Absa Group Limited shareholder report 2008

Absa Group Limited

Shareholder report

For the year ended 31 December 2008

Member of the BARCLAYS Group

ABSA

Contents

Note

Information pertaining to the annual general meeting can be found in a separate document enclosed with this shareholder report.

Absa in 2008

Our business

Since it was established early in 1991, the Absa Group has grown its asset base almost tenfold to R773,8 billion at 31 December 2008. As a large financial services group in southern Africa, Absa remains at the forefront of the retail banking industry, with over 10 million customers.

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

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

A resilient financial performance

- Headline earnings growth of **5,3%**.
- Headline earnings per share of **1 466,2 cents**.
- A return on average equity of **23,4%**.
- A cost-to-income-ratio of **49,4%**.

Diversified earnings base

- Non-retail contribution of **48,8%**.
- Non-banking contribution of **15,4%**.

Well capitalised

- Tier I capital adequacy ratio of **11,6%**.
- Total capital adequacy ratio of **14,1%**.

Strong brand positioning and CSI leadership

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

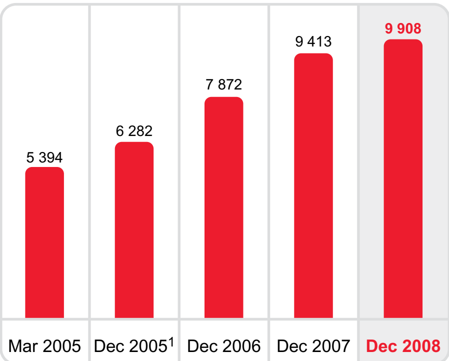
Salient features

Year ended 31 December

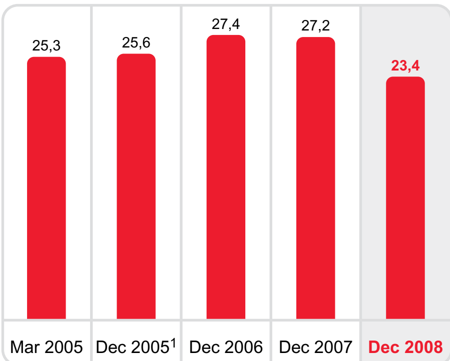
	2008	2007	Change %
Income statement (Rm)			
Headline earnings[1]	**9 908**	9 413	5,3
Profit attributable to ordinary equity holders of the Group	**10 592**	9 595	10,4
Balance sheet (Rm)			
Total assets	**773 758**	640 909	20,7
Loans and advances to customers	**532 171**	455 958	16,7
Deposits due to customers	**382 281**	310 512	23,1
Financial performance (%)			
Return on average equity (RoE)	**23,4**	27,2	
Return on average assets (RoA)	**1,37**	1,68	
Operating performance (%)			
Net interest margin on average assets	**3,02**	3,37	
Net interest margin on average interest-bearing assets	**3,63**	3,83	
Impairment losses on loans and advances as a percentage of average loans and advances to customers			
• Group	**1,19**	0,58	
• Retail banking	**1,68**	0,74	
Non-performing advances as a percentage of loans and advances to customers	**3,5**	1,7	
Non-interest income as a percentage of total operating income	**49,2**	47,0	
Cost-to-income ratio	**49,4**	51,7	
Effective tax rate, excluding indirect taxation	**26,1**	28,8	

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

Headline earnings (Rm)



Return on average equity (%)

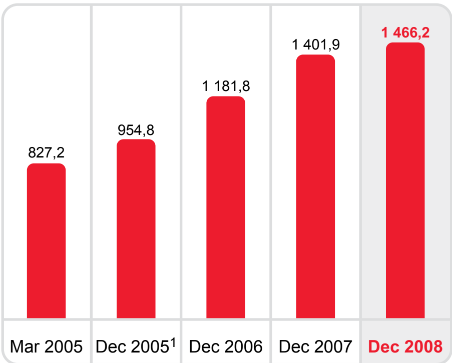


Note
[1]*Pro forma figures (twelve months).*

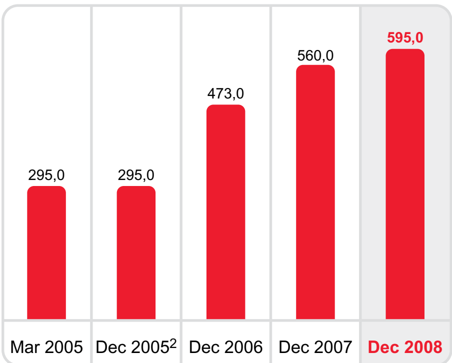
	2008	2007	Change %
Share statistics (million)			
Number of shares in issue	**680,3**	678,6	
Weighted average number of shares	**675,7**	671,5	
Weighted average diluted number of shares	**702,8**	716,4	
Share statistics (cents)			
Earnings per share	**1 567,5**	1 428,9	9,7
Diluted earnings per share	**1 509,5**	1 341,4	12,5
Headline earnings per share	**1 466,2**	1 401,9	4,6
Diluted headline earnings per share	**1 412,1**	1 316,1	7,3
Dividends per ordinary share relating to income for the year	**595,0**	560,0	6,3
Dividend cover (times)	**2,5**	2,5	
Net asset value per share	**6 950**	5 537	25,5
Tangible net asset value per share	**6 809**	5 493	24,0
Capital adequacy (%)[1]			
Absa Bank	**14,0**	12,5	
Absa Group	**14,1**	13,1	

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

Headline earnings per share (cents)



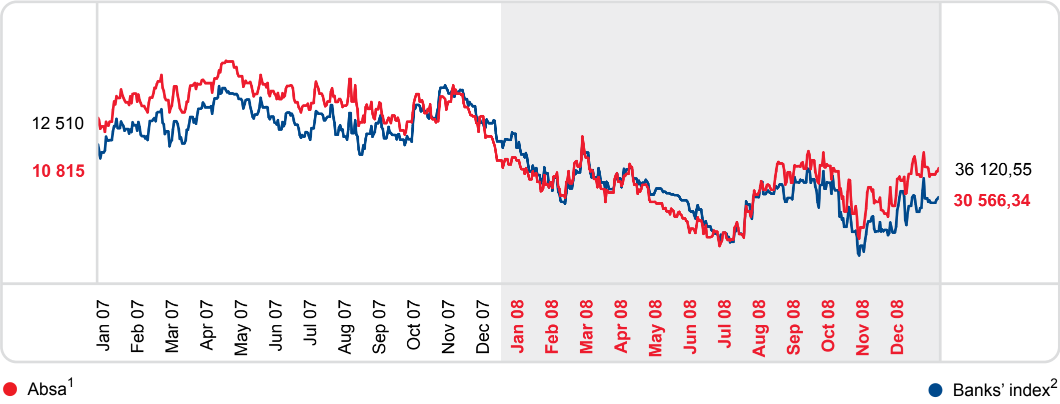
Dividends per share (cents)



Notes
[1]*Pro forma figures (twelve months).*
[2]*For the nine months ended 31 December 2005.*

Share performance

Absa share performance relative to the banks' index (cents)



Notes

[1] *Absa's annual total return for the twelve-month period was 5,7%.*

[2] *The Absa's share price outperformed the banks' index by 6,7% over the twelve-month period. Total return was used to calculate the relative performance (calculated using an annualised dividend yield).*

Share performance on the JSE Limited

as at 31 December

	2008	2007	Change %
Number of shares in issue[1]	**680 278 301**	678 573 074	0,3
Market prices (cents per share):			
• closing	**10 815**	11 100	(2,6)
• high	**11 999**	14 830	(19,1)
• low	**7 900**	10 832	(27,1)
• average	**9 954**	13 207	(25,1)
Closing price/net asset value per share (excluding preference shares)	**1,56**	2,00	
Closing price/headline earnings per share	**7,4**	7,9	
Volume of shares traded (millions)	**551,4**	343,7	60,2
Value of shares traded (R millions)	**54 635,7**	45 370,6	12,5
Market capitalisation (R millions)	**73 572,1**	75 321,6	(2,3)

Note

[1] *Includes **2 400 220** shares held by the Absa Group Limited Share Incentive Trust (December 2007: 2 678 159), **905 111** shares held by Absa Life Limited and Absa Fund Managers Limited (December 2007: 718 202) and **500** shares held by the Absa Group Limited Employee Share Ownership Administrative Trust (December 2007: 68 800).*

Group structure

As at 31 December 2008

Barclays Bank PLC	58,62%
Public Investment Corporation	8,45%
Allan Gray Limited	4,09%
Old Mutual Asset Managers	2,59%
Stanlib Asset Management	1,98%
Investec Asset Management	1,59%
Sanlam Investment Management	1,13%
Absa Stockbrokers (Proprietary) Limited	1,10%
Foord Asset Management	1,08%
AXA Financial SA (Bernstein and Alliance)	0,90%
Other	18,47%

Absa Group Limited

Absa Bank Limited

100%

Retail banking

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

Corporate and commercial banking

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

Investment banking

- Absa Capital

Absa Financial Services Limited

100%

Insurance

- Absa Life Limited
- Absa Insurance Company Limited

Fiduciary

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

Investments

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

Other

- Absa Insurance and Financial Advisers (Proprietary) Limited

Other subsidiaries

Banking

- Barclays Bank Mozambique S.A. (80%)
- National Bank of Commerce Limited (Tanzania) (55%)
- Meeg Bank Limited (100%)
- Woolworths Financial Services (Proprietary) Limited (50% + 1 share)

Financial services

- Absa Stockbrokers (Proprietary) Limited
- Absa Portfolio Managers (Proprietary) Limited
- Absa Manx Insurance Company Limited
- Absa Asset Management (Proprietary) Limited

Other

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

Associated undertakings and other interests

Banking

- Banco Comercial Angolano (Angola) (50%)
- FFS Finance South Africa (Proprietary) Limited (50%)
- MAN Financial Services (S.A.) (Proprietary) Limited (50%)
- Virgin Money South Africa (Proprietary) Limited (50%)
- Sanlam Home Loans (Proprietary) Limited (50%)

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Commentary

Commentary

Chairperson's statement

Gill Marcus
Chairperson

The time for credible world leadership

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

Absa's financial performance

Despite the challenging domestic conditions, the Group produced a credible result. Our wholesale banking businesses remained robust, contributing 48,8% to overall Group earnings for the year. The strategy to diversify earnings resulted in the decline in the retail business being offset, to some extent, by the strong growth in both Absa Capital (29,8%) and the commercial bank (29,5%).

However, the Group's performance for the year was characterised by the marked increase in impairments and the number of accounts in arrears and a slowdown in retail banking volume growth. Retail banking, as a result, recorded a 25,0% reduction in earnings.

A final dividend of 330 cents per share was declared, taking the dividend growth for the full year to 6,3% with a dividend cover of 2,5 times.

Looking ahead

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

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

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

Our long-term strategy remains on track. Recognising the imperative for banks to be relevant to the needs of our society, we aim to make Absa the best provider of financial services in South Africa and selected African markets, and we will progressively deliver on this vision. Our five core strategic objectives remain, namely to build a well diversified business; to retain market leadership in retail financial services; to build a leading investment bank; to accelerate growth in the commercial business; and, to grow and build wealth management. In this process, the Group will continue to anticipate and manage its business within the parameters of the evolving testing environment, while enhancing its competitiveness. Diversification will remain core to ensuring that we optimise returns through all points in the economic cycle.

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

South African economic environment

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

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

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

The global financial outlook

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

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

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

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

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

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

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

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

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

Succession planning, board changes and appreciation

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

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

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

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

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

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

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

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

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

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

Gill Marcus

Group Chairperson

20 March 2009

Group Chief Executive's review

Steve Booysen

Group Chief Executive

Against the backdrop of the international financial market turmoil and testing macroeconomic conditions, I am proud to present a sound set of financial results for the Absa Group. Our performance this year is proof that our strategy of earnings diversification, strong cost and risk management focus has been successful. The staff at Absa has certainly risen to the challenge, for which I thank them. The year, however, was not without its trials. Besides the international economic fallout, local conditions were impacted by high interest rates, a deteriorating currency, rising levels of household debt and declining asset values. Absa, however, remains well positioned to deliver a steady and sustained performance through the cycle.

Resilient financial and operating performance

I am pleased to report that our growing diversification of revenue streams and broad customer base have allowed us to achieve a solid financial performance for the year. Despite the difficult trading conditions, which adversely impacted the performance of the Group's retail banking operations, the wholesale banking businesses continued to produce a robust operating performance with their contribution to the Group's overall earnings increasing to 48,8%.

Top-line income increased 20,4% to R42 910 million, with an 8,0% increase in profit before tax being recorded. Income growth exceeded cost growth, resulting in the cost-to-income ratio improving to 49,4%, in line with our target of achieving a ratio of below 50,0%.

Our customer numbers grew 11,6% to over 10 million and we maintained our strong brand and distribution presence. One in every three bankable South Africans has chosen Absa as their bank of choice.

The Group's focus on reducing its reliance on wholesale funding resulted in a 23,1% year-on-year growth of total deposits.

The Group's capital ratios, which reflect Absa's financial strength, remained strong with a Tier I capital ratio of 11,6% and total capital ratio of 14,1% as at 31 December 2008. We also delivered a healthy return on average equity of 23,4% (2007: 27,2%), well ahead of our objective to achieve an RoE of 6% above the cost of equity.

On a relative basis, Absa's share price performance led its peers among the top four South African banks during the year, outperforming the sector by 6,7% (total return calculated using an annualised dividend yield).

Retail banking under pressure

The Group's retail banking operations recorded an earnings decline of 25,0% to R3 706 million. This was as a result of slower business volume growth and a rising number of accounts in arrears as the South African consumer remained under pressure owing to higher inflation and interest rates. This was particularly significant in the latter half of the year as consumer distress intensified and collateral values in respect of vehicles and home loans were subjected to a considerable downward adjustment. Retail impairments rose 158,9% to R5 551 million.

Despite these challenges, retail banking grew top-line income by 15,0%, largely as a result of a refinement of the pricing model, better margin management and an enhanced product suite. Customer deposits grew a robust 32,4% during the year and an advances growth of 11,3% was achieved across all categories. Innovative product offerings, including initiatives such as the online opening of investment product accounts, coupled with competitive pricing, resulted in strong gains in market share for individual deposits and advances, as reflected in the BA900 data.

Strong growth from Absa Capital

Absa Capital increased attributable earnings by 29,8% to R2 249 million, driven by exceptional growth in the Secondary Markets and good growth in the Primary Markets business units.

The division achieved its objective of Secondary Markets contributing in excess of 50,0% to its earnings. This was facilitated by volatility in financial markets which resulted in increased client demand for risk management products and access to markets.

The Primary Markets and Equity Investments and Investor Services businesses delivered commendable performances in the face of strained capital markets.

Absa Capital achieved this strong revenue growth and the desired change in business mix while risk-weighted assets (RWA) remained fairly constant.

Commercial banking performed well

Absa Corporate and Business Bank (ACBB) achieved a strong growth of 29,5% in attributable earnings to R2 806 million, in spite of equity market volatility, which resulted in a R166 million decline in the value of the listed commercial equity investments. Total advances increased 33,1% for the year as a result of continued credit demand in the large and medium business lines. Impairments remained low owing to a material recovery of bad debt and the early implementation of strict credit risk management. Deposit growth also gained healthy momentum with a 29,0% increase during the period.

The commercial business remains well positioned to provide innovative solutions and services to its customer base and will continue to leverage off Absa Capital's expertise in structuring complex transactions, and its international syndication and distribution capabilities.

Building our bancassurance proposition

The Group's bancassurance operations grew attributable earnings by 6,3% to R1 597 million for the year under review, despite the effects of significant market volatility on investment portfolios. This growth was also achieved despite the challenging operating environment which was characterised by reduced volumes of credit-related business. The current year's operating performance benefited from strong growth in the gross written premiums in short-term insurance of 19,3%.

Absa Life continues to be a significant contributor to the division's earnings, contributing 32,1% of gross operating income in 2008. The embedded value of new business grew 55,4% to R331 million.

Fiduciary and other bancassurance services continued to increase their contribution to Absa Financial Services from 10,0% in 2005 to 14,0% in 2008. Absa Trust exceeded R100 million in profit before tax for the first time. Employee Benefits and Distribution added R63 million and R38 million respectively to total operating earnings.

Stricter risk measures in place

In light of the deteriorating macroeconomic environment and higher impairments, considerable emphasis was placed on managing risk within the Group. The risk management framework ensures alignment of risk appetite with the Group's overall strategy.

Consequently, stricter scorecard criteria, including closer attention to affordability and the quality of bureau information, tighter loan-to-value criteria on home loans and vehicle finance were implemented during the year. Absa, however, endeavours to assist and find alternative payment solutions for customers in distressed financial circumstances.

To ensure that the business remains within its set risk appetite, we continuously monitor forward risk trends in business areas where the environment is changing and/or where growth rates are increasing.

Strong cost focus

Operating costs for 2008 grew 14,9% to R21 193 million compared to R18 442 million in 2007. Particular emphasis was placed on managing staff costs in line with business volumes. The Group has implemented a number of efficiency initiatives and cost management measures, driven and coordinated by a dedicated team. Good progress has been made in efficiencies through, for example, consolidating most of our back-end processing activities from nine regional centres into two, and by improving customer processes, such as enabling the online opening of new accounts. We will continue to drive productivity improvements through process simplification, improved workflow and increasing straight-through processing.

Measures to maintain a strong cost focus will continue through various other cost-efficiency initiatives throughout the Group. The strong focus on efficiency improvements has resulted in a significant reduction in the cost-to-income ratio from 57,1% for the 2003/2004 financial year to below 50,0% in 2008.

Conservative capital and liquidity levels

From a liquidity perspective, the South African money market continued to operate normally and was largely unaffected by the international credit crisis.

Absa remains well capitalised and continues to maintain appropriate levels of capital. Given the deterioration in the credit environment, the Group is cognisant of the effect of procyclicality introduced by Basel II. The Group has, therefore, increased the target capital adequacy ratios for 2009 to 10,0% (from 8,8%) for Tier I capital and 13,0% (from 12,0%) for the total capital adequacy ratio. These ratios have already been achieved.

Although the Group remains well capitalised, capital is a scarce commodity and capital preservation remains a priority. We aim to continue preserving capital through ensuring specific capital demand targets, strong free cash flow generation, tightening risk parameters and mehodologies and higher hurdle rates on returns.

Competition Commission update

The Competition Commission's full report regarding the fair treatment of customers in the retail banking industry was published in December 2008. Absa has already implemented several of its recommendations. An intragovernmental committee of representatives from the National Treasury, Competition Commission and the Department of Trade and Industry will discuss a coordinated government response to the report. We will strive to ensure that the recommendations are implemented in a manner that is beneficial to customers and will ensure that our products remain as competitive as possible.

Valuing our people

The recruitment and retention of quality staff remains a core focus together with skills enhancement through initiatives such as the Absa Academy. In a year of extremely testing business conditions, it was heartening to witness the healthy morale and determination of our staff.

Absa's human resources and industrial relations policies and approach were ranked number one among South African banks by SASBO, the banking trade union. Absa maintained second place in the Best Employer survey run by the Corporate Research Foundation (CRF) for 2008, and came fifth in the Deloitte Best Company to Work For survey.

