and other projects were all executed and managed by CRES in partnership with the business units. Numerous opportunities for reducing Absa's total real estate were identified in 2008 and will be executed in 2009.

Looking ahead

Focus over the next two years will be on:

- cost reduction;
- portfolio optimisation;
- compliance;
- capability development; and
- corporate and social responsibility.

The new flagship head office for Absa, the Absa Towers West complex, remains the most strategic capital expenditure programme for which CRES is accountable. This building will be opened in 2011, and will become the new corporate head office building for the Absa Group, housing 3 500 head office employees.

Corporate Real Estate Services and Procurement Centre - Group Sourcing

Group Sourcing aims to enhance the value proposition of Absa's business units by harnessing and leveraging the external supply environment. With full mandate over third-party spend, this is achieved through cost reduction, cost avoidance or revenue generation from working with Absa's supply base.

The year under review

In 2008, Group Sourcing delivered significant cost reductions. Strategic transactions were led in a number of areas of the Group. The “Lean Six Sigma” process was introduced in 2008 to drive further efficiencies from the supply chain, while spend compliance targets were more than doubled.

Corporate and social responsibility continued to be an important theme, with widespread recognition coming from key projects in which Group Sourcing was able to leverage combined resources from major suppliers for the benefit of the community. Maximum points for spend with BBBEE-rated companies was achieved, while Dti CoGP targets were also met through Group Sourcing’s influence. Effective supplier relationship management ensured that adequate governance, integration and process excellence was in place with all segmented suppliers.

Looking ahead

The current economic climate also precipitates the need for innovative solutions to cost efficiencies, particularly with regards to fixed cost. Group Sourcing will continue to lead the market in securing the best deals in these and all relationships with Absa’s suppliers in 2009 and beyond.

Repossessed Properties

The residential **Repossessed Properties** unit is responsible for the acquisition, management and disposal of residential properties underpinning delinquent mortgage loans. The unit aims to fulfil the Group’s responsibility towards loss mitigation for financially distressed customers and to protect the Group’s security/asset values.

The year under review

The number of repossessed properties in possession increased by 9,4% in the year under review owing to the tougher economic climate, although the value of these properties increased by over 100%.

At 1 425, the number of properties in possession is lower than the previous year at 1 540, representative of a positive position when considering 2008 yielded a total of 462 new repossessions, 288,0% more than 2007.

Notwithstanding a significant increase in the number of new properties bought, resulting primarily from the interest rate hikes, a decrease in buyer confidence and a deteriorated secondary property market, best-practice mortgage loan default management and post-repossession disposal strategies ensured a minimal increase in the total number of repossessed properties of 9,4% during 2008. A 115,0% increase in ticket value during 2008, resulted in a 112,3% increase in the total repossessed portfolio capital value.

Looking ahead

Following on from the global recessionary conditions, the South African economy evidenced a rapid slow down, with deteriorating secondary market conditions, which are forecasted to continue well into 2009.

Despite expected declining inflation and interest in 2009, consumers may continue to experience some financial strain into the second half of the year, which will continue to negatively influence household income. As a result, the housing market is expected to remain under pressure with recovery starting in 2010.

Pursuant to the above mentioned, combined with an approximate nine-month procedural time delay from legal foreclosure to potential repossession, the Absa Repossessed Properties unit is expected to witness property repossessions in number and value similar to that evidenced during 2008, going forward.

Having said that, confidence is placed in revised acquisition pricing methodologies as well as unique property management and disposal practices that will contribute to sustained portfolio levels, notwithstanding anticipated increases in new repossessions.

Group Operations

Group Operations is a customer operations service provider in Absa. The business unit is moving from a regional operations model toward a customer-centric and end-to-end value chain model that has specific functional capability focuses, with process centricity driven by automation at its core. As part of its transformation journey, an investment strategy is mainly executed with a line of sight on operational risk, capacity, sustainability and cost/income.