The organisation has focused on streamlining recruitment practices to expedite the placement of new talent. To optimise employees' potential, Absa is undertaking various initiatives such as its graduate programme, mentorship and the global rotation programmes to ensure that a pipeline of talent is sustained. We continue to benefit from access to training opportunities afforded within the broader Barclays group.

The Group continues to embrace transformation with the percentage of black employees increasing from 47,8% in March 2005 to 61,1% of our total staff complement in December 2008. The Group's FSC rating first reported in 2006 was 86,2. In December 2007, its rating improved to 92,5, and in December 2008 to 94,1. The Group's mission remains to transform the business beyond the targets of the FSC.

Improving our customer service

Absa's business model is designed to exceed customer needs. Our footprint was enhanced, both in South Africa and the rest of Africa, following an increase of 580 self-service terminals and 181 points of presence, focused mainly on previously unbanked areas.

The Group's ability to deliver on its customer service promise was rewarded by an improvement of the Group's overall position in the 2008 Orange Index benchmark study, from third place in 2007 to second place in 2008 in the Financial sector performance category.

Service innovation also received appropriate attention during 2008. Absa was the first bank to launch a "debt repair" line in June 2008 to assist customers experiencing financial difficulties during the economic crisis.

Over the past four years, Absa also made a determined effort to extend a hand to communities beyond its traditional customer base. An example of the success of this policy is Absa Islamic Banking, which has been recognised as the best Islamic bank in Africa in 2008 for the second consecutive year. At the inaugural annual retailer awards hosted by The Times and Sowetan, Absa was named winner of the Top Retailer Award in Banking. New product innovations such as CashSend and PrePaid debit cards provide more people with greater choice, convenience, affordability and security.

Corporate citizenship and stakeholder value creation

The Group, primarily through the Absa Foundation, continued to invest in the upliftment of communities where Absa operates. The Group also continues to care for the environment by making a concerted effort to reduce power consumption in its buildings, and by increasing recycling initiatives.

One of the ways in which we have improved Absa's value to society was through effective corporate social investment (CSI). During 2008, the Group invested R72,8 million in the communities in which it operates. Absa received the CSI Leadership Award at the Sunday Times Top 100 Companies Awards. Absa is rated as the most caring financial services institution (Corporate and Market Research, Corporate Care Check), the second most caring company in South Africa (Corporate and Market Research, Corporate Care Check), as the company that most strongly involves its employees in community volunteerism and as the best financial sector corporate grantmaker in South Africa (Trialogue).

We have ensured that many South Africans develop personal capital through large-scale investments in low-cost housing. Absa financed and managed the development of 5 000 affordable homes at Olievenhoutbosch, thereby providing homeownership for families who might otherwise never have become part of a home-owning society, to which Absa is committed. Absa was pleased to have received the Ministerial Merit Award in the Govan Mbeki Housing Awards for the contribution it made toward accelerating housing delivery in South Africa. Absa was also voted the Best Mortgage Lender in the Star "Your Choice" awards.

Strategy

In view of the current uncertain climate, key strategic objectives remain: maintaining profitability, preserving capital and ensuring a strong risk and cost focus.

Asset quality will be carefully managed and will take priority over volume growth. Our focus under the current conditions will be on our core markets and business segments, while maintaining a strong risk management approach in all strategic decisions.

While we recognise the uncertainties that lie ahead, we are also aware that the current climate creates opportunities for Absa to accelerate the execution of its strategies.

Group Chief Executive's review

Prospects

Looking forward, although further interest rate cuts and fuel price relief are probable, it is likely that economic growth, the banking environment and the consumer will remain under pressure in the near term.

Absa has proved its resilience during both favourable and unfavourable market conditions. We will continue to focus on maintaining our business fundamentals and the solid foundation we established during 2008. Our long-term strategies are robust and will enable the Group to weather the prevailing downturn and to capitalise on opportunities as they arise.

We strive to maintain our position of being a market-leading retail business and to build on the achievements in the investment and commercial banking operations. Our objective remains to grow the contribution of the wholesale businesses to 50,0% of the total Group earnings by 2012, without compromising our leading position in retail banking.

Appreciation

In this, my final update as Group Chief Executive of the Absa Group, I would like to pay tribute to our customers, shareholders and each and every employee in our various operations. The past five years have been both challenging and highly fulfilling for me and I am proud to have contributed to shaping Absa into the organisation it is today. Absa has stayed the course and will continue to evolve under the highly qualified leadership of the new Group Chief Executive, Maria Ramos.

Steve Booysen

Group Chief Executive

20 March 2009

Financial analysis

Introduction

Absa Group recorded an increase of 10,4% in attributable earnings for the year ended 31 December 2008 from R9 595 million to R10 592 million. Headline earnings increased by 5,3% from R9 413 million to R9 908 million. Headline earnings per share (HEPS) increased by 4,6% to 1 466,2 cents per share and fully diluted HEPS[1] increased by 7,3% to 1 412,1 cents per share.

Key financial features include:

- Revenue growth of 20,4% to R42 910 million.
- An 8,0% increase in profit before tax.
- An improvement in the cost-to-income ratio to 49,4%.
- A 6,3% increase in the full-year dividend to 595 cents per share.
- A return on average equity (RoE) of 23,4%.
- A 140,0% rise in the impairment charge to R5 839 million.

Group performance

Headline earnings

Objective:

The Group aims to achieve a compounded annual growth rate of 15% over five years.

Performance:

The Group increased headline earnings by 5,3%, compared to December 2007, to R9 908 million. The compounded annual growth rate for 2008 over five years is 17,4%. This is 2,4% above the objective.

Absa Corporate and Business Bank (ACBB) and Absa Capital delivered strong performances compared to December 2007, reflecting growth of 29,5% and 29,8% respectively. Excluding earnings from the Visa transaction from total earnings, ACBB and Absa Capital increased their earnings contribution from 37,7% to 48,8%, in line with the Group's focus on improving the diversification of its income streams. If earnings from the Visa transaction were included, ACBB and Absa Capital's earnings contribution would be 46,0%. The challenging market conditions for consumers affected the retail business which reported a decline in earnings of 25,0%.

Absa Capital's growth was underpinned by exceptional performance in Secondary Markets and good growth in the Primary Markets business units.

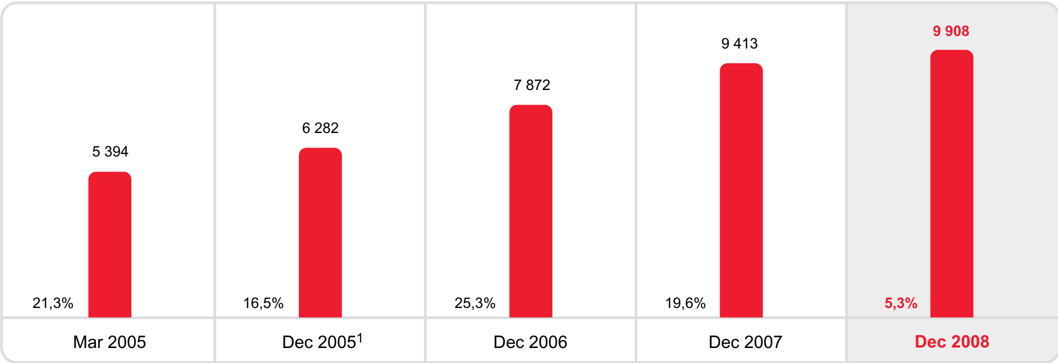
Absa's bancassurance operations posted attributable earnings of R1 597 million for the year. At an operating level, the Group's bancassurance operations produced growth of 16,4%, mainly attributable to continued new business growth as a result of increased distribution capacity and utilising multiple channels during 2008. Absa Life and the short-term insurance operations performed particularly well in difficult market conditions. Weak equity markets resulted in lower investment returns on shareholder funds and this reduced the earnings growth at an attributable level to 6,3%.

Note

[1] *The dilution of headline earnings stems from the option rights to acquire shares issued to Absa's black economic empowerment partner, Batho Bonke Capital (Proprietary) Limited, and to the Group's share incentive schemes.*

Financial analysis

Headline earnings (Rm)



Note

[1] *Pro forma figures (twelve months).*

Return on average equity

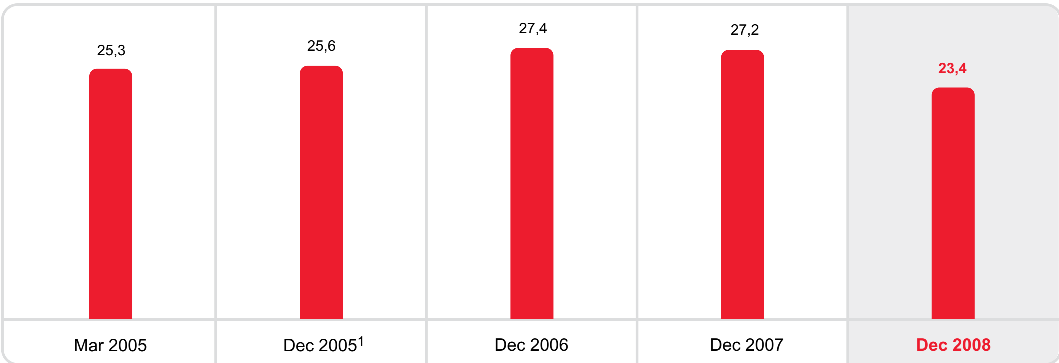
Objective:

The Group aims to achieve an RoE of 6% above the cost of equity (CoE).

Performance:

The Group achieved a return on average equity (RoE) of 23,4% for the year under review. This result has enabled the Group to outperform its objective of an RoE of 6% above the cost of equity. The average cost of equity for the Group is 15,5%.

Return on average equity (%)



Note

[1] *Pro forma figures (twelve months).*

RoE decomposition[1]

To promote a thorough understanding of factors contributing to the Group's performance, an RoE decomposition is provided below. The main components of the decomposition are discussed in the commentary that follows.

	Notes		2008 %		2007 %
Net interest/interest-bearing assets			3,63		3,83
		multiply		multiply	
Interest-bearing assets/total assets			0,83		0,88
		equals		equals	
Net interest yield	1		3,02		3,37
		plus		plus	
Non-interest yield	2		2,92		2,99
		equals		equals	
Gross yield			5,94		6,36
		less		less	
Impairment losses on loans and advances	3		0,81		0,43
		equals		equals	
Risk-adjusted yield			5,13		5,93
		less		less	
Operating expenses	4		2,93		3,29
		less		less	
Indirect taxation and other impairments			0,11		0,14
		less		less	
Taxation expense			0,55		0,72
		plus		plus	
Share of retained earnings from associates and joint ventures			0,01		0,01
		less		less	
Minority interest			0,09		0,08
		less		less	
Headline earnings adjustments			0,09		0,03
		equals		equals	
Return on average assets (RoA)	5		1,37		1,68
		multiply		multiply	
Gearing (average assets/average equity)	6		17,05		16,19
		equals		equals	
Return on average equity (RoE)			23,4		27,2

Note

[1]*Calculated as a percentage of average total assets.*

Financial analysis

Note 1 – Net interest yield

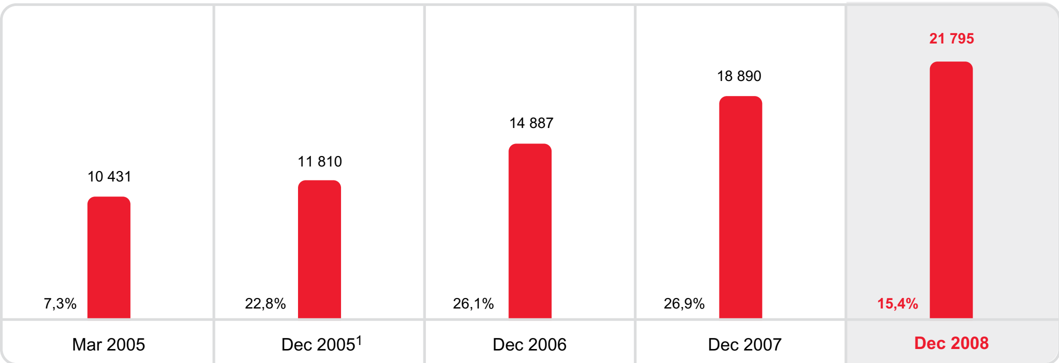
Net interest income

Performance:

Net interest income increased by 15,4% to R21 795 million, mainly owing to a 16,2% growth in the retail and commercial segments' total advances. ACBB posted strong advances growth of 33,1%, assisted by funding provided relating to the public and private sectors continued investment in infrastructure. Product innovation resulted in strong growth in specialised finance lending products.

The impact of prolonged higher inflation and interest rates was evident in the retail businesses, with advances growth slowing from 19,4% in 2007 to 11,3% in 2008 (below 10% if one excludes the acquisition of Woolworths Financial Services (Proprietary) Limited (WFS)). The demand for retail instalment finance declined significantly and this book increased by only 1,4%. Mortgages grew 12,2%, assisted by the lengthening of the average repayment term (ie customers not making additional repayments to the same extent as the previous few years) as well as readvances on existing loans.

Net interest income (Rm)



Note

[1]*Pro forma figures (twelve months) and growth percentage calculated on December 2004 figures (pro forma twelve months).*

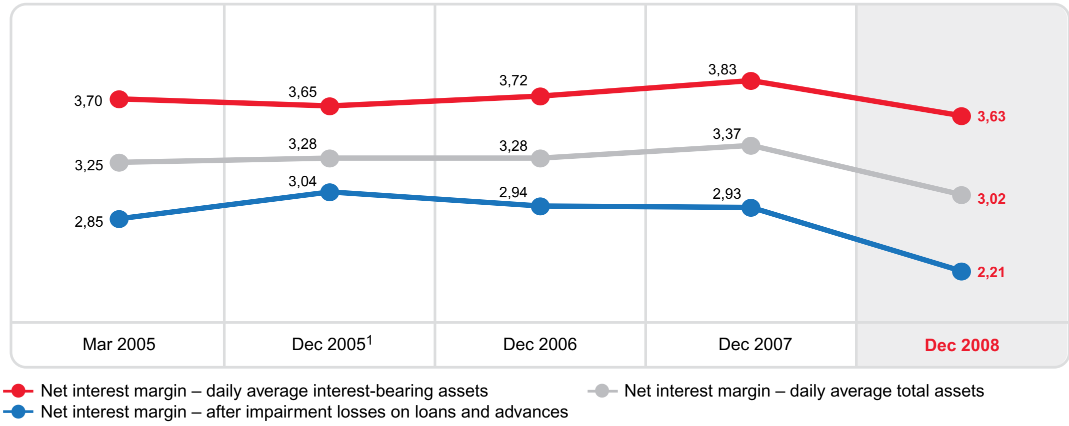
Net interest margin

Performance:

The margin on total assets declined by 35 basis points to 3,02%. 15 points of this decline can be attributed to higher non-interest-earning assets, most notably trading assets. South Africa was not immune to the global credit and liquidity crisis and this, together with market uncertainty in respect of the longer-term interest rate trends, resulted in the cost of wholesale funding adding another 16 basis points to the margin decline. The Group has a comprehensive hedging strategy whereby it protects its margin against the repricing mismatch between assets and liabilities in a changing interest rate environment. In certain cases it is not possible to apply hedge accounting in terms of IAS 39 to the hedging transaction and the protection is managed on an economic hedge basis. During the year the gains on economic hedges implemented to protect the Group against interest rate risk on certain fixed rate assets were thus accounted for in the non-interest income line in terms of IFRS, resulting in margin decline on the underlying assets, offset by higher non-interest income on the hedging transactions.

Pressure on margins is likely to continue in line with the expected higher cost of funding. The Group will also no longer benefit from the positive endowment effect on capital owing to the expected declining interest rate cycle.

Net interest margin (%)



Note

[1] *Pro forma figures (twelve months).*

Financial analysis

Loans and advances to customers

Loans and advances mix (%)

Year	Retail banking	ACBB	Absa Capital	Other
Dec 2006[1]	73,8	15,5	10,4	0,3
Dec 2007	68,4	19,8	11,6	0,2
Dec 2008	**65,2**	**22,6**	**12,1**	**0,1**

Note
[1]*December 2006 comparatives have not been restated for the move of Commercial Asset Finance (CAF) from retail banking to ACBB.*

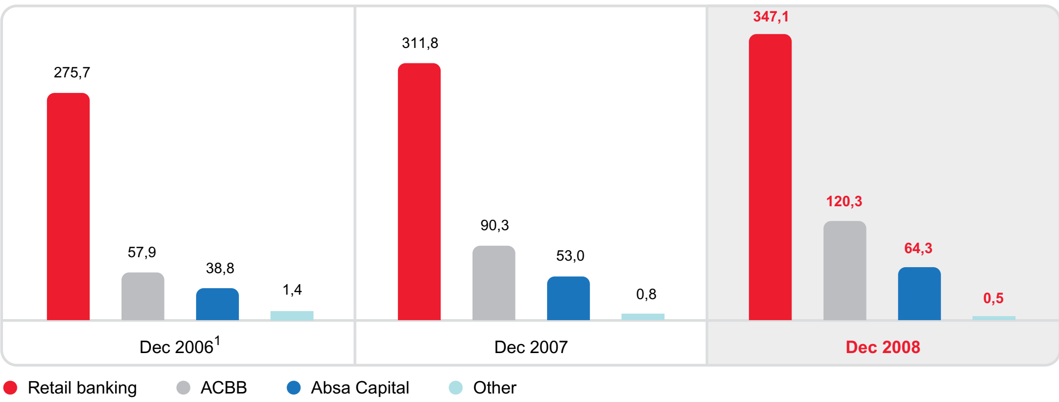
Performance:

Loans and advances to customers increased by 16,7% to R532,2 billion compared with R455,9 billion in December 2007, as a result of increasing retail and commercial business.

While the Group recorded an 11,3% increase in retail advances, there was a slowdown in the growth rate in line with the challenging macroeconomic environment and the tightening of credit criteria. Retail mortgages increased by 12,2%, while cheque accounts and retail instalment finance rose by 8,7% and 1,4% respectively. Credit card advances recorded a strong increase of 42,1%, mainly owing to the acquisition of the WFS book on 1 October 2008. Credit card advances, excluding the WFS book, grew 8,6% year-on-year.

ACBB increased advances by 33,1%, following an improved performance within the large and medium business lines. Strong growth in these segments was driven by sustained commercial credit demand and cross-selling to the existing customer base.

Net advances (Rbn)



Note
[1]*December 2006 comparatives have not been restated for the move of Commercial Asset Finance (CAF) from retail banking to ACBB.*

Deposits due to customers

Total funding (%)	Dec 2008	Dec 2007	Dec 2006[1]
Deposits due to customers	**63,4**	59,1	69,3
• Retail banking	**22,4**	19,4	20,6
• ACBB	**16,6**	14,8	17,4
• Absa Capital	**24,3**	24,9	31,3
• Other	**0,1**	0,0	0,0
Deposits from banks	**9,1**	11,1	6,2
Debt securities in issue	**27,5**	29,8	24,5
	100,0	100,0	100,0

Note
[1]*December 2006 comparatives have not been restated for the move of Commercial Asset Finance (CAF) from retail banking to ACBB.*

Performance:

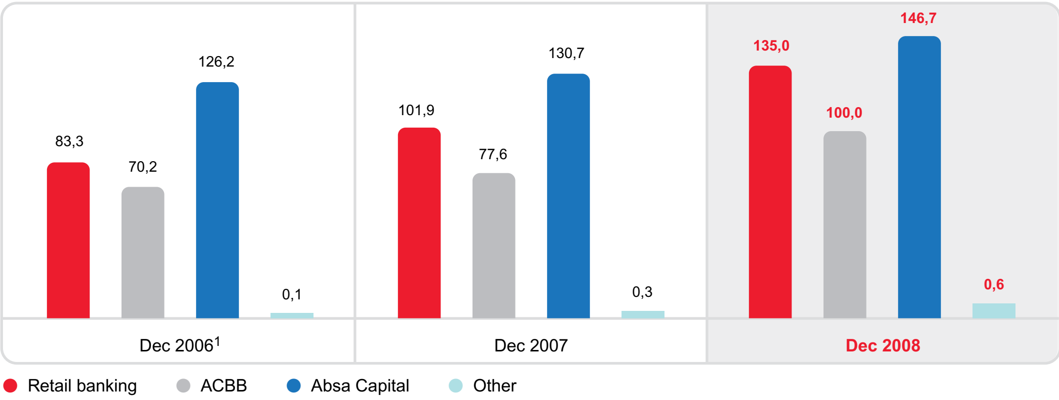
During the year under review, the Group focused on reducing its reliance on wholesale funding by growing deposits. An improvement in the liability gearing ratio was achieved as a result of a 23,1% year-on-year growth of total deposits.

The Group's retail banking operations grew its deposit base by R33,1 billion, representing growth of 32,4% on the 2007 closing balance. The strongest growth was achieved in respect of the "Investment Advantage" product, which attracted customer deposits of R17,5 billion during the year. Fixed deposits grew 30,2% year-on-year, while cheque and savings deposits grew by 12,0% and 12,8% respectively. Absa now has the biggest market share in respect of deposits by individuals according to the South African Reserve Bank statistics.

Absa Corporate and Business Bank (ACBB) achieved growth of 29,0% in its deposit base. Fixed and call deposits were the main drivers of the strong growth. Good progress was also made to improve the diversification of the deposit base across various industries.

The Group protects itself against interest rate risk resulting from fixed deposits in a changing interest rate environment by implementing hedge positions with a three-month repricing profile. This reduces the positive endowment impact of non-interest rate sensitive deposits during periods of increasing rates (ie, 2008), but will also protect margins during periods where interest rates decline.

Total deposits (Rbn)



Note

[1]*December 2006 comparatives have not been restated for the move of Commercial Asset Finance (CAF) from retail banking to ACBB.*

Financial analysis

Note 2 – Non-interest yield

Performance:

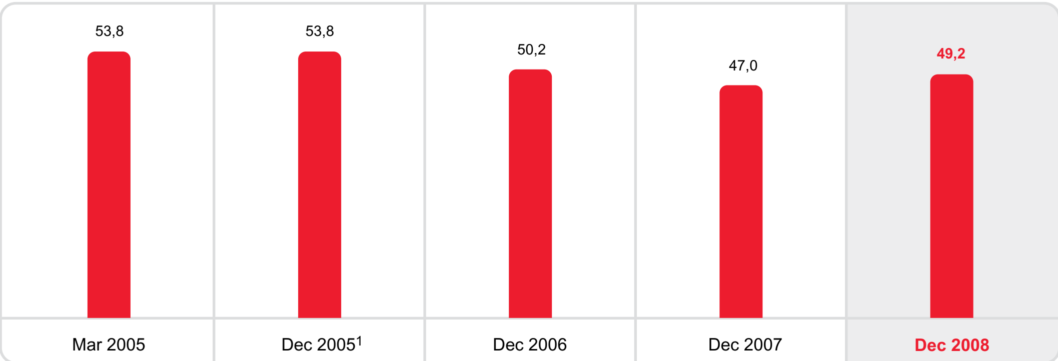
Non-interest income increased by 26,0% to R21 115 million. Net fee and commission income, which constitutes approximately 63,2% of non-interest income, grew by 15,0% to R13 343 million. This resulted largely from increased transaction fees and volumes in the retail banking operations.

The Group's trading income increased by 92,4% to R2 111 million, following strong growth in Secondary Markets activity within Absa Capital. Fee and other income in Absa Capital declined as a result of a lower year-on-year contribution from Primary Markets as the proactive reduction of underwriting risk, widening of credit spreads, and reduced credit demand impacted the volume of corporate activity deal-flow.

Gross premium volumes remained strong and short-term insurance premiums grew by 19,9%. Long-term insurance premiums remained flat year-on-year.

Investment markets remained under pressure during the year under review, adversely impacting the value of the listed commercial property portfolio within ACBB which declined by R166 million. This decline was offset by an increase in the valuation of the unlisted Commercial Property Fund investments of R172 million. Investment income on shareholders' funds in the bancassurance business also decreased by 28,2% to R410 million (December 2007: R571 million).

Non-interest income as a percentage of operating income (excluding impairment losses on loans and advances) (%)



Note
[1]*Pro forma figures (twelve months).*

Note 3 – Impairment losses on loans and advances

Performance:

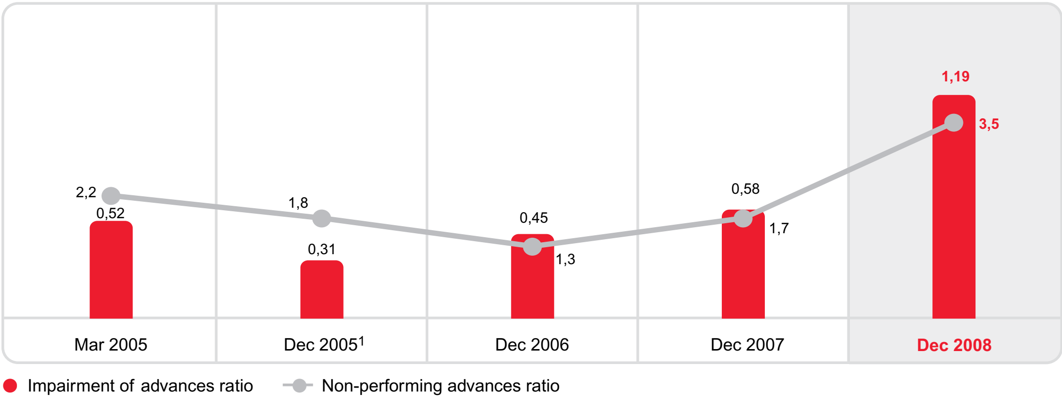
Credit impairments, as a percentage of average advances, increased to 1,19% from 0,58% in December 2007. The impairment charge to the income statement increased by 140,0% to R5 839 million.

Retail impairments increased sharply by 158,9% to R5 551 million, attributable to continued financial pressure on the consumer and declining asset values, particularly in the second half of the year.

While the credit quality of the corporate sector remained sound, with impairments decreasing marginally by 0,3% to R287 million, challenging global and local macroeconomic conditions began impacting some corporate and commercial sectors, particularly in the fourth quarter of the year. Currently, this risk is being addressed through strict credit risk criteria and a focus on debt recovery. The Group will remain vigilant and maintain its strong focus on the robust management of the credit risk processes in the year ahead.

Impairment charges relating to Absa Capital were negligible.

Impairment losses (%)



Note
[1]*Pro forma figures (twelve months).*

Financial analysis

Note 4 – Operating expenses

Objective:

The Group aims to achieve a cost-to-income ratio of less than 50%.

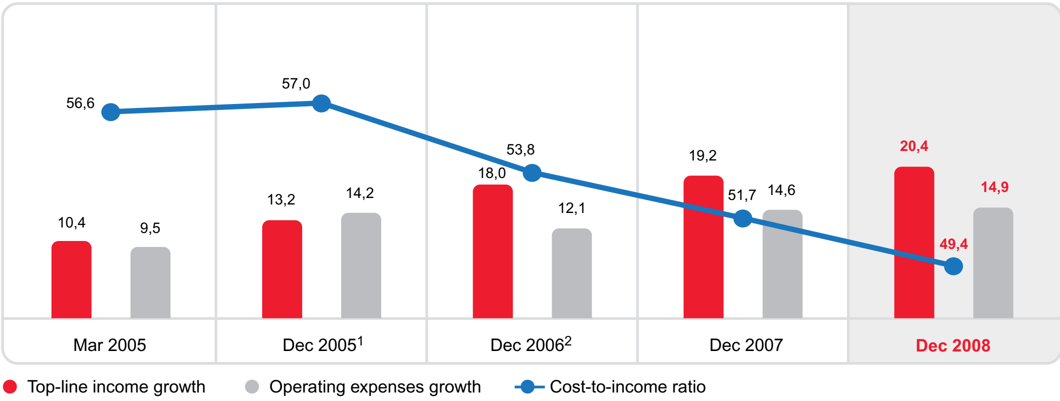
Performance:

In line with the Group's strategy to reduce the cost-to-income ratio to below 50,0%, improved income growth and tighter cost control were reflected in a cost-to-income ratio of 49,4% for the year.

Operating expenses increased by 14,9% to R21 193 million. This is attributed principally to the growth in staff costs in the credit and collection operations, investment in the growth of the non-retail business units such as Absa Capital and ACBB as well as the acquisition of the WFS book.

During the course of the year, the Group implemented a range of efficiency initiatives and cost management measures. Considerable emphasis was placed on bringing staff costs in line with business volumes across the Group, which included the restructuring of the retail operations. Focus has also been placed on discretionary expenditure. These measures will continue into 2009.

Cost-to-income ratio (%)



Notes
[1]*Pro forma figures (twelve months).*
[2]*Growth calculated on December 2005 figures (pro forma twelve months) (reclassified for IFRS 7 for comparability).*

Note 5 – Return on average assets

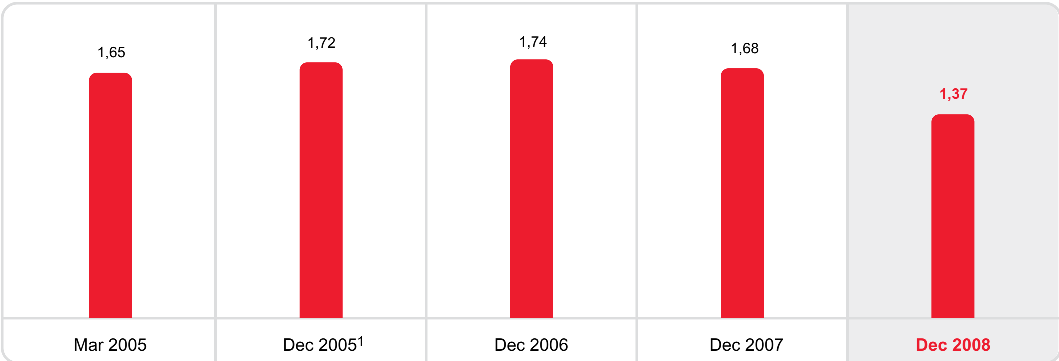
Performance:

The return on average assets (RoA) decreased from 1,68% to 1,37%, compared to 31 December 2007. The lower RoA is primarily owing to the increased levels of credit impairments in the retail banking environment that resulted in the Group's retail banking earnings declining by 25,0%.

Other factors impacting this ratio include the strong growth in trading assets and lower investment returns on equity portfolios.

The Group's asset base as at 31 December 2008 increased by 20,7% to R773,8 billion, largely attributed to growth in loans and advances to customers (which constitute 68,8% of total assets), trading and derivative assets, and statutory liquid assets.

Return on average assets (%)



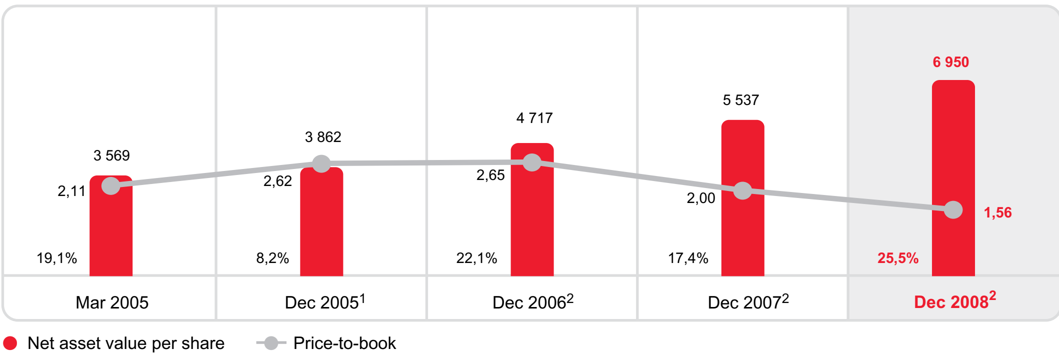
Note
[1]*Pro forma figures (twelve months).*

Note 6 – Gearing

Performance:

The Group's net asset value per share increased by 25,5% to 6 950 cents per share year-on-year. The cash flow hedge reserve, which reflects interest rate hedging activity, increased from negative R893 million to positive R1 775 million, following the decline in the swap rates across the curve. This, together with the higher capital level of the Group culminated in a lower RoE of 23,4% at 31 December 2008 compared to 27,2% in December 2007.

Net asset value per share (cents and price-to-book) (%)



Notes
[1]*Pro forma figures (twelve months).*
[2]*The net asset value per share figure excludes the non-cumulative, non-redeemable preference shares issued.*

Financial analysis

Segmental performance

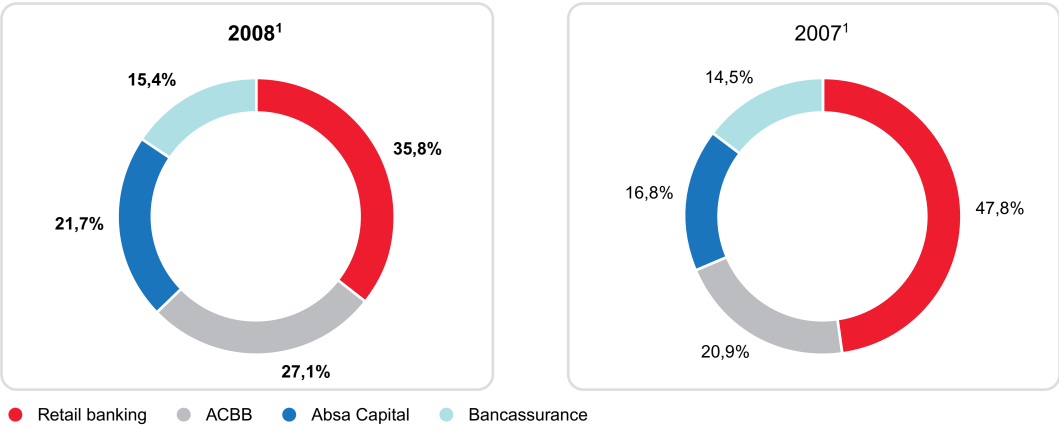
Through its divisions, Absa Group offers a complete range of retail, commercial, corporate and investment banking, bancassurance and wealth management products and services.

The Group experienced difficult trading conditions during 2008, which adversely impacted the performance of the retail banking operations in line with the global and South African economy. Consumers in South Africa remained under pressure as the effect of higher inflation and interest rates resulted in slower business volume growth, and an increasing number of accounts in arrears. As a result, the Group's retail banking operations experienced an earnings decline of 25,0%.

The Group's wholesale banking businesses, however, continued to produce robust operating performances with a contribution of 48,8% (2007: 37,7%) to the Group's overall earnings for the year.

The Group's bancassurance operations recorded a 6,3% growth in earnings as the solid underlying operating performance of the segment was adversely impacted by the significant market volatility on investment portfolios.

Profit contribution by business area



Note
[1]*Calculated after the allocation of profit/losses from the capital, funding and corporate centre. If the profits relating to the Visa transaction of R636 million is included for the year ended December 2008, the contributions would be as follows: Retail banking – 33,7%, ACBB – 25,5%, Absa Capital – 20,5% and bancassurance – 14,5%.*

	2008 Rm	2007[4] Rm	Change %
Banking operations			
Retail banking[1]	**3 706**	4 943	(25,0)
• Absa Wealth	**27**	46	(41,3)
• Retail Bank	**2 635**	2 350	12,1
• Absa Home Loans	**191**	1 296	(85,3)
• Absa Card	**554**	706	(21,5)
• Absa Vehicle and Asset Finance	**299**	545	(45,1)
Absa Corporate and Business Bank[1]	**2 806**	2 167	29,5
Absa Capital[1]	**2 249**	1 733	29,8
Corporate centre[2]	**687**	(17)	>100,0
Capital and funding centre	**4**	59	(93,2)
Total banking	**9 452**	8 885	6,4
Bancassurance	**1 597**	1 502	6,3
Total earnings from business areas	**11 049**	10 387	6,4
Synergy costs (after tax)[3]	**—**	(479)	100,0
Minority interest – preference shares	**(457)**	(313)	(46,0)
Profit attributable to ordinary equity holders	**10 592**	9 595	10,4
Headline earnings adjustments	**(684)**	(182)	>(100,0)
Total headline earnings	**9 908**	9 413	5,3

Notes

[1] *The Group's African operations have been split between retail banking, ACBB and Absa Capital during the year under review.*

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

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

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

- *Commercial Asset Finance was moved from retail banking to ACBB during the year under review.*
- *Repossessed Properties was moved from retail banking to the corporate centre during the year under review.*
- *The Group's African operations split is in line with the current business model.*

Retail banking

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

Salient features

Year ended 31 December

	2008	2007	Change %
Total assets (Rm)	**476 386**	418 904	13,7
Total advances (Rm)	**347 084**	311 803	11,3
Total deposits (Rm)	**134 985**	101 944	32,4
Attributable earnings (Rm)	**3 706**	4 943	(25,0)
Return on average equity[1] (RoE) (%)	**n/a**	28,3	
Return on average economic capital[1] (RoEC) (%)	**19,5**	n/a	
Return on average assets (RoA) (%)	**0,84**	1,35	
Impairment ratio (%)	**1,68**	0,74	
Cost-to-income ratio (%)	**54,3**	54,7	

Note

[1] *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 RoE and RoEC are not comparable. December 2007 comparatives have not been restated.*

Financial analysis

The year under review

Attributable earnings for the Group's retail banking operations declined by 25,0% to R3 706 million (December 2007: R4 943 million). This decline resulted from the slowdown in consumer spending, reduced demand for lending products and rising impairments. The Group's retail banking operations increased its top-line income by 15,5% and contained cost growth to 14,7%. The customer base continued to grow, increasing by 11,6% to over 10 million customers.

Advances growth of 11,3% was achieved across all categories, with unsecured lending products increasing by 26,2%. The growth in unsecured lending, along with the inclusion of the WFS book, resulted in a 1,5% change in the overall composition of advances with secured lending now comprising 85,8% (December 2007: 87,3%) of the total advances book.

Customer deposits grew a robust 32,4% during the year. Innovative product offerings, including initiatives such as the online opening of investment product accounts, coupled with competitive pricing, resulted in strong gains in market share. The Group currently has the largest share of the individual deposit and advances market in South Africa (source: BA 900, December 2008).

The overall interest margin on net assets showed a slight increase year-on-year, primarily owing to the strong growth in retail deposits, resulting in a reduced dependence on wholesale funding.

Transaction volume growth across core products moderated during the year with volumes expanding by 5,2%. Digital channels, however, recorded healthy transaction and customer growth. Internet and cellphone banking transaction volumes grew 25,0% and 74,0% respectively. The number of internet banking users increased by 14,0%.