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

The year under review

Successes for 2008 include:

- Lean process automation emphasising straight through processing.
- Customer centricity through process centricity. The focus was on reducing turnaround times, reducing re-work, optimising the cost/volume relationship, increasing revenue, minimising paper use, reducing operational risk and increasing sustainability.
- Implementation of a defined strategy roadmap, end-to-end value chain and capability model and reconstituted processes into activity chassis.
- Identification and re-engineering of core processes.
- Virtualised processes.
- Physical consolidation of processing activities from nine to two processing hubs.
- Embedded a customer-centric and end-to-end value chain model with identified functional capability focuses and value chain governance and management. All payment systems and payment operations accountabilities were transferred to Group Operations.

Looking ahead

Emphasis will be placed on the operational production areas, namely Processing Centre and Cash, Payments: Domestic and Foreign and Operations Services so as to manage the Group's operational shared infrastructure.

Group Finance

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

The year under review

During 2008, the key focus for Group Finance was on the enhancement of both internal and external reporting and further aligning Absa's financial reporting with that of Barclays with specific emphasis on the Group-wide implementation of the new Basel II regulations.

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

Looking ahead

Group Finance aims to be recognised for maintaining highly effective and efficient controls and reporting and to be valued as a business partner in driving performance.

In order to achieve this, focus will be put on:

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

Group Treasury

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

The year under review

During 2008, the key focus areas of Group Treasury were the establishment of industry-leading liquidity, capital management and interest rate risk practices, together with product innovation and strong stakeholder relationships. The major achievements of the function were as follows:

- Absa was the first bank globally to launch a Tier II CPI-linked bond, raising R1,9 billion at an average spread of 135 basis points (bps) over a three-month JIBAR. This regulatory Tier II capital was significantly cheaper than similar instruments issued by other local banks.
- Economic capital (EC) requirements in respect of mortgage loans reduced by approximately R2,0 billion, following analysis undertaken by Group Treasury in the third quarter of 2008.
- Reduction in equity investment risk EC of R1,2 billion occurred, following an analysis done by Group Treasury, Absa Market Risk and Barclays Risk
- The implementation of Basel II on 1 January 2008 has provided the Group with an internationally recognised framework that incorporates best practice in risk and capital management.
- Key liquidity risk indicators were maintained or improved under challenging market conditions.
- During 2008, Absa issued R1,8 billion in senior unsecured debt under the domestic capital market programme in challenging market conditions.
- Absa Group and Bank both maintained their international A credit ratings.
- A strong relationship with SARB was maintained.

Looking ahead

While the South African financial markets have continued to operate relatively normally, despite the international crisis, domestic banks are likely to encounter increased pressure owing to deteriorating market conditions.

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

- Minimising increasing funding costs.
- To obtain finalisation of the ownership requirements of the Financial Services Charter versus the Dti CoGP.
- ensuring that RWA growth rates are within expected levels at a business unit level and to monitor progress of the stabilisation of the results from the credit risk models.
- The ongoing diversification of the capital base by the issuance of instruments that satisfy investor demand.
- RoEC optimisation.
- Embedding the ICAAP principles in the business units, in areas such as strategy, risk appetite, financial planning, performance measurement, stress testing and incentives.
- Ensuring that the dividend policy (dividend cover) supports the capital management objectives of the Group.
- Maintain an international A rating.
- Ensuring that the current capital adequacy ratios and capital adequacy forecast are appropriately stressed (severity, time horizon, scenarios).

Business Performance and Analytics

The main role of the **Business Performance Management and Analytics** team is to lead business performance management and financial planning at an Absa Group level.

The year under review

During the year, emphasis was placed on the management of the budgeting and financial planning process thereby providing the board with an agreed set of financial and non-financial commitments for performance delivery. Emphasis was also placed on the proactive identification of key business performance issues.

Looking ahead

Focus will continue to be placed on the enhancement of the budgeting and planning process as well as the development of tools to ensure timeous identification of key business performance issues impacting the Group.