Consumer distress intensified during the year, following the prolonged higher interest rate cycle. In addition, collateral values in respect of vehicle and home loans were subjected to a considerable downward adjustment in the second half of the year as economic conditions deteriorated. The impairment charge consequently increased by 158,9% to R5 551 million. Accordingly, the impairment ratio rose from 0,74% in December 2007 to 1,68% for 2008. This rise was largely owing to higher impairments from Absa Home Loans and Absa Vehicle and Asset Finance, which increased 417,0% to R2 549 million and 109,8% to R1 177 million respectively.

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

Looking ahead

Rising impairments will remain a key risk to the Group's retail banking operations in 2009. The focus will remain on cost control, the further tightening of credit criteria and maintaining strong credit quality at the right price.

Absa Corporate and Business Bank (ACBB)

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

Salient features

Year ended 31 December

	2008	2007	Change %
Total assets (Rm)	**139 250**	113 569	22,6
Total advances (Rm)	**120 280**	90 340	33,1
Total deposits (Rm)	**100 046**	77 554	29,0
Attributable earnings (Rm)	**2 806**	2 167	29,5
Return on average equity[1] (RoE) (%)	**n/a**	29,5	
Return on average economic capital[1] (RoEC) (%)	**24,8**	n/a	
Return on average assets (RoA) (%)	**2,04**	2,07	
Impairment ratio (%)	**0,28**	0,37	
Cost-to-income ratio (%)	**49,8**	51,8	

Note

[1]*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 RoE and RoEC are not comparable. December 2007 comparatives have not been restated.*

The year under review

ACBB increased its attributable earnings for the year by 29,5% to R2 806 million. Total advances increased by 33,1% as a result of continued credit demand in the large and medium business lines. A strong sales focus aimed at growing deposits during the year resulted in a 29,0% increase in deposits. While impairments remained low, advance and deposit margins decreased owing to the higher cost of funding experienced during the second half of the year. Equity market volatility, however, resulted in a decline of R166 million in the value of the listed commercial equity investments, thereby diluting, to an extent, the robust underlying performance of the cluster.

The impairment loss ratio decreased from 0,37% in December 2007 to 0,28% as a result of the material recovery of bad debt in the second half of the year as well as the implementation of strict credit risk management processes.

Non-interest income increased by 10,5% as a result of a 10,0% growth in transaction volumes. Cash and electronic banking transactions increased 24,7% and 11,9% respectively. Customer numbers grew 2,7% during the year and transaction income on cheque and corporate overdraft accounts increased by 11,3%, representing 30,1% of fee income. Electronic banking fees grew by 15,4%, representing 18,6% of fee income.

Looking ahead

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

Absa Capital

Provides large corporates, governments, hedge funds, asset managers and institutional clients with solutions to their financing and risk management needs.

Salient features

Year ended 31 December

	2008	2007	Change %
Total assets (Rm)	**435 385**	426 228	2,1
Total advances (Rm)	**64 332**	53 011	21,4
Total deposits (Rm)	**146 670**	130 683	12,2
Attributable earnings (Rm)	**2 249**	1 733	29,8
Return on average equity[1] (RoE) (%)	**n/a**	33,3	
Return on average economic capital[1] (RoEC) (%)	**21,3**	n/a	
Return on average assets (RoA) (%)	**0,52**	0,45	
Impairment ratio (%)	**0,00**	0,00	
Cost-to-income ratio (%)	**41,0**	35,4	

Note

[1]*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 RoE and RoEC are not comparable. December 2007 comparatives have not been restated.*

The year under review

Absa Capital increased attributable earnings by 29,8% to R2 249 million, from R1 733 million in 2007. This performance was driven by exceptional growth in the Secondary Markets and good growth in the Primary Markets business units. The key factors driving growth were Absa Capital's operating model and continuous improvement in the technology platform, products and distribution.

The Secondary Markets business continued to improve, leveraging off a strong working relationship with Barclays Capital. Revenue for this business unit grew by 109,9% and contributed 55,0% of Absa Capital's revenue. The growth in revenue is attributable to more effective risk management as well as increased trading volumes from new and existing clients, broadening the product offering, market volatility and the increased demand from clients for risk management products.

The revenue of Primary Markets grew by 14,1% during the year and contributed 33,1% of Absa Capital's revenue. Given the current market conditions, the business unit proactively restricted the size of its underwriting positions to distributing more risk upfront. The global credit crisis and the equity market declines have negatively impacted local financing product deal flow. Primary Markets, however, continued to perform well due to a client-centric business model that delivers comprehensive international and local solutions by leveraging off Barclays Capital's global expertise and capabilities.

Financial analysis

The revenue of the Equity Investments and Investor Services business unit increased by 1,3% and contributed 11,9% of Absa Capital's revenue. Revenue in the Private Equity portfolio was positive in absolute terms, but declined relative to the corresponding period for 2007. This performance was driven by a combination of lower realisations, poor equity market conditions and higher funding costs.

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 penetration of active risk management with clients; 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

Provides life and short-term insurance, investment and fiduciary services and products to all market segments in South Africa.

Salient features

Year ended 31 December

	2008	2007	Change %
Total assets (Rm)	**33 015**	37 526	(12,0)
Attributable earnings (Rm)	**1 597**	1 502	6,3
Return on average equity (RoE)	**39,5**	37,8	
Return on average assets (RoA) (%)	**4,57**	4,88	
Cost-to-income ratio (%)	**38,5**	35,9	
Life insurance			
Gross operating income (Rm)	**1 189**	993	19,7
Net operating income (Rm)	**746**	610	22,3
Embedded value (Rm)	**2 092**	2 091	0,0
Embedded value of new business (Rm)	**331**	213	55,4
Embedded value earnings (Rm)	**747**	543	37,6
Return on embedded value (%)	**35,7**	21,8	
Profit attributable to ordinary equity holders (Rm)	**631**	524	20,4
Short-term insurance			
Gross operating income (Rm)	**917**	853	7,5
Net operating income (Rm)	**364**	316	15,2
Profit attributable to ordinary equity holders (Rm)	**497**	537	(7,4)
Other			
Gross operating income (Rm)	**1 600**	1 315	21,7
Net operating income (Rm)	**561**	509	10,2
Profit attributable to ordinary equity holders (Rm)	**469**	441	6,3

The year under review

The Group's bancassurance operations grew attributable earnings by 6,3% to R1 597 million for the year under review, despite a challenging operating environment. This growth was underpinned by 16,4% growth in operating earnings. Investment income on shareholders' funds, however, declined by 28,2% to R410 million. Capital, to the value of R1,6 billion, was returned to the Absa Group in 2008. This resulted from a focus on capital efficiency and a reduced risk profile on investments backing policyholders' liabilities and shareholder capital.

The Group's bancassurance operations achieved an RoE of 39,5% (December 2007: 37,8%).

Distribution

The distribution capacity increased by 269 additional sales staff, comprising insurance and financial advisers, tied agents and call centre agents. The diversification and expansion of the distribution channels is intended to increase customer access to products and services.

Life insurance

Absa Life increased its operating earnings by 22,3% to R746 million. Gross premium income remained flat year-on-year despite lower credit-related business volumes. The embedded value of new business amounted to R331 million (December 2007: R213 million) driven by strong performances of mass market products and the introduction of "@ Ease", a stand-alone risk product range that was launched early in 2008. Embedded value earnings of R747 million (December 2007: R543 million) represent a return of 35,7% (December 2007: 21,8%).

Short-term insurance

The short-term insurance industry was characterised by the hardening underwriting cycle. However, Absa Insurance Company increased its underwriting profit to R263 million on the back of strong growth in gross written premiums which grew by 19,3%. Premium growth was driven by good growth in both the personal and commercial books, particularly in the agriculture business as well as through the introduction of "Absa idirect". Claim levels remained challenging, rising by 23,0%. The higher claims arose from adverse weather conditions, increases in the incidence of motor accidents and the continuing escalation of repair costs. Despite these factors, Absa short-term insurance operations achieved a sound underwriting margin of 10,2% (December 2007: 11,5%).

Investments

Absa Investments operating earnings declined by 3,7% to R289 million. Net inflows to mandates other than money market amounted to R9,4 billion for the year, while money market funds experienced net outflows of R2,4 billion. Assets under management declined marginally from R118 billion at the end of December 2007 to R117 billion. The strategic focus of the business is to grow the non-money market assets under 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.

Fiduciary services

Fiduciary operating earnings grew by 20,5% to R153 million. The acquisition of the Glenrand MIB employee benefits and healthcare businesses was finalised during the year under review, adding critical mass to the business.

Looking ahead

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

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Introduction

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

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

Compliance with King II

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

Application of the code and approach to corporate governance

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

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

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

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

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

Boards of directors and board committees

Board composition

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

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

The detailed categorisation of the directors appear on page 74 of this report. As at 31 December 2008, there were 21 directors, of which four were executive, four were non-executive and 13 were considered independent directors.

The directors bring a wealth of skills, knowledge and experience from their own fields of business to the board and ensure that debate on matters of strategy, performance, resources, transformation, diversity, employment equity, standards, conduct and policy is robust, informed and constructive.

Board procedures and related matters

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

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

Directors are afforded the opportunity to propose additional matters for discussion at board meetings. Management ensures that board members are provided with all relevant information and facts to enable the board to reach objective and well-informed decisions.

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

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

The number of meetings held during the year under review (including meetings of board-appointed committees) and the attendance of each director are set out on pages 41 to 47 of this report. Reasons for non-attendance are provided to the Group Chairperson. All directors are advised of the expectation of the Group Chairperson that they should be present at all meetings.

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

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

Corporate governance statement

The board identifies and monitors keys risk areas, key performance areas and non-financial aspects relevant to Absa, supported by board-appointed committees, where applicable. The board also considers a number of key performance indicators, variance reports and industry trends on a quarterly basis. A range of non-financial information is also provided to the board to enable it to consider qualitative performance factors that involve broader stakeholder interests.

The importance of promoting entrepreneurial flair, while continuing to ensure conformance to governance and other compliance requirements is well recognised by the board.

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

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

The Absa board charter

Purpose and objectives

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

Key features

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

Board appointments and succession planning

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

The initial term of office is three years, whereafter directors are obliged to retire but can offer themselves for re-election. A third of the directors retire by rotation annually. If eligible, their names are submitted for re-election at the annual general meeting, accompanied by appropriate biographical details set out in the report to shareholders. Non-executive directors are required to retire at the annual general meeting following their 70th birthday.

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

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

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

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

Director induction, training and development programmes

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

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

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

Director participation in the training provided is monitored and assessed.

Corporate governance statement

Independence

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

Board performance assessment

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

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

Information on the directors standing for re-election at the annual general meeting is contained in the explanatory notes to resolutions for the annual general meeting, which form part of the notice of annual general meeting.

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

Board remuneration and share ownership

Details of Absa's remuneration policies and practices and the remuneration paid to Absa Group directors are set out in the Group remuneration report on pages 58 to 73.

Non-executive directors receive fees for their membership of the board and committees on which they serve. In line with international best practice, proposals on non-executive directors' remuneration are made by the Group Chairperson and the Group Chief Executive for review by the Absa board. The remuneration of non-executive directors is submitted to shareholders for sanction at the annual general meeting held prior to implementation. Further details of remuneration matters (including a statement of the Group's remuneration philosophy) are contained in the Group remuneration report set out on pages 58 to 73 of this report.

Non-executive directors are required to hold a minimum of 1 000 Absa ordinary shares throughout their tenure. Details of the shares held by the directors are set out on pages 98 and 99 of this report.

Attendance at board meetings

Board meeting attendance (2008)

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

Legend: ✓ Attendance A Apologies R Recused

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

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

Board committees

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

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

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

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

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

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

Although the Absa board still retains overall responsibility for the affairs of the Group, subsidiary boards play an important role in the Group's overall governance approach. Absa directors have full access to subsidiary board documentation. The subsidiary boards meet five times a year, usually prior to Absa board meetings. One of Absa's independent directors, G Griffin, has been appointed to the boards of the major bancassurance subsidiaries owing to his expertise in this field.

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

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

Group Audit and Compliance Committee (GACC)

Members: D C Arnold (Chairperson), S A Fakie, G Griffin and T S Munday.

Composition and meeting procedures: All the members of the GACC are independent directors (as defined in terms of the Corporate Laws Amendment Act, 2006). Y Z Cuba (who is a representative of Batho Bonke) and R Le Blanc (a representative of Barclays) are mandatory attendees of the committee.

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

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

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

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

Specific responsibilities include:

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

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

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

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

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

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

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

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

Legend: ✓ Attendance A Apologies

Note
[1] *Tri-lateral meeting.*

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

Group Risk and Capital Management Committee (GRCMC)

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

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

Role, purpose and principal functions: To assist the board with regards to risk and capital management and to ensure compliance with the requirements of the Banks Act.

The GRCMC's primary responsibilities are:

- to assist the board in the execution of its duties with regard to risk and capital management specified in the Banks Act, and in particular to assist the board:
  - in its evaluation of the adequacy and efficiency of the risk policies, procedures, practices and controls applied in Absa in the day-to-day management of the business;
  - in the identification of the build-up and concentration of key risks and in developing a risk mitigation strategy to ensure Absa manages these risks optimally;
  - in setting up an independent risk management function, to coordinate the globalised monitoring of risk management, and facilitate and promote communication regarding risk policies, procedures, practices and controls or any other related matters; and
  - in establishing a process that relates capital to the level of risk undertaken and states capital adequacy goals with respect to risk, taking into account Absa's strategic focus and business plan.

- to annually recommend Absa's risk appetite to the board for approval, and to monitor the actual risk taken on against the board-approved appetite on a quarterly basis;
- to monitor the Group's emerging risk profiles and report its findings to the board;
- to monitor the level of available capital, both current and projected, and to report to the board on the adequacy of available capital relative to the emerging risk profile of the Group;
- to review, within the framework of the board-approved principal risks policy, the completeness of the principal risks coverage and the ongoing effectiveness of the framework as implemented by the Group;
- to review the adequacy and effectiveness of the principal risk control frameworks and policies and annually review the effectiveness of the implementation of the frameworks;
- to liaise with the GACC to ensure appropriate oversight of key controls relating to risk management issues; and
- to ensure Absa makes appropriate disclosure of its risk management and capital management status and activities.

Group Risk and Capital Management Committee (GRCMC) – Meeting attendance (2008)

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

Legend: ✓ Attendance A Apologies

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

Directors' Affairs Committee (DAC)

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

Composition and meetings: The DAC is chaired by the Group Chairperson and the majority of its members are independent directors. Seven meetings were held during the year.

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

- reviewing all aspects relating to ongoing corporate governance during the year, the inclusion of statements in this regard in the annual report to shareholders and consideration of the requirements of Regulation 38(5) of the Banks Act;
- recommends the appointment and replacement of the Group Chief Executive to the board for approval;
- considering current and emerging trends in corporate governance and the Group's governance systems, as well as benchmarking the Group's governance systems against local and international best practice;
- reviewing the size, diversity, demographics, skills and experience of the board, perceived gaps in the board's composition, potential board appointees and succession planning;
- establishing and maintaining a board continuity programme, encompassing succession planning for the Group Chief Executive and members of the board;
- conducting an effectiveness evaluation of the Absa board to review its performance in meeting its key responsibilities; and
- annually evaluating the performance of all directors and recommending such report to the board for consideration.

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

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

Legend: ✓ Attendance A Apologies

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

Group Remuneration and Human Resource Committee (GRHRC)

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

Composition and meeting procedures: The GRHRC is chaired by an independent director and comprises mainly independent directors. The Group Chief Executive, the executive responsible for human resources and the Group Financial Director attend meetings by invitation, but do not participate in discussions and decisions regarding their remuneration and benefits. Meetings are held at least five times a year.

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

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

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

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

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

Legend: ✓ Attendance A Apologies

Note
[1]*Meeting with DAC.*

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

Corporate governance statement

Group Credit Committee

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

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

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

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

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

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

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

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

Concentration Risk Committee – Meeting attendance (2008)

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

Legend: ✓ Attendance A Apologies

Board Finance Committee (BFC)

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

Composition and meeting procedures: The Board Finance Committee is chaired by the Group Chairperson, who is an independent director as are the majority of the members of this committee. This committee has a mandate from the board to review and approve investments and divestments and certain defined large transactions, subject to specific limits. Additional non-executive directors may be co-opted as members for meetings where particular expertise is required. Meetings are held on an ad hoc basis. Nine meetings were held in 2008.

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

Board Finance Committee – Meeting attendance (2008)

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

Legend: ✓ Attendance A Apologies

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

Acquisitions Committee: Barclays Africa

Members: D C Brink, B P Connellan, S A Fakie, G Marcus, E C Mondlane, Jr and T S Munday.

Composition and meeting procedures: The Acquisitions Committee: Barclays Africa is chaired by the Group Chairperson, who is an independent director, and the majority of its members are independent directors. No Barclays representative director may be a member of the committee. Additional non-executive directors may be co-opted as members for meetings as deemed appropriate. Meetings were held on an ad hoc basis.

Role, purpose and principal functions: The Acquisitions Committee: Barclays has a specific responsibility to oversee the potential acquisition of the sub-Saharan African banking operations of Barclays by the Absa Group. The committee is mandated by the board to:

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

Given the change in strategy and operating environment, the board has decided to dissolve the Acquisitions Committee: Barclays Africa. The functions of this committee will henceforth be carried out by the BFC.

Acquisitions Committee: Barclays Africa – Meeting attendance (2008)

Director	Appointment	Mar
D C Brink		✓
B P Connellan	26 Mar 08	✓
S A Fakie	26 Mar 08	✓
G Marcus		✓
E C Mondlane, Jr		✓
T S Munday	26 Mar 08	✓

Legend: ✓ Attendance

Executive directors and the Group Executive Committee (Group Exco)

There are four executive directors on the board of Absa and a number of executive directors on the boards of the Group's main subsidiaries. Executive directors are required to retire from the board (as executive directors) on reaching the age of 60. There is full disclosure in the Group remuneration report of various remuneration matters in respect of Absa's executive directors.

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

Group Exco, established and chaired by the Group Chief Executive, comprises the Group's executive directors and other members of the executive management. It meets, as a general rule, once a week and deals with all material matters relating to the implementation of the agreed strategy, monitoring of performance and the consideration of Group policies.

Corporate governance statement

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

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

Risk management

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

Regulatory compliance

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

Internal control

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

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

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

The Group's internal audit function and the external auditors independently appraise the adequacy and effectiveness of the internal controls. The GACC, with extensive input from the internal and external auditors, plays a major role in assisting the directors in satisfying themselves regarding the adequacy and effectiveness of the accounting systems, records and internal controls. The directors' report on this aspect is contained in the statement on the responsibility of directors for annual financial statements on page 94 of this report.

Share dealings

In terms of the Group's closed period policy, directors, officers, participants in the share incentive scheme and employees who may have access to price-sensitive information are precluded from dealing in Absa shares from two weeks prior to the end of the interim and year-end financial periods until the release of the Group's interim and final results. In terms of the policy, "shares" include options, financial instruments and securities, as defined in the Financial Markets Control Act and the Stock Exchanges Control Act. Where appropriate, additional closed periods, as well as the persons to whom such periods apply, may be invoked by the board.

Details of directors' dealings in Absa shares are disclosed to the board and the JSE through the Securities Exchange News Service (SENS). In addition, details of trades in Absa shares by Group Exco members are disclosed to the GRHRC.

Group Secretary

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

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

Going concern

The board has considered and recorded the facts and assumptions on which it relies to conclude that the business will continue as a going concern in the financial year ahead. The board considers this aspect at both interim reporting stage and financial year-end. The directors are of the opinion that the business will be a going concern in the year ahead and their statement in this regard is also contained in the statement on the responsibility of the directors for the consolidated financial statements on page 94 of this report.

Organisational integrity and the code of ethics

Management ensures that there is appropriate focus on preventing losses arising from unethical behaviour. In Absa, through various risk control procedures, the effects of unethical behaviour are minimised. Absa has appointed the executive responsible for human resources as the ethics officer. Compliance with Absa's code of ethics is monitored by means of annual attestations submitted by every Absa employee confirming their adherence to the code. This process is monitored by Absa's Group Compliance function.

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

Management demonstrates its commitment to the code by entrenching various principles. These include rewards and incentives for ethical behaviour, and disciplinary procedures, including criminal and civil charges, for unethical or dishonest behaviour. Absa has an independently operated helpline known as "Tip-Offs Anonymous" to facilitate the reporting of possible fraudulent, corrupt or unethical behaviour in the Group. This line is available 24 hours per day, seven days a week.

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

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

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

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

Absa's reputation

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

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

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

Integrated sustainability reporting

Overall reporting approach

Absa has adopted the Global Reporting Initiative (GRI) guidelines on economic, environmental and social performance (collectively referred to as the triple bottom line) as a benchmark for the Group's sustainability reporting. The GRI guidelines represent the most advanced international standard for sustainability reporting and Absa seeks to align its reporting with these standards.

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

Absa is firmly committed to advancing the principles and practice of sustainable development and takes its role as a leading and concerned corporate citizen seriously. Therefore, the Group has developed six themes to facilitate sustainable value creation for all its stakeholders.

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

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

Absa's sustainability report for the year ended 31 December 2008, describing the Group's endeavours relating to the sustainability themes indicated above, will be posted on the Group's website in due course.

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

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

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

The FSC targets are supported through transformation initiatives which are owned and driven by business units contributing to a particular industry. Progress of the initiatives is measured through individual business unit scorecards which are consolidated into a Group FSC scorecard and ultimately submitted annually to the Financial Sector Charter Council (FSCC). More details on the progress made by each indicator are contained in the sustainability report, to be published on the Group's website.

Absa's 2008 FSC submission was accepted and confirmed by the FSCC. Absa was awarded an "A" rating, which is the highest category awarded to financial institutions that achieve more than 55 overall points in the FSC scorecard. Absa scored 94,13 points out of a possible 98 points. (The 2007 scores were audited independently.)

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

The Group's FSC and CoGP scores are tabled below:

Absa FSC/CoGP performance

	Actual Absa FSC/CoGP points as at 31 December				Possible FSC/CoGP maximum points	
Indicator	**FSC – 2007 (Audited)**	**CoGP – 2007 (Unaudited)**	**FSC – 2008 (Unaudited)**	**CoGP – 2008 (Unaudited)**	**Possible maximum FSC points that can be earned up to 2008**	**Possible maximum CoGP points that can be earned up to 2012**
Human resource development:						
• Employment equity	12,50	8,00	13,50	8,70	15,00	15,00
• Skills development	3,00	3,90	3,00	6,54	3,00	15,00
• Learnerships	1,23	—	1,22	—	2,00	—
Procurement:	15,00		15,00		15,00	
• Preferential procurement		15,00		12,00		20,00
• Enterprise development		15,00		15,00		15,00
Corporate social investment/ Socioeconomic development	3,00	4,50	3,00	4,71	3,00	5,00
Access to financial services:						
• Consumer education	2,00	—	2,00	—	2,00	—
• Origination	8,00	—	8,00	—	8,00	—
• Physical accessibility	3,56	—	3,58	—	4,00	—
• Products and services	2,24	—	2,83	—	4,00	—
Empowerment finance	22,00	—	22,00	—	22,00	—
Ownership and control						
• Board and executive management	8,00	6,40	8,00	7,35	8,00	10,00
• Ownership	12,00	10,60	12,00	12,00	12,00	20,00
Total points	**92,53**	**63,40**	**94,13**	**66,30**	**98,00**	**100,00**
Rating/level	A-rating	Level 5	A-rating	Level 4		

Absa Group has improved its employment equity ratio in 2008, with 61,1% of Absa's employees being black as at 31 December 2008 (31 December 2007: 58,8%). The Group's employment equity and diversity statistics are tabled on the following page.

Corporate governance statement

Employment equity and diversity statistics

31 December 2008

	Designated							Non-designated			
	Male			Female				Male	Foreign nationals		Grand
	African	Coloured	Indian	African	Coloured	Indian	White	White	Male	Female	total
Top management	6	0	1	2	1	1	0	26	1	0	38
Senior management	42	12	27	15	8	13	60	281	11	4	473
Middle (professionally qualified)	751	377	593	635	444	632	2 415	3 256	47	60	9 210
Junior (skilled technical)	1 613	968	467	3 103	2 154	1 002	4 484	1 035	20	63	14 909
Semi-skilled	1 551	666	202	3 758	2 007	501	1 923	307	4	17	10 936
Unskilled	42	9	0	99	19	1	0	0	0	0	170
Total (permanent)	**4 005**	**2 032**	**1 290**	**7 612**	**4 633**	**2 150**	**8 882**	**4 905**	**83**	**144**	**35 736**
Non-permanent	59	19	21	116	55	17	177	161	0	0	625
Total (employees)	**4 064**	**2 051**	**1 311**	**7 728**	**4 688**	**2 167**	**9 059**	**5 066**	**83**	**144**	**36 361**

31 December 2007

	Designated							Non-designated			
	Male			Female				Male	Foreign nationals		Grand
	African	Coloured	Indian	African	Coloured	Indian	White	White	Male	Female	total
Top management	5	0	1	2	1	1	0	28	0	0	38
Senior management	35	14	31	11	7	13	56	309	12	2	490
Middle (professionally qualified)	652	343	526	496	352	522	2 221	3 297	15	26	8 450
Junior (skilled technical)	1 321	894	417	2 501	2 001	949	4 750	1 090	5	23	13 951
Semi-skilled	1 658	736	212	3 839	2 217	561	2 266	360	0	18	11 867
Unskilled	48	11	1	127	23	2	0	0	0	0	212
Total (permanent)	3 719	1 998	1 188	6 976	4 601	2 048	9 293	5 084	32	69	35 008
Non-permanent	78	32	14	189	78	15	224	156	0	0	786
Total (employees)	3 797	2 030	1 202	7 165	4 679	2 063	9 517	5 240	32	69	35 794

JSE Socially Responsible Investment (SRI) Index

Absa is included in the JSE SRI Index. This index applies to the top companies listed on the JSE and measures companies' systems and processes with regard to corporate governance, environment, economic and social issues. For the 2007/08 reporting year, the Group received a "Best Performer" certificate.

Stakeholder communications and relationships

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

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

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

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

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

Democracy support

Absa believes that the principle of multi-party democracy contained in the founding provisions of the South African constitution deserves support. In the young South African democracy, such support aims at promoting political participation and competition, public scrutiny of policy and law-making, as well as the exercise of executive power. Through the Democracy Support Programme, Absa supports the case for good governance in a broad sense, as well as encouraging a policy-making environment in which there is healthy and robust engagement and expression of new ideas.

The Absa board annually approves the policy and budget for the Democracy Support Programme. In the 2008 financial year, R2,6 million (2007: R2,4 million) was distributed to qualifying political parties. Selection and participation is guided by verified provisions of the Independent Electoral Commission. All political parties benefiting from this policy must be registered in terms of section 15 of the Electoral Commission Act, No. 57 of 1996. Absa gives donations to national offices of all political parties who have three or more seats in the National Assembly. All democracy support donations are publicly declared.

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

Looking forward

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

Compliance report

Introduction

As a result of the amendment to the Banks Act, No 94 of 1990 (the Banks Act), all banks were required to establish a compliance function in 2000. This requirement was further entrenched with the promulgation of the Financial Intelligence Centre Act, No 38 of 2001 (FICA) and the Financial Advisory and Intermediary Services Act, No 37 of 2002 (FAIS). A compliance function is also considered to be a valuable contributor to good corporate governance and is supported by the King Code on Corporate Governance (King II).

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

Failure to comply can result in reputational risk, financial penalties (personal and corporate) and, in extreme cases, the loss of the Group's licence to perform financial services-related activities.

The year under review

The Group Compliance function focused on the continued embedment of the anti-money laundering controls and policies, the implementation of a themes-based monitoring approach and the influencing of the regulatory changes in respect of the Financial Advisory and Intermediary Services Act (FAIS). In addition to this, emphasis was placed on continued alignment of policies with certain Barclays policies. These policies not only incorporate international best practice, but also ensure that Absa Group complies with the international regulatory requirements governing the Barclays Group.

Compliance governance

Although management is responsible for managing compliance risk in the business units, Absa Group Compliance assists management to discharge this duty. The Group Compliance function has, since its inception in 2000, developed into an industry-leading function by applying recognised risk management principles and international best practices. The function's structure and approach enables it to support management at all levels by leveraging off specialised technical skills as well as sound business knowledge. Absa Group Compliance is therefore structured into centralised and decentralised sections. The former is responsible for standard-setting, Group-wide monitoring and forms the centre of expertise regarding legislation and policies impacting the Absa Group. The latter consists of business unit compliance officers, who are deployed into the various business units and are responsible for business-specific monitoring, training and advice, especially with regard to the implementation of the various regulatory requirements.

The compliance role and responsibilities, as prescribed in the Banks Act, are discharged by following methodologies that have been developed and benchmarked with industry and international best practice.

As business unit activities are not static, all compliance risk profiles are updated quarterly to ensure that the risk of non-compliance with regulatory requirements is addressed in all applicable business units. Ongoing monitoring takes place in these areas to ensure that controls are adequate and effective. Any non-compliance identified is reported using the normal governance processes.

Absa Group Compliance is actively involved in imbedding an effective compliance risk management methodology in the African entities in which the Group has a shareholding. Several policies have been implemented and substantial training has been provided. The compliance deliverables are continuously quality assured.

Key compliance focus areas

The Absa Group's key compliance focus areas in 2008 were:

- anti-money laundering and international sanctions implementation;
- improved compliance risk monitoring;
- the further embedment of the National Credit Act;
- the identification of new regulatory requirements;
- employee awareness relating to regulatory requirements; and
- combating unethical behaviour.

Anti-money laundering (AML) and sanctions environment

Highlights during 2008 have been the implementation of the AML and sanctions controls in Absa Africa, implementation of the requirements to manage Politically Exposed Person (PEP) relationships across all operating environments and the appointment of key staff.

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

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

Improved compliance risk monitoring

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

The National Credit Act (NCA)

The NCA became effective on 1 June 2007 and protects consumers of credit by enhancing consumer rights and introducing minimum disclosure requirements. It attempts to curb overindebtedness by prohibiting reckless lending and provides for the registration of credit providers with the National Credit Regulator. The focus during 2008 was on the monitoring of the controls implemented during 2007 to ensure compliance with the NCA.

The Group is taking an active role in developing products that will assist customers in distress. Emphasis has been placed on rehabilitating customers through counselling, advice and debt consolidation, rather than taking immediate punitive measures against them. The Group also plays an active role in industry forums with other credit providers to arrive at a set of agreed standards and processes in dealing with customers who voluntarily seek counselling and rehabilitation when in credit distress. In addition, the Group supports the industry-wide establishment of the Code of Credit Conduct, which aims to combat consumers' overindebtedness.

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

Compliance report

New regulatory requirements

The regulatory landscape in the financial services industry is characterised by constant change – amendments to existing regulatory and policy-related requirements and the introduction of new requirements. To understand and assess the impact of these changes and amendments on the business and the way the Absa Group conducts business, the Group has a New Regulatory Requirement Forum, which focuses on scanning and evaluating the entire regulatory landscape per business area in the Group, as well as for the Group as a whole. A defined and value-adding process is followed. Changes, amendments and new additions are assessed, based on all the identified risk components, and remediation-related controls are developed and implemented to mitigate the assessed risk.

Employee awareness through the Employee Compliance Conduct Guide (ECCG)

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

The ECCG contains references to all the most pertinent compliance-related policies (including those pertaining to combating corruption) and is revised annually and distributed to all Absa Group employees.

Combating unethical behaviour

As part of the Absa Group's compliance risk management process, control measures have been put in place to mitigate the risk of corrupt activities taking place, in contravention of the Prevention and Combating of Corrupt Activities Act. The Group's ethics policy was implemented as a control to address this specific risk. The Absa Group also adopted an anti-corruption policy applicable to all employees and aligned with this Act.

Through the Tip-Offs Anonymous hotline, employees (and other stakeholders) may report instances of unlawful or unethical behaviour, which are investigated by the relevant specialist areas. These investigations are monitored by Absa Group Compliance. Identified issues and trends are reported to the appropriate forums in the Absa Group governance structures.

This process seeks to support procedures in terms of which employees who disclose information about impropriety or unlawful or corrupt conduct by their employer or fellow employees are protected from being discriminated against as a result of the disclosure, such as being subjected to any disciplinary action or being dismissed, suspended, demoted, harassed or intimidated, as defined in the Protected Disclosures Act, No 26 of 2000.

Communication with regulators

The Contact with Regulators policy provides a framework that guides ad hoc contact with any financial services regulatory authority relevant to the Absa Group, ensuring that communication with regulators is handled promptly and professionally.

In terms of the policy, Absa Group Compliance is responsible for providing guidance to business before and during meetings with regulators, for maintaining a log of all commitments made to regulators and for monitoring the progress of commitments.

Regulatory developments

Banks Act/Basel II Capital Accord (Basel II)

Basel II, and hence the amended Banks Act, became effective on 1 January 2008. The Basel II framework sets out the details for adopting more risk-sensitive minimum capital requirements for banking organisations. The new framework reinforces these risk-sensitive requirements by laying out principles according to which banks must assess the adequacy of their capital and supervisors must review such assessments to ensure that banks have adequate capital to support their risks. It also seeks to strengthen market discipline by enhancing transparency in banks' financial reporting. Basel II has necessitated significant amendments to the legal framework in South Africa, specifically affecting the scope and complexity of statutory returns and directives. In line with the recent economic turmoil internationally and the collapse of several international banks, there is an even greater emphasis on the significance of the Basel II framework worldwide.

Anti-competitive, anti-trust and monopoly behaviour

In August 2006, the South African Competition Commission (the Competition Commission) launched an enquiry in respect of the South African retail banking sector. In particular, the enquiry focused on the transparency and level of fees and charges imposed on consumers as well as the need for interchange fees for ATM transactions and the level of interchange fees for payment card transactions.

Financial Advisory and Intermediary Services Act (FAIS)

The Financial Services Board (FSB) has established a forum representing all industries affected by FAIS to provide input into the drafting of the new fit and proper requirements that will be applicable to all representatives and key individuals from 1 January 2010. Absa Bank was represented as a member of the FAIS committee of the Banking Association and as such provided input to the proposed legislation.

Looking ahead

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

Consumer protection

The Consumer Protection Bill's stated objectives are the promotion of a fair, accessible and sustainable marketplace for consumer products and services. National norms and standards relating to consumer protection will be established and improved standards of consumer information will be provided for. Certain unfair marketing and business practices will be prohibited and responsible consumer behaviour will be promoted. This law will harmonise existing laws relating to the protection of consumers and promote a consistent enforcement framework relating to consumer transactions and agreements.

New Companies Act

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

Financial Advisory and Intermediary Services Act

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

Group remuneration report

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

Introduction

Absa has a dedicated board committee that governs remuneration matters, the Group's remuneration policy as well as executive emoluments and service contracts, the Group Remuneration and Human Resource Committee (GRHRC) (formerly known as the Group Remuneration Committee). The committee's remit was extended, in September 2007, to cover human resource-related black empowerment issues, FSC scoring and other relevant black economic empowerment scoring. The GRHRC meets a minimum of five times a year and holds special meetings to deal with urgent matters. The GRHRC comprises non-executive directors, who are predominantly independent.

The year under review

Apart from attending to its regular business in 2008, the GRHRC focused on:

- strengthening the linkage between performance and remuneration across the Group, particularly in respect of annual bonuses (this includes more closely aligning the elements of reward to the practice of other comparable organisations, including international investment banking organisations), where appropriate;
- in-depth talent reviews, succession planning and performance development for Group Executive Committee members and the senior leadership group; and
- human resource initiatives, particularly in the area of transformation (together with the board, giving guidance as to the key areas of culture, performance development and employment equity).

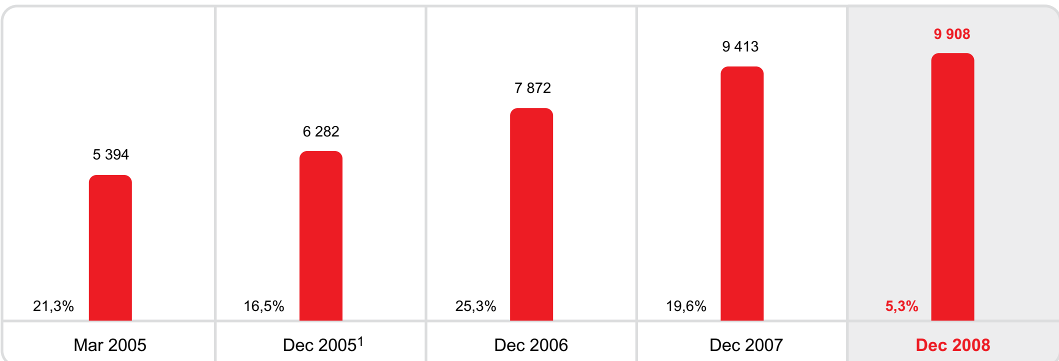
The Absa Group Performance Share Plan (PSP) and (for those employees whose bonus exceeded a predetermined threshold during the year) the Absa Group Executive Share Award Scheme (ESAS) incentive programmes have continued to promote alignment of the interests of Group executive directors and other senior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

The remuneration of Group executives should be viewed in conjunction with the financial performance of the Group. For 2008:

- the Group achieved positive earnings growth in a challenging environment, with headline earnings increasing by 5,3% compared with 2007; and
- the Group achieved an RoE of 23,4%. Although it is recognised that Absa's closing share price on 31 December 2008 was 10 815 cents per share, it is important to note that Absa's total shareholder return was significantly above that of our peer group for the same period.

  (31 December 2007: 11 100 cents per share; 31 December 2006: 12 510 cents per share).

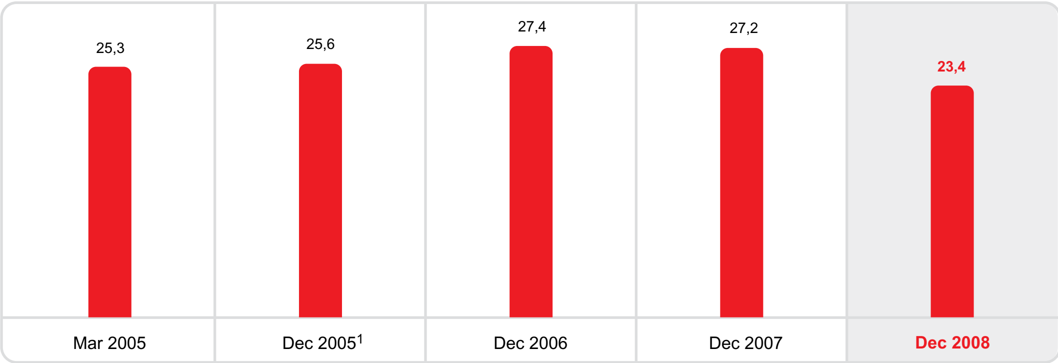
Headline earnings (Rm)



Note

[1]*Pro forma figures (twelve months).*

Return on average equity (%)



Note

[1]*Pro forma figures (twelve months).*

The remuneration of Group executive directors is reviewed in conjunction with their performance objectives. The main objectives of the Group executive directors for 2008 included:

- managing the business;
- improving franchise health: revolutionising the customer proposition and improved colleague and community perception;
- strengthening market positions in existing markets: expanding the Group's footprint, increasing the number of customers and maximising Absa's value proposition;
- increasing the revenues and profitability of the wholesale businesses; thereby changing the relative weightings of the various component businesses;
- delivering financial performance;
- growing talent and capability;
- managing risk appropriately and ensuring that adequate controls are in place;
- representing Absa in the national and international arenas and creating a positive perception among all key stakeholders; and
- being an effective Group Exco and board member.

The Group remuneration report provides information on the remuneration policy and the key elements of reward for Group employees, including Group executive directors. It also discloses the remuneration of the individual directors who served the Group in 2008.

Dave Brink

Chairperson: Group Remuneration and Human Resource Committee

20 March 2009

Remuneration governance

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

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

As at 31 December 2008, the GRHRC consisted of five members: D C Brink (Chairperson), B P Connellan, G Marcus, F F Seegers[1] and F A Sonn. The Group Chief Executive, the Group Financial Director and the executive responsible for human resources attend the meetings by invitation. No Group executive director is present when his or her own remuneration or performance evaluation is discussed.

The GRHRC's responsibilities include:

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

Advisers to the GRHRC

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

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

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

In regard to compensation issues specific to the investment banking areas of the business, the GRHRC has engaged the services of Towers Perrin MGMC (a global remuneration consulting firm based in New York).

Note

[1] *Resigned on 11 February 2009.*

Group Human Resources, a Group specialist function, provides advice and assists the GRHRC by providing supporting information, documentation and analysis relating to matters before the GRHRC. This includes comparative data and motivations for salaries, bonuses and incentive plans. In addition, the executive responsible for human resources also provides professional support to line management relating to human resources policies and administration, as well as for monitoring compliance with prescribed policies and programmes across the Group.

Remuneration philosophy and policy

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

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

- Aligning the interests of senior managerial and professional employees, including Group executive directors, with those of the Group's stakeholders.
- Maximising employees' personal contribution, contribution to the business unit in which an individual works and contribution to the Group overall.
- Achieving commercially competitive reward levels, enabling the Group to attract and retain people of proven ability, experience and skills.
- Implementing reward programmes that are clear and transparent and reinforce the achievement of the Group's desired strategic positioning.
- Directing reward levels at encouraging behaviour consistent with the Group's values (which are: "Value our people and treat them with fairness."; "Exceed the needs of our customers."; "Take responsibility for the quality of our work."; "Display leadership in all we do."; and "Demonstrate integrity in all our actions.").

Remuneration of employees (including Group executive directors)

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

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

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

Group remuneration report

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

Guaranteed fixed remuneration

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

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

Annual performance bonuses (variable remuneration)

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

An overall performance bonus funding mechanism is utilised to fund the annual incentives for the Group. In 2008, the funding mechanism is based on the Group's

- profit before tax (PBT),
- attributable earnings, and
- economic profit.

The individual business segments are, in turn, measured for their relative contributions to the business as a whole, so that an appropriate distribution of the overall bonus pool can be made.

The bonus multiple for Group executive directors is capped at a maximum possible individual annual performance bonus of 2,5 times cost-to-company remuneration. For the 2007 financial year, an exception was created for one of the Group executive directors.

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

Long-term incentive plans (variable remuneration)

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

The Absa Group Performance Share Plan (PSP)

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

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

The GRHRC ensures that the performance conditions are sufficiently demanding to promote profitable growth, capital efficiency, risk management and the creation of shareholder value. The vesting of the 2008 PSP awards is subject to the following:

- A basic financial hurdle, such that the cumulative profit after tax (PAT) for the Group in the three-year performance period attached to each award must be greater than the Group's cumulative PAT for the previous three-year period.
- A second, three-year performance condition that applies to 100% of the PSP shares under each award (and is in turn split into two subconditions) is based on Absa's earnings per share (EPS) growth in excess of the consumer price index excluding interest rates on mortgage bonds (CPIX)[1]. The more Absa's EPS growth exceeds the CPIX, the greater the number of shares that will be recommended for release at the end of the three-year period, up to a maximum of three times the initial allocation.

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

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

Awards may be made under the Absa Group PSP as well as under the Absa Group Phantom PSP (Phantom PSP). Phantom PSP awards are, from a commercial and incentive point of view, substantially the same as PSP awards. The awards made in 2008 were made under the Phantom PSP. Rand value awards took place effective 24 February 2008. Subsequent to the awards being made, the participants were informed of the actual number of Phantom PSP shares that they were awarded, taking into account the volume-weighted average share price over the 20 days immediately preceding the award date. The use of a rand-value award mechanism enables easy communication of the underlying value of the award. It also enables the GRHRC to obtain an overall view of an individual's total compensation (total cost-to-company remuneration, annual performance bonus and long-term incentive award). The 2008 Phantom PSP awards will be equity-settled in 2011.

The details of the awards for Group executive directors are listed on page 70 of this report.

The Absa Group Executive Share Award Scheme (ESAS)

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

As an alternative to the Absa Group ESAS, awards may also be made under the Absa Group Phantom ESAS. Phantom ESAS awards are, from a commercial and incentive point of view, substantially the same as Absa Group ESAS awards. Awards made in 2008 were made under the Phantom ESAS and will be equity-settled in 2011.

The details of the awards for Group executive directors are listed on page 70 of this report.

Note

[1] *Given that this measure of inflation has changed, the performance measure will be adjusted going forward.*

The Absa Group Voluntary Executive Share Award Scheme (VESAS)

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

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

The details of the awards for Group executive directors are listed on page 71 of this report.

Share Incentive Scheme

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

Since then, when the Group's new incentive plans were introduced, no further awards were made under this share incentive scheme. The scheme is however available to be used in the event that it becomes appropriate to do so.

The details of the awards for Group executive directors are listed on pages 68 and 69 of this report.

Other senior executive incentive plans

Barclays Special Incentive Plan

Key members of the Absa management team were given retention awards under the Barclays Special Incentive Plan. The awards under this plan were scheduled to vest in October 2008. The awards were delivered in Barclays PLC shares and were based on Absa's performance relative to the achievement of the business case (namely realisation of the synergy benefits as well as delivery of Absa's business-as-usual performance). The maximum possible performance outcome was achieved which resulted in a 6,6 multiple of the original award (ie, the number of Barclays shares under the original award). However, the benefits of this high performance multiple were offset by the relatively lower Barclays share price (£2,09).

The participants were: S F Booysen, J H Schindehütte, L L von Zeuner, R R Emslie and N P Mageza. Four of the five participants elected to vest their awards in October 2008. The fifth participant, J H Schindehütte, elected to defer his award into Barclays ESAS for a further three-year period. D Bruynseels, who left the Barclays Group during 2007, would also have been entitled to vest his award in October 2008. The costs associated with the plan were borne directly by Barclays and therefore do not affect Absa's financial performance. Subsequent to the original awards made, no further awards have been made under this plan.

The details of the awards for Group executive directors are listed on page 71 of this report.

Special Discretionary Bonus Plan

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

Other employee incentive plans

Batho Bonke Capital (Proprietary) Limited

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

As at 31 December 2008, N P Mageza held an interest in approximately 500 000 shares in Batho Bonke Capital (Proprietary) Limited, through the Batho Bonke Absa HDSA Trust.

Further details are provided on page 204 of this report.

Absa Group Limited Employee Share Ownership Administration Trust

All employees (as of the implementation date of 1 July 2004) of South African wholly owned subsidiaries, including South African employees on secondment elsewhere in the Group, were eligible to participate in a one-off offer of 200 cumulative redeemable option-holding preference shares. Each employee who elected to participate was issued and allotted 200 redeemable option-holding preference shares against receipt of the R400 subscription price. Further details, including the number and weighted average exercise price of share options as at 31 December 2008, are provided on page 205 of this report.

Group executive directors' employment contracts

There are no fixed-term contracts for Group executive directors, but their conditions provide for a notice period of six months. Group executive directors retire from their positions and from the board (as Group executive directors) at the age of 60.

Severance arrangements

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

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

Absa aims to apply the above policy to all employees, including Group executive directors. However, depending on circumstances, it is sometimes necessary to negotiate with the Group executive director or employee whose contract is being terminated. In this regard, the details of the contractual arrangements with S F Booysen (in his capacity as outgoing Group Chief Executive) are set out below.

Contractual arrangements: S F Booysen

The material terms of the agreement reached with Dr Booysen in November 2008, are as follows:

- Dr Booysen will be on six months' garden leave from 1 March 2009 to 31 August 2009.
- Thereafter he will be subject to a restraint against approaching staff for twelve months and approaching customers for a six-month period.
- As agreed with Dr Booysen and in consideration of, inter alia, his termination and the restraints mentioned above, a payment of approximately R19,1 million will be made to Dr Booysen in August 2009. This figure is an aggregate of his annual cost-to-company plus the equivalent of his 2007 annual bonus award.
- Good leaver treatment (in terms of the relevant schemes) will apply to his share and share-based awards.

Contractual arrangements: Two other Group executive directors

Given possible uncertainty arising from the change in Group Chief Executive, the GRHRC felt it necessary to obtain an unequivocal commitment from J H Schindehütte and L L von Zeuner to the Group. Thus contracts were entered into with these two executives as to the terms of their departure, should such an event arise. The purpose of the agreements is to mitigate the risk that either of these two executives resign from the Group at any time prior to 28 February 2010. Moreover, the terms of these agreements will not apply in the event that the circumstances do not arise. In the event that the approved circumstances do arise, the agreed terms as to their packages would be similar to those terms pertaining to Dr Booysen, being six months' garden leave, plus a 12 months' package (consisting of cost-to-company and annual bonus equivalent).

Non-executive directors' remuneration and terms of employment

Non-executive directors' remuneration

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

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

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

Absa's fee structure, as approved by shareholders, is indicated in the table on page 72 of this report.

Absa shares held by non-executive directors

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

- Absa Group ordinary shares (beneficial and non-beneficial interests) — Pages 98 and 99
- Absa Group redeemable cumulative redeemable option-holding preference shares — Page 100
- Absa Bank Limited preference shares — Page 100

Non-executive directors' terms of employment

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

Group executive directors' guaranteed fixed remuneration and performance bonuses

Group executive director	Note	Directors' fees Absa Group R	Directors' fees Absa Bank and other divisional boards R	Salaries R	Travel allow-ances R	Retire-ment fund contri-butions R	Total guaran-teed remune-ration R	Perfor-mance bonuses (Note 9) R	Total R
Year ended 31 December 2008									
S F Booysen	1 & 8	**140 567**	**—**	**5 556 203**	**11 905**	**444 016**	**6 152 691**	**12 000 000**	**18 152 691**
N P Mageza	2 & 8	**160 167**	**—**	**2 274 519**	**15 300**	**181 481**	**2 631 467**	**6 000 000**	**8 631 467**
J H Schindehütte	3 & 8	**160 167**	**—**	**2 731 162**	**—**	**218 013**	**3 109 342**	**7 000 000**	**10 109 342**
L L von Zeuner	4 & 8	**160 167**	**—**	**3 385 630**	**64 366**	**270 370**	**3 880 533**	**8 000 000**	**11 880 533**
Total		**621 068**	**—**	**13 947 514**	**91 571**	**1 113 880**	**15 774 033**	**33 000 000**	**48 774 033**
Year ended 31 December 2007									
S F Booysen	1 & 8	131 400	—	5 174 217	54 514	413 554	5 773 685	13 000 000	18 773 685
D Bruynseels	5, 6, 7 & 8	86 234	89 793	—	—	—	176 027	—	176 027
N P Mageza	2, 7, 8	45 167	—	711 476	3 956	56 790	817 389	4 600 000	5 417 389
J H Schindehütte	3 & 8	131 400	—	2 543 494	26 133	203 096	2 904 123	6 000 000	8 904 123
L L von Zeuner	4 & 8	131 400	—	3 208 709	45 980	256 313	3 642 402	10 000 000	13 642 402
Total		525 601	89 793	11 637 896	130 583	929 753	13 313 626	33 600 000	46 913 626

Notes

(1) *Appointed to the Absa Group board on 1 August 2004.*
(2) *Appointed to the Absa Group board on 10 September 2007.*
(3) *Appointed to the Absa Group board on 1 January 2005.*
(4) *Appointed to the Absa Group board on 1 September 2004.*
(5) *Appointed to the Absa Group board on 27 July 2005. Subsequently resigned from the Absa Group board on 21 August 2007. D Bruynseels did not receive any awards under the Share Incentive Scheme, the Phantom PSP, the ESAS or the VESAS and consequently is not included in the following tables for those incentive plans.*
(6) *Remunerated by Barclays PLC, and any directors' fees earned were paid to Barclays PLC.*
(7) *The remuneration tabled above relates only to the period an individual is/was a Group executive director.*
(8) *Group executive directors' guaranteed remuneration and performance bonuses are paid by Absa Bank Limited, other than in the case of D Bruynseels.*
(9) *Performance bonuses for 2007 and 2008 comprise a cash portion (as to 75% of the notional performance bonus) which will have accrued to the Group executive director concerned, and a non-cash portion (as to 25% of the notional performance bonus), which will be deferred into the mandatory ESAS.*
For 2008, the respective portions were as follows: (i) J H Schindehütte: cash R5 250 000, deferred under the ESAS R1 750 000, total R7 000 000; (ii) L L von Zeuner: cash R6 000 000, deferred under the ESAS R2 000 000, total R8 000 000. (iii) S F Booysen and N P Mageza: ESAS not applicable, given their imminent departure from the Group.
For 2007, the respective portions were as follows: (i) S F Booysen: cash R9 750 000, deferred under the ESAS R3 250 000, total R13 000 000; (ii) N P Mageza: cash R3 450 000, deferred under the ESAS R1 150 000, total R4 600 000; (iii) J H Schindehütte: cash R4 500 000, deferred under the ESAS R1 500 000, total R6 000 000; (iv) L L von Zeuner: cash R7 500 000, deferred under the ESAS R2 500 000, total R10 000 000.

Group executive directors' share incentive scheme options – composition of opening balances at 1 January 2008

Name	Note	Share options granted Date of grant	Expiry date of options	Number granted	Price R
S F Booysen	1	7 Jun 02	7 Jun 12	40 000	33,67
		5 Jun 03	5 Jun 13	90 000	35,01
		7 Jun 04	7 Jun 14	300 000	48,73
		18 Aug 05	18 Aug 15	180 000	91,70
				610 000	
N P Mageza	2	19 Jun 01	19 Jun 11	16 668	37,43
		7 Jun 02	7 Jun 12	17 334	33,67
		5 Jun 03	5 Jun 13	17 500	35,01
		7 Jun 04	7 Jun 14	88 000	48,73
		18 Aug 05	18 Aug 15	43 000	91,70
				182 502	
J H Schindehütte	3	5 Jun 03	5 Jun 13	10 000	35,01
		31 May 04	31 May 14	124 571	46,56
		18 Aug 05	18 Aug 15	30 000	91,70
				164 571	
L L von Zeuner	4	7 Jun 02	7 Jun 12	20 000	33,67
		5 Jun 03	5 Jun 13	63 334	35,01
		7 Jun 04	7 Jun 14	26 000	48,73
		19 Aug 04	19 Aug 14	102 000	51,61
		18 Aug 05	18 Aug 15	60 000	91,70
				271 334	

Notes

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

Group executive directors' share incentive scheme option – movements during 2008

			Share options exercised (Note 5)				
Name	Note	Opening balance	Number	Purchase date/ exercise date (Note 6)	Option price R	Shares purchased/ gains on share options exercised R (Note 7)	Balance of share options
Year ended 31 December 2008							
S F Booysen	**1**	**610 000**	**40 000**	**5 Mar 08**		**Shares purchased at share option price of R33,67**	
			45 000	**5 Mar 08**		**Shares purchased at share option price of R35,01**	
			45 000	**20 Aug 08**		**Shares purchased at share option price of R35,01**	**480 000**
N P Mageza	**2**	**182 502**	**—**	**—**	**—**	**—**	**182 502**
J H Schindehütte	**3**	**164 571**	**10 000**	**21 Aug 08**		**Shares purchased at share option price of R35,01**	**154 571**
L L von Zeuner	**4**	**271 334**	**20 000**	**7 Mar 08**		**Shares purchased at share option price of R33,67**	**251 334**
Year ended 31 December 2007							
S F Booysen	1	610 000					610 000
N P Mageza	2	182 502					182 502
J H Schindehütte	3	260 190	23 334	24 Aug 07		Shares purchased at share option price of R33,67	
			10 000	24 Aug 07		Shares purchased at share option price of R35,01	
			62 285	24 Aug 07		Shares purchased at share option price of R46,56	164 571
L L von Zeuner	4	344 668	19 100	28 Feb 07	Shares exercised at share option price of R37,43 and sold at R137,07	9 986[8]	
			2 568	28 Feb 07		Shares purchased at share option price of R37,43	
			20 000	28 Feb 07		Shares purchased at share option price of R33,67	
			31 666	28 Feb 07		Shares purchased at share option price of R35,01	271 334

Notes

(1) Appointed to the Absa Group board on 1 August 2004.

(2) Appointed to the Absa Group board on 10 September 2007. Opening balance as at 10 September 2007, at the time of appointment as a Group executive director.

(3) Appointed to the Absa Group board on 1 January 2005.

(4) Appointed to the Absa Group board on 1 September 2004.

(5) The share incentive scheme has not been used for new allocations to Group executive directors since 2006, because of the introduction of the PSP.

(6) Options are exercisable at any date from the vesting date. Where the activity reported upon is a purchase of shares, the purchase date has been reflected, in which event a preceding exercise of the options would already have taken place.

(7) A "gain" arises where the options have been exercised at a price higher than the grant date price during the year under review. Where no cash gain has been realised in circumstances where a purchase of the shares has taken place, the details of this purchase have been disclosed instead.

(8) The amount relates to the net balance subsequent to the sale of shares to cover the purchase of shares at the option price.

Group executive directors' share award movements during 2008 – Phantom PSP (Note 1)

Name	Note	Phantom PSP shares granted: Opening balance at 1 January	Date of grant	Number issued	Price R (Note 6)	Expiry date	Closing balance as at 31 December
Year ended 31 December 2008							
S F Booysen	2	**95 422**	**23 Feb 08**	**73 368**	**104,95**	**23 Feb 11**	**168 790**
N P Mageza	3	**30 271**	**23 Feb 08**	**32 872**	**104,95**	**23 Feb 11**	**63 143**
J H Schindehütte	4	**48 342**	**23 Feb 08**	**39 542**	**104,95**	**23 Feb 11**	**87 884**
L L von Zeuner	5	**65 313**	**23 Feb 08**	**60 028**	**104,95**	**23 Feb 11**	**125 341**
Year ended 31 December 2007							
S F Booysen	2	51 194	1 Mar 07	44 228	135,66	1 Mar 10	95 422
N P Mageza	3	15 529	1 Mar 07	14 742	135,66	1 Mar 10	30 271
J H Schindehütte	4	23 464	1 Mar 07	24 878	135,66	1 Mar 10	48 342
L L von Zeuner	5	33 617	1 Mar 07	31 696	135,66	1 Mar 10	65 313

Notes

(1) The first allocations of the Phantom PSP Scheme took place in 2006. One Phantom PSP share has a value equivalent to one Absa ordinary share. The scheme is subject to the following performance measures: for 2006 profit after tax and earnings; 2007 profit after tax and earnings; and 2008 a combination of total shareholders' return and earnings per share. The actual PSP multiple achieved in respect of the 2006 grant is 1,9 times. The award will be cash settled on 22 May 2009.
(2) Appointed to the Absa Group board on 1 August 2004.
(3) Appointed to the Absa Group board on 10 September 2007.
(4) Appointed to the Absa Group board on 1 January 2005.
(5) Appointed to the Absa Group board on 1 September 2004.
(6) The price is the volume-weighted average price for the 20 trading days immediately preceding the grant date.

Group executive directors – holdings under the ESAS

Name	Note	ESAS shares: Opening balance as at 1 January (Note 5)	Date of grant	Number issued	Price (R) (Note 6)	Expiry date (Note 7)	Closing balance at 31 December (Note 8)
Year ended 31 December 2008							
S F Booysen	1	**55 171**	**23 Feb 08**	**30 967**	**104,95**	**23 Feb 11**	**86 138**
N P Mageza	2	**7 597**	**23 Feb 08**	**10 957**	**104,95**	**23 Feb 11**	**18 554**
J H Schindehütte	3	**25 856**	**23 Feb 08**	**14 292**	**104,95**	**23 Feb 11**	**40 148**
L L von Zeuner	4	**38 292**	**23 Feb 08**	**23 820**	**104,95**	**23 Feb 11**	**62 112**
Year ended 31 December 2007							
S F Booysen	1 & 5	32 934	24 Feb 07	22 237	134,91	24 Feb 10	55 171
N P Mageza	2	—	24 Feb 07	7 597	134,91	24 Feb 10	7 597
J H Schindehütte	3 & 5	15 665	24 Feb 07	10 191	134,91	24 Feb 10	25 856
L L von Zeuner	4 & 5	23 653	24 Feb 07	14 639	134,91	24 Feb 10	38 292

Notes

(1) Appointed to the Absa Group board on 1 August 2004.
(2) Appointed to the Absa Group board on 10 September 2007.
(3) Appointed to the Absa Group board on 1 January 2005.
(4) Appointed to the Absa Group board on 1 September 2004.
(5) The opening balance figures for 1 January 2007 relate to the conversion of banked bonuses to the ESAS. The banked bonus is not a new award, as this has been disclosed as part of the performance bonus awards for 2004 and 2005.
(6) For the awards made in 2007 and 2008, the price is the volume-weighted average share price over the 20 trading days up to and including 24 February 2007 and 23 February 2008 respectively.
(7) Although the vesting date is the third anniversary of the award date, there is an opportunity for a participant to remain in the scheme for a further two-year period.
(8) The column does not include the portion of the 2008 annual performance bonus that is deferred into the ESAS (which takes place in 2009). This is shown on page 67 of this report.

Group executive directors – holdings under the VESAS

Year ended 31 December 2008

Name	Note	VESAS shares Opening balance as at 1 January	Date of grant	Number issued	Price (R) (Note 3)	Expiry date (Note 4)	Closing balance at 31 December
N P Mageza	1	**4 340**		**—**	**—**	**—**	**4 340**
J H Schindehütte	2	**—**	**28 Feb 08**	**23 224**	**116,27**	**28 Feb 11**	**23 224**
Year ended 31 December 2007							
N P Mageza	1	—	27 Feb 07	4 340	140,52	27 Feb 10	4 340

Notes

(1) *Appointed to the Absa Group board on 10 September 2007.*
(2) *Appointed to the Absa Group board on 1 January 2005.*
(3) *For the awards made in 2007 and 2008, the price is the actual volume-weighted average share price at which the shares under VESAS were purchased on a collective basis for all VESAS scheme participants.*
(4) *Although the vesting date is the third anniversary of the award date, there is an opportunity for a participant to remain in the scheme for a further two-year period.*

Group executive directors – Barclays Special Incentive Plan awards (Note 1)

Year ended 31 December 2008

Name	Note	Opening balance at 1 January 2008 (Note 2)	Barclays PLC shares granted during 2008	Number of shares vested October 2008 (Note 3)	Performance period in respect of outstanding awards granted in 2006	Share price	Value
S F Booysen	4	**100 224**	**—**	**764 884**	**1 Apr 05 – 30 Jun 08**	**£2,09**	**R23 979 113**
N P Mageza	5	**22 962**	**—**	**181 049**	**1 Apr 05 – 30 Jun 08**	**£2,09**	**R5 675 886**
J H Schindehütte	6 & 7	**29 209**	**—**	**—**	**1 Apr 05 – 30 Jun 08**	**n/a**	**n/a**
L L von Zeuner	8	**49 090**	**—**	**387 072**	**1 Apr 05 – 30 Jun 08**	**£2,09**	**R12 134 707**

Year ended 31 December 2007

Name	Note	Opening balance at 1 January 2007 (Note 2)	Barclays PLC shares granted during 2007	Performance period in respect of outstanding awards granted in 2006	Vesting date of outstanding awards granted in 2006	Closing balance as at 31 December 2007
S F Booysen	4	100 224	—	1 Apr 05 – 30 Jun 08	10 Oct 08	100 224
D Bruynseels	9	27 839	—	1 Apr 05 – 30 Jun 08	10 Oct 08	27 839
N P Mageza	5	22 962	—	1 Apr 05 – 30 Jun 08	10 Oct 08	22 962
J H Schindehütte	6	29 209	—	1 Apr 05 – 30 Jun 08	10 Oct 08	29 209
L L von Zeuner	8	49 090	—	1 Apr 05 – 30 Jun 08	10 Oct 08	49 090

Notes

(1) *This was an award of Barclays shares. Absa does not bear the cost of these awards. The specific performance conditions were linked to the underlying Absa Group performance for the period from 1 April 2005 to 30 June 2008. There was a multiple dependent on Absa's performance, the range of the multiple being from zero to 6,6 times the initial allocation, with the maximum award being made in the event of performance being equal to 130% of the predetermined business case. This maximum performance was attained. The attainment of these measures are determined in respect of the published results for June 2008. The opening balance of the shares granted, as reflected above, represent "one times" the initial allocation.*
(2) *The opening balance shown in this column relates to awards granted during 2006.*
(3) *A multiple of 6,6 times was achieved. This was the final number of shares plus "dividend" shares that vested per participant.*
(4) *Appointed to the Absa Group board on 1 August 2004.*
(5) *Appointed to the Absa Group board on 10 September 2007.*
(6) *Appointed to the Absa Group board on 1 January 2005.*
(7) *Deferred his award for three years into Barclays ESAS. There is no additional performance measure attached to this deferral. The final outcome will be dependant upon Barclays share price performance as at October 2011.*
(8) *Appointed to the Absa Group board on 1 September 2004.*
(9) *Appointed to the Absa Group board on 27 July 2005. D Bruynseels subsequently resigned from the Absa Group board on 21 August 2007. He was entitled to vest his Barclays shares under this award on a 6,6 multiple in October 2008.*

Group remuneration report

Non-executive directors' fee structure as approved by shareholders (Note 1)

Category	Note	Remuneration for the 12-month period from 1 May 2008 to 30 April 2009 R	Remuneration for the 12-month period from 1 May 2007 to 30 April 2008 R
Chairperson	2	**3 500 000**	2 500 000
Board member	3, 4 & 13	**143 100**	135 500
Group Audit and Compliance Committee (GACC) member	5 & 13	**133 200**	114 800
Group Risk and Capital Management Committee (GRCMC) member	6 & 13	**133 200**	74 800
Group Remuneration and Human Resource Committee (GRHRC) member	7 & 13	**70 800**	60 000
Directors' Affairs Committee (DAC) member	8 & 13	**48 700**	45 100
Concentration Risk Committee (previously Credit Committee: Large Exposures) member	9 & 13	**48 700**	45 100
Group Credit Committee member		**R1 000 per facility reviewed**	R1 000 per facility reviewed
Brand and Reputation Committee (per meeting)	10 & 13	**12 600**	
Technical Disclosure Committee	11 & 13	**R3 000 per hour**	
Acquisitions Committee: Barclays Africa (per meeting)	12 & 13	**12 600**	
Special board meeting (per meeting)		**19 600**	18 200
Special board committee meetings (including Board Finance Committee) (per meeting)		**12 600**	11 700
Ad hoc board fees:			
• per ad hoc board committee meeting attended		**12 600**	11 700
• consultancy work		**R3 000 per hour**	R3 000 per hour

Notes

(1) The proposed remuneration payable to the Chairperson and non-executive directors from 1 May 2009 is shown in the explanatory notes to the notice of annual general meeting, which can be found in a separate document enclosed with this shareholder report.
(2) In the case of the Chairperson, her remuneration of R2,5 million commenced on 1 July 2007 until it was increased effective 1 May 2008.
(3) The Deputy Chairperson receives fees equal to 1,5 times the fee payable to a board member.
(4) Executive directors of Absa Group Limited receive fees, as members of the Absa Group Limited board, equal to the fees payable to a board member.
(5) The GACC Chairperson receives fees equal to twice the fee payable to a GACC member.
(6) The GRCMC Chairperson receives fees equal to twice the fee payable to a GRCMC member.
(7) The GRHRC Chairperson receives fees equal to twice the fee payable to a GRHRC member.
(8) As the Group Chairperson is Chairperson of the DAC, this fee is covered by the Group Chairperson's fee.
(9) As the Group Chairperson is also the Chairperson of the Concentration Risk Committee, this fee is covered by the Group Chairperson's fee.
(10) The Brand and Reputation Committee Chairperson receives fees equal to twice the fee payable to a Brand and Reputation Committee member.
(11) The Technical Disclosure Committee Chairperson receives fees equal to twice the fee payable to a Technical Disclosure Committee member.
(12) As the Group Chairperson is also the Chairperson of the Acquisitions Committee: Barclays Africa, this fee is covered by the Group Chairperson's fee.
(13) The fees payable to non-executive directors of Absa Group Limited in respect of subsidiary companies are not included as these fees are approved by the shareholders of the respective subsidiaries.

Non-executive directors' emoluments

Name	Note	2008 (Note 13) Absa Group Limited R	Absa Bank and its subsidiaries R	Ad hoc fees R	Com-mittees R	Total R	2007 (Note 13) Total R
Directors at 31 December 2008							
G Marcus (Chairperson)		3 166 667	—	32 270	—	3 198 937	1 254 689
D C Brink (Deputy Chairperson)		210 850	197 600	207 300	355 033	970 783	995 168
D C Arnold		140 567	131 733	134 500	475 967	882 767	627 900
B P Connellan		140 567	131 733	96 800	114 700	483 800	579 100
Y Z Cuba		140 567	131 733	43 900	170 808	487 008	424 900
S A Fakie	1	140 567	131 733	11 700	161 242	445 242	—
G Griffin		140 567	131 733	43 000	687 033	1 002 333	674 486
M W Hlahla		140 567	131 733	11 700	113 733	397 733	327 800
M J Husain	2	11 925	11 925	—	—	23 850	—
R A Jenkins	12	140 567	131 733	23 400	—	295 700	225 825
R Le Blanc	12	140 567	131 733	31 300	240 800	544 400	264 925
T M Mokgosi-Mwantembe	2	11 925	11 925	—	—	23 850	—
E C Mondlane, Jr	14	140 567	131 733	1 125 050	107 500	1 504 850	72 825
T S Munday		140 567	131 733	273 200	174 567	720 067	357 450
F F Seegers	12	140 567	131 733	19 600	114 700	406 600	469 900
F A Sonn		140 567	131 733	31 500	114 700	418 500	458 300
B J Willemse	1	140 567	131 733	56 500	151 242	480 042	—
Past directors							
L N Angel	3	45 167	36 333	46 800	35 300	163 600	349 268
L N Jonker	4	45 167	36 333	—	15 033	96 533	374 600
P E I Swartz	5	33 875	27 250	23 800	31 700	116 625	391 800
D C Cronjé (former Chairperson)	6	—	—	—	—	—	1 926 400
D E Baloyi	7	—	—	—	—	—	79 800
A S du Plessis	8	—	—	—	—	—	850 133
N Kheraj	9	—	—	—	—	—	136 533
P du P Kruger	10	—	—	—	—	—	154 200
T M G Sexwale	11	—	—	—	—	—	351 200
Total		5 352 947	2 033 895	2 212 320	3 064 058	12 663 220	11 347 202

Notes

(1) Appointed to the Absa Group board on 1 January 2008.
(2) Appointed to the Absa Group board on 28 November 2008.
(3) Retired from Absa Group board and committees on 22 April 2008, except the Absa Foundation Committee of which she is still a member.
(4) Retired from Absa Group board and committees on 22 April 2008.
(5) Retired from Absa Group board and committees on 11 March 2008.
(6) Retired as Chairman of the Absa Group board on 30 June 2007 and as a director on 31 July 2007.
(7) Appointed to the Absa Group board on 31 December 2004. Her services were terminated effective 20 March 2007.
(8) Resigned from the Absa Group board and committees on 31 December 2007.
(9) Resigned from the Absa Group board on 30 April 2007.
(10) Retired from the Absa Group board on 23 April 2007.
(11) Resigned from Absa Group board and committees on 9 January 2008.
(12) These fees are paid to Barclays and not to the individuals.
(13) All emoluments to Group non-executive directors are paid by Absa Bank Limited, except as disclosed in note 47.2 to the financial statements.
(14) The level of Mr Mondlane, Jr's ad hoc fees is significantly higher owing to a consulting project done for the Group in respect of the African business.

The Group board

Introduction

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

The year under review

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

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

Board membership

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

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

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

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

Note

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

Board committee membership as at 31 December 2008

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

Notes

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

Absa Group board biographical details as at 31 December 2008

D C (Des) Arnold

Age: 68

Qualifications:

- CA(SA)
- FCMA
- AMP

Independence:
Independent director

Year appointed

2003

Absa board committee memberships

- Group Audit and Compliance Committee (Chairperson)
- Group Risk and Capital Management Committee
- Directors' Affairs Committee
- Board Finance Committee

Other directorships/trusteeships

Mr Arnold is a director of the Wits Health Consortium (Proprietary) Limited and Chairperson of its audit committee. He is Chairperson of the Barlows Pension Fund and a trustee of the Absa Group Retirement Fund.

Skills, expertise and experience

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

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

S F (Steve) Booysen

Age: 46

Qualifications:

- DCom (Acc)
- CA(SA)

Title:
Group Chief Executive

Independence:
Group executive director

Year appointed

2004

Absa board committee memberships

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

Other directorships/trusteeships

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

Skills, expertise and experience

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

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

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

The Group board

D C (Dave) Brink

Age: 69
Qualifications:
• MSc Eng (Mining)
• Diploma in Business Administration
• Graduate Diploma in Company Direction
Title:
Deputy Chairperson
Independence:
Independent director

Year appointed

1992

Absa board committee memberships

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

Other directorships/trusteeships

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

Skills, expertise and experience

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

B P (Brian) Connellan

Age: 68
Qualifications:
• CA(SA)
Independence:
Independent director

Year appointed

1994

Absa board committee memberships

- Group Remuneration and Human Resource Committee
- Group Credit Committee
- Concentration Risk Committee (previously Credit Committee: Large Exposures)
- Acquisitions Committee: Barclays Africa

Other directorships/trusteeships

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

Skills, expertise and experience

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

Y Z (Yolanda) Cuba

Age: 31
Qualifications:
• BCom (Stats)
• BCom (Hons) (Acc)
• CA(SA)
Independence:
Non-executive director

Year appointed

2006

Absa board committee memberships

- Group Audit and Compliance Committee (permanent attendee)
- Concentration Risk Committee (previously Credit Committee: Large Exposures)
- Board Finance Committee

Other directorships/trusteeships

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

Skills, expertise and experience

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

S A (Shauket) Fakie

Age: 55
Qualifications:
• BCom
• CA(SA)
Independence:
Independent director

Year appointed

2008

Absa board committee memberships

- Group Audit and Compliance Committee
- Acquisitions Committee: Barclays Africa
- Concentration Risk Committee (previously Credit Committee: Large Exposures)

Other directorships/trusteeships

Mr Fakie is a member of the following professional bodies: the Independent Regulatory Board of Auditors; the South African Institute of Chartered Accountants; the Australian Institute of Chartered Accountants and the Institute of Public Finance and Audit. He serves as a director on several MTN subsidiary companies in Africa.

Skills, expertise and experience

Mr Fakie was the Auditor-General of South Africa for a period of seven years and served as Chairperson of the UN Panel of External Auditors. He was also the Secretary General for the Auditors-General Association on the African continent.

He currently serves on the boards of various companies and the executive committees of several community and non-profit organisations. He was the Treasurer and Chairperson of the Education Committee at the Association for the Advancement of Black Accountants in southern Africa. He was also a member of the RDP subcommittee at the Western Cape Society of Chartered Accountants and the Education Committee of the Institute of Chartered Accountants in Australia.

The Group board

G (Garth) Griffin

Age: 59
Qualifications:
• BSc
• FIA
• FASSA
Independence:
Independent director

Year appointed

2001

Absa board committee memberships

- Group Risk and Capital Management Committee (Chairperson)
- Group Audit and Compliance Committee
- Directors' Affairs Committee
- Also serves on the boards of Absa Financial Services and its insurance subsidiaries and is the Chairperson of the Absa Life Actuarial Committee

Other directorships/trusteeships

He is a director of Swiss Re Life and Swiss Re Africa, is the Chairperson of two privately held companies based in Cape Town and is a trustee of the University of Cape Town Foundation.

Skills, expertise and experience

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

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

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

M W (Monhla) Hlahla

Age: 45
Qualifications:
• BA (Hons) (Economics)
• MA (Urban and Regional Planning)
Independence:
Independent director

Year appointed

2005

Absa board committee memberships

- Group Risk and Capital Management Committee

Other directorships/trusteeships

Ms Hlahla is a non-executive director of Air Traffic and Navigation Services and the Industrial Development Corporation.

Skills, expertise and experience

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

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

M J (Mohamed) Husain

Age: 48
Qualifications:
• BProc
Independence:
Independent director

Year appointed

2008

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

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

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

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

R A (Roger) Jenkins

Age: 53
Qualifications:
• BA (Economics)
• Member of the Institute of Bankers (ACIB, DipFS)
Independence:
Non-executive director

Year appointed

2007

Absa board committee memberships
- Board Finance Committee

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

Skills, expertise and experience
Mr Jenkins started his career with BP in Paris. He joined Barclays International in 1978 and went to New York in 1980 as Senior Vice-President and head of Private Placements until 1984. He then moved to Barclays Treasurers Group (1985 – 1986) where he was involved in the establishment of Barclays Futures and was the manager of the Overseas Investment Group. In 1987, he joined Kleinwort Benson, New York as head of Global Private Placements and Bank Syndications. He moved to London in 1990 to become the co-head of the Global Financial Markets division and in 1994 he joined Barclays to head up Structured Capital Markets.
Mr Jenkins resigned from the Absa Group board on 11 February 2009.

The Group board

R (Robert) Le Blanc

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

Year appointed

2007

Absa board committee memberships

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

Other directorships/trusteeships

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

Skills, expertise and experience

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

N P (Peter) Mageza

Age: 54
Qualifications:
• ACCA
Independence:
Group executive director

Year appointed

2007

Absa board committee memberships

- None, but attends various board committee meetings ex officio

Skills, expertise and experience

Mr Mageza is a fellow of the Association of Chartered Certified Accountants (ACCA).

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

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

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

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

G (Gill) Marcus

Age: 59
Qualifications:
• BCom
Title:
Chairperson
Independence:
Independent director

Year appointed

2007

Absa board committee memberships

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

Other directorships/trusteeships

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

Skills, expertise and experience

Ms Marcus is the former Deputy Minister of Finance, the former Deputy Governor of the South African Reserve Bank and was also Professor of Policy, Leadership and Gender Studies at the Gordon Institute of Business Science (GIBS). She has chaired numerous regulatory and policy committees, including the Financial Services Board and the Standing Committee for the Revision of the Banks Act.
Ms Marcus is a patron of the Pretoria Sun Gardens Hospice and the Working on Fire Programme, as well as a supporter of the Johannesburg Children's Home.

T M (Thoko) Mokgosi-Mwantembe

Age: 47
Qualifications:
• BSc
• MSc (Medical Chemistry)
• Dip (Education)
Independence:
Independent director

Year appointed

2008

Absa board committee memberships

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

Other directorships

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

Skills, expertise and experience

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

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

The Group board

E C (Eduardo) Mondlane, Jr

Age: 51
Qualifications:
- Political Science Extension Student UCLA

Independence:
Non-executive director

Year appointed

2007

Absa board committee memberships
- Acquisitions Committee: Barclays Africa
- Group Risk and Capital Management Committee

Other directorships/trusteeships
Mr Mondlane is the Managing Director of Ninham Shand Mozambique Lda.

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

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

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

T S (Trevor) Munday

Age: 59
Qualifications:
- BCom

Independence:
Independent director

Year appointed

2007

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

Other directorships/trusteeships
Mr Munday is a director of Reunert Limited and a member of the boards of Sasol Petroleum International (Proprietary) Limited, Sasol Synfuels International (Proprietary) Limited, Sasol Nitro and Sasol Polymers. The latter two companies are divisions of Sasol Chemical Industries Limited.

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

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

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

J H (Jacques) Schindehütte

Age: 49
Qualifications:
- BCom (Hons)
- CA(SA)
- HDip Tax

Independence:
Group executive director

Year appointed

2005

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

Other directorships/trusteeships

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

Skills, expertise and experience

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

F F (Frits) Seegers

Age: 50
Qualifications:
- Masters degrees in engineering and finance

Independence:
Non-executive director

Year appointed

2006

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

Other directorships/trusteeships

Mr Seegers is an executive director on the boards of Barclays PLC and Barclays Bank PLC.

Skills, expertise and experience

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

The Group board

F A (Franklin) Sonn

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

Year appointed

1999

Absa board committee memberships

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

Other directorships/trusteeships

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

Skills, expertise and experience

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

L L (Louis) von Zeuner

Age: 47
Qualifications:
• BEcon
Independence:
Group executive director

Year appointed

2004

Absa board committee memberships

- None, but attends various board committee meetings ex officio

Other directorships/trusteeships

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

Skills, expertise and experience

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

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

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

B J (Johan) Willemse

Age: 54

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

Independence:
Independent director

Year appointed

2008

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

Other directorships/trusteeships

Professor Willemse is the Vice-Chairperson: Agricultural Economics Association of Southern Africa. He is also the Chairperson of the Department of Agricultural Economics at the University of the Free State and an elected trustee of the University of the Free State provident fund.

Skills, expertise and experience

As Chief Economist of the South African Agricultural Union (SAAU), as well as the Maize Board, consulting to Agri business, and as member of the National Agricultural Marketing Council (NAMC), Professor Willemse gained experience on a wide variety of economic and agricultural issues, including price and marketing policies, broad agricultural policy issues, pricing policies and strategies and international trade and futures markets. Professor Willemse currently consults to major agricultural businesses in South Africa on agricultural business strategy and markets.

The Group Executive Committee

Introduction

Group Exco, established and chaired by the Group Chief Executive, comprises the Group's executive directors and other members of the executive management. It meets, as a general rule, once a week and deals with all material matters relating to the implementation of the agreed strategy, monitoring of performance and the consideration of Group policies.

The year under review

In January 2008, D W P Hodnett was appointed to the Group Exco, in the capacity of Group Risk Director.

Absa Group Executive Committee details as at 31 December 2008

S F (Steve) Booysen

Age: 46
Qualifications:
- DCom(Acc)
- CA(SA)

Tenure at Absa:
20 years (appointed 1988)

Year appointed as an executive committee member

2001

Areas of responsibility

Steve is the Absa Group Chief Executive. He resigned from the Group on 28 February 2009.

Skills, expertise and experience

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

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

R R (Robert) Emslie

Age: 50
Qualifications:
- BCom (Hons)
- CA(SA)

Tenure at Absa:
21 years (appointed 1987)

Year appointed as an executive committee member

2004

Areas of responsibility

Robert is responsible for Absa Corporate and Business Bank, Corporate Real Estate Services and Absa Development Company (Proprietary) Limited.

Robert resigned from the Group on 31 January 2009.

Skills, expertise and experience

Robert commenced his career as a lecturer at the Rand Afrikaans University (now the University of Johannesburg) focusing on accountancy and taxation. He joined the Group in 1987 as the head of Taxation for the Bankorp Group. He has held numerous positions in the Group's finance department.

From 1998 until 2000, Robert was a member of the executive committee of Absa Corporate and Merchant Bank (now Absa Capital) and was responsible for volume transactional products and the back office environment.

In 2000, he was appointed as the Managing Executive responsible for Business Banking Services and in 2003 he became the Managing Executive of Absa Corporate and Merchant Bank. In 2005, he took responsibility for the Group's corporate and business banking operations.

D W P (David) Hodnett

Age: 39

Qualifications:

• BCom
• CA(SA)
• MBA

Tenure at Absa:
Appointed in January 2008

Year appointed as an executive committee member

2008

Areas of responsibility

David is responsible for Group Risk.

Skills, expertise and experience

David received his Bachelor of Accounting degree and joined KPMG to complete his articles of clerkship. In 1999, he was promoted to the position of partner in the Financial Services consulting group. In November 2000, he joined the Standard Bank group. He joined Absa Group in January 2008 as Group Risk Director. David currently oversees the Compliance, Operational Risk, Market Risk, Forensic Services and Credit Risk divisions.

V J (Venete) Klein

Age: 50

Qualifications:

• Graduate of various senior executive programmes (including Harvard, MIT, Insead, IMD and Wits University)

Tenure at Absa:
Five years (appointed June 2003)

Year appointed as an executive committee member

2005

Areas of responsibility

Venete is responsible for Retail Sales and Service, Absa Private Bank, AllPay Consolidated Investment Holdings Limited and Meeg Bank Limited.

Skills, expertise and experience

Prior to joining the Absa Group, Venete worked for various financial services institutions.

She joined Absa in June 2003 as head of Agriculture. Her portfolio grew to include franchising, consumables, black business, banking to women-owned business and medium business. In January 2005, she was appointed as Deputy Managing Executive: Business Banking Services, where her portfolio was expanded to include the public sector. Venete was appointed as a member of the Group Executive Committee in July 2005.

Participation in external entities

Venete is the President of the Afrikaanse Handelsinstituut (AHI), economic adviser to the Premier of the North West, a trustee of the Absa Foundation and the Community Impact Trust, a member of the International Policy Commission and a director of Absa Trust Limited, Absa Brokers (Proprietary) Limited and Meeg Bank Limited.

She serves on a number of bodies appointed by the Minister of Finance:

- The standing committee for the Revision of Bank's Act 1990.
- The policy board for Financial Services and Regulation.
- The task team – South Africa, Regional Financial Centre of Africa.

The Group Executive Committee

W T (Willie) Lategan

Age: 40
Qualifications:
• BCom (Hons)
• FFA
Tenure at Absa:
13 years (appointed 1995)

Year appointed as an executive committee member

2007

Areas of responsibility

Willie is responsible for Absa's bancassurance operations (Absa Investments, Absa Insurance Company, Absa Life, Absa Fiduciary Services and Distribution).

Skills, expertise and experience

Willie was appointed as an actuary at Absa Consultants and Actuaries in May 1995. He was then appointed as General Manager of Operations at Absa Life in 1997 and as Managing Director of Absa Life in 2001. In December 2005, he was appointed Managing Executive of Absa Financial Services: Corporate and in 2007 as Chief Executive: Absa Financial Services, responsible for the Group's bancassurance operations.

Participation in external entities

Willie is a board member of the ASISA Life and Risk Board Committee (Association for Savings & Investment SA). He is a member of the Actuarial Training Programme steering committee at the Unit for Business Mathematics and Informatics (University of North West) and a member of the HR board of the Actuarial Society of South Africa (ASSA). He also serves as a trustee of Bankmed.

N P (Peter) Mageza

Age: 54
Qualifications:
• ACCA
Tenure at Absa:
Eight years (appointed 2000)

Year appointed as an executive committee member

2003

Areas of responsibility

He has Group operational responsibility for technology, operations, procurement, payments, real estate management, and human resources.

Skills, expertise and experience

Peter started his career within the audit environment in 1988 with Coopers & Lybrand Chartered Accountants (SA) as audit senior and progressing to audit manager. He also worked as audit manager within Transnet Limited's Group Internal Audit Services.

In 1993, he moved into general management at Autonet, the road passenger and freight logistics division of Transnet Limited. He held positions of Executive Manager – Tours Express, General Manager – Passenger Businesses and became Chief Executive Officer – Autonet in 1995. In 1998, he moved to the financial services sector and joined Nedcor Bank Limited's Technology and Operations Process Management division.

Peter joined Absa Bank in 2000. He took over a number of executive functions within Bankfin (now rebranded Absa Vehicle and Asset Finance) and became Managing Executive of that division in 2001. In 2003, he was appointed Executive Director responsible for Wealth Management, which included Absa Private Bank, MLS Bank, Personal Financial Services and Absa Vehicle and Asset Finance.

From 2004, he was responsible for the Absa African portfolio, which included NBC (Tanzania), Banco Austral (Mozambique) (now Barclays Bank Mozambique S.A.), Capricorn Investment Holdings (Namibia), CBZ Holdings (Zimbabwe), BCA (Angola), as well as Absa Vehicle and Asset Finance. He relinquished operational responsibility for these portfolios from July 2006 owing to his appointment as Absa Group Chief Operating Officer.

Participation in external entities

He is a fellow of the Association of Chartered Certified Accountants (ACCA) and is a member of the Johannesburg Rotary Club.

V (Alfie) Naidoo

Age: 40
Qualifications:
• BSc
Tenure at Absa:
Seven years (appointed 2001)

Year appointed as an executive committee member

2005

Areas of responsibility

Alfie is responsible for Small Business, Micro-Enterprise Finance, Personal Loans, Cards, Telephony, Digital Channels and Islamic Banking.

Skills, expertise and experience

Alfie joined Absa in September 2001 where he assumed responsibility for developing, managing and growing the Group's electronic channel offerings which included the internet, mobile, contact centre and ATM environments.

In February 2005, Alfie was appointed to the Absa Group Executive Committee and has since led a number of business units in the Group, including Cards, the Low-Income Customer Segment, the Medium-Income Customer Segment, Small Business, Group Payment Systems, Products and Pricing, Ventures and Alliances, Islamic Banking, Electronic Banking, Micro-Enterprise Finance, and Micro Lending.

He serves on the Group Investment Committee, Group Transformation Committee, and Group Recruitment and Promotions Committee.

Participation in external entities

Alfie represents Absa's interests in various joint ventures.

H (Happy) Ntshingila

Age: 48
Qualifications:
• BA (Communications)
Tenure at Absa:
Two years (appointed 2006)

Year appointed as an executive committee member

2008

Areas of responsibility

Happy is responsible for Group Marketing, Group Communication and Public Relations, Group Black Economic Empowerment, Government Relations and Corporate Social Investment.

Skills, expertise and experience

Happy obtained a Bachelor of Arts (Communications) degree in 1984 at the University of Fort Hare. His career began at Unilever, after which he held marketing and communications positions at IBM and Tiger Oats before joining Ogilvy and Mather as an account manager. In 1991, he co-founded HerdBuoys Advertising, the first black-owned advertising agency in the country. He left as Managing Director in 2005 after he sold the company to his partners, McCann-Erickson WorldGroup.

Happy joined Absa as Group Executive: Group Marketing in 2006, and was appointed to the Absa Group Exco in February 2008 with an expanded portfolio. Happy sits on various Absa boards, is a trustee of the Absa Foundation and holds directorships of a number of companies in his personal capacity. Happy is conversant in Xhosa, Zulu, North and South Sotho, Swazi, English and Afrikaans. In 2006, he was voted Marketing Person of the Year by the Marketing Association of South Africa.

The Group Executive Committee

J H (Jacques) Schindehütte

Age: 49
Qualifications:
• BCom (Hons)
• CA(SA)
• HDip Tax
Tenure at Absa:
Nine years (appointed 1999)

Year appointed as an executive committee member

2005

Areas of responsibility

Jacques is responsible for Business Performance and Analytics, Group Treasury, General Legal Counsel, Corporate Development, Group Investor Relations, Group Secretariat, Sarbanes Oxley, Group Finance and Group Strategy and Planning.

Skills, expertise and experience

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

J F (John) Vitalo

Age: 44
Qualifications:
• BSc
Tenure at Absa:
Six years (appointed 2002)

Year appointed as an executive committee member

2005

Areas of responsibility

John is responsible for Absa Capital.

Skills, expertise and experience

John joined Barclays Capital in 2002 as Chief Operating Officer of Global Emerging Markets before moving into the position of Chief Operating Officer of Rates (which included Fixed Income, FX, Equities, Commodities, Collateralised Finance, Emerging Markets and Money Markets). Prior to this he was with Credit Suisse First Boston as director of e-Commerce for emerging markets. He previously held a number of other positions at Credit Suisse First Boston, including proprietary trader for the emerging markets group and global head of the emerging markets repo desk.

John is a graduate of Georgetown University, where he received a Bachelor of Science degree in Business Administration in 1990. He is also a veteran of the US Marine Corps (1982 – 1986), having served in Beirut where he was awarded the Combat Action Ribbon.

John joined the Absa Group Executive Committee as the executive director responsible for Absa Corporate and Merchant Bank (now Absa Capital) upon the completion of Barclays acquisition of a majority stake in the bank on 27 July 2005.

L L (Louis) von Zeuner

Age: 47

Qualifications:

• BEcon

Tenure at Absa:

27 years (appointed 1981)

Year appointed as an executive committee member

2001

Areas of responsibility

Louis is responsible for Absa's retail banking operations. Subsequent to year-end, he also took responsibility for the Group's corporate and commercial banking operations.

Skills, expertise and experience

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

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

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

Participation in external entities

Louis serves on the boards of the Banking Association South Africa, Section 21 Housing Company, MasterCard and the SA Payments Strategy Association.

Contents

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Statement of directors' responsibilities in relation to financial statements

The following statement, which should be read in conjunction with the auditors' statement on their responsibilities set out in their report on page 95, is made with a view to distinguish for shareholders the respective responsibilities of the directors and auditors in relation to the financial statements.

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

To enable the directors to meet these responsibilities:

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

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

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

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

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

It is the responsibility of the independent auditors to report on the consolidated and separate financial statements. Their report to the members of the Group and Company is set out on page 95 of this report.

Approval of financial statements

The directors' report and the financial statements of the Group and the Company, which appear on pages 96 to 297, were approved by the board of directors on 7 February 2009 and are signed by:

G Marcus
Chairperson

S F Booysen
Group Chief Executive

Johannesburg
7 February 2009

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

In accordance with the provisions of the Companies Act, No 61 of 1973 (as amended), of South Africa, I certify that, in respect of the year ended 31 December 2008, the Company has lodged with the Registrar of Companies, all returns prescribed by the Act and that all such returns are true, correct and up to date.

S Martin
Company Secretary

Johannesburg
7 February 2009

Independent auditors' report to the members of Absa Group Limited

Report on the financial statements

We have audited the Group and Company financial statements of Absa Group Limited (Company), which comprise the directors' report, the balance sheet and the consolidated balance sheet as at 31 December 2008, the income statement and the consolidated income statement, the statement of changes in equity and the consolidated statement of changes in equity, the cash flow statement and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 96 to 284 and pages 287 to 297, excluding the sections marked as "unaudited" in notes 61.4 and 63.2.

Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, No 61 of 1973 (as amended), of South Africa. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

PricewaterhouseCoopers Inc.
Director: T Winterboer
Registered Auditor

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

Johannesburg
7 February 2009

Directors' report

General information and nature of activities

The Group, which has a primary listing on the JSE Limited, is incorporated and domiciled in South Africa and provides retail, commercial, corporate and investment banking, bancassurance and wealth management products and services. The Group operates primarily in South Africa and employs over 37 000 people. The address of the Group's registered office is 170 Main Street, Johannesburg, 2001.

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

The Group is one of South Africa's largest financial services organisations, serving personal, commercial and corporate customers in South Africa.

The Group also provides products and services to selected markets in the United Kingdom, Angola, Mozambique and Tanzania.

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

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

Group results

Main business and operations

Headline earnings for the year amounted to R9 908 million (2007: R9 413 million) and headline earnings per share of 1 466,2 cents (2007: 1 401,9 cents). Earnings (profit attributable to ordinary equity holders) for the year amounted to R10 592 million (2007: R9 595 million) and earnings per share of 1 567,5 cents (2007: 1 428,9 cents).
Headline earnings were derived from the following activities:

	Year ended 31 December 2008 Rm	2007 Rm
Banking operations		
Retail banking	**3 706**	4 943
• Absa Wealth	**27**	46
• Retail Bank	**2 635**	2 350
• Absa Home Loans	**191**	1 296
• Absa Card	**554**	706
• Absa Vehicle and Asset Finance	**299**	545
Absa Corporate and Business Bank	**2 806**	2 167
Absa Capital	**2 249**	1 733
Corporate centre	**687**	(17)
Capital and funding centre	**4**	59
Total banking	**9 452**	8 885
Bancassurance	**1 597**	1 502
Total earnings from business areas	**11 049**	10 387
Synergy costs (after tax)[1]	**—**	(479)
Minority interest – preference shares	**(457)**	(313)
Profit attributable to ordinary equity holders	**10 592**	9 595
Headline earnings adjustment	**(684)**	(182)
Total headline earnings	**9 908**	9 413

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

A general review of the business and operations of major subsidiaries is given in the section titled "Financial analysis" of this report. Comparative years have been reclassified as follows:

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

Subsidiaries, associates and joint ventures

The interests in subsidiaries, associates and joint ventures are set out in note 47 to the financial