Absa Legal

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

The year under review

During 2008, Absa Legal focussed on and became a strategic partner to the business by managing the increased levels of risk posed to the Group as a result of difficult trading conditions and pressure on the consumer. In effecting the enhanced business-centric values, Absa Legal moved towards a federated model which saw the seamless integration of a number of teams into the business units they serve. This allowed Absa Legal to ensure the proactive and uncompromising management of legal risk on a cost-effective basis. The legal risk management policies and processes continued to be enhanced by the adoption of additional policies to combat any potential risk to the Group and were further embedded across the Group.

Looking ahead

In 2009, Absa Legal will continue to build on the basics of proactively identifying and managing legal risk in a responsive, efficient and scalable manner. Absa Legal will continue to align itself with the principle strategic imperatives of the Group and will continue to identify and execute value-enhancing opportunities.

A key priority for Absa Legal will be to ensure that those teams which were integrated into the business units they serve are able to fully integrate themselves, while maintaining the gravitational centre and cohesion of a single Group-wide legal function.

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

Corporate Development

Corporate Development is a niche team responsible for ensuring that the investment processes in pursuit of Absa's inorganic growth strategies (via mergers, acquisitions, joint ventures, strategic alliances, restructurings, disposals and the like) are optimised by applying world-class best practises and ensuring that there is a consistent evaluation and response to investment opportunities in the market.

The business unit supports Group executives by contributing to, assisting in, and ensuring that all inorganic growth strategies are executed in alignment with the overall strategies of the Group. The responsibilities of Corporate Development include originating and promoting value enhancing transaction opportunities in support of Group strategies, negotiating transaction terms and providing start-to-finish transaction management and execution.

The year under review

Despite the inherent slowing of inorganic corporate activity as a result of the world-wide economic crisis, the team was again involved in the evaluation and execution of various key strategic investments and projects for the Group during 2008. These included the acquisition of a controlling stake in Woolworths Financial Services (Proprietary) Limited, the acquisition of the remaining shares not already owned by Absa in Meeg Bank Limited and the disposal of Absa's stake in Maravedi Group (Proprietary) Limited and Blake and Associates Holdings (Proprietary) Limited. The team also assisted the Group in the renegotiations of various joint-venture relationships in line with current Group priorities.

Looking ahead

During 2009, the focus will remain on executing the key strategic inorganic priorities of the Group, while remaining open to identifying and executing value-enhancing investment opportunities that may present themselves in the market place. The team was recently involved with the Batho Bonke Capital (Proprietary) Limited (Absa's BEE partner) transaction, relating to the right to exercise 10% options in Absa and is currently assisting the Group in evaluating certain investments acquired following single stock futures defaults.

Group Investor Relations

Group Investor Relations serves as a conduit between Absa Group and the market place. This is achieved by ensuring that the market is well informed on Absa's strategy and that the investment community is provided with the best possible information in order to make a fair assessment when evaluating the Group.

The year under review

During 2008, Group Investor Relations facilitated a number of events aimed at broadening awareness and interest in the Group by participating in investor road shows, meetings, presentations, teach-ins, conference calls and mailings. In the context of the current volatility of the financial markets globally, Absa's share price outperformed its peers and the percentage of foreign shareholding increased during the year under review.

Looking ahead

Group Investor Relations will continue to ensure that it provides best-practise, timely and consistent disclosure in terms of communication to the market.

Group Secretariat

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

The year under review

In addition to matters reported in the corporate governance statement in the 2008 shareholder report, the department focused, amongst others, on the following areas during the year under review:

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

Looking ahead

For the year ahead, the division will continue to provide a value-added, efficient service to the various boards of directors in the Group, the individual directors and executive management and Absa Group as a whole. Special attention will be paid to capacity-building in terms of understanding the impact that the various legislation will have on the functioning of the department, such as the new Companies Act that is due to be implemented in July 2010. In addition, there will be a focus on enhancing the overall human resources skills in Group Secretariat and a commitment to the transformation objectives of the Absa Group.

Group Risk

The activities of Group Risk are set out in the Group risk and capital management report for the year ended 31 December 2008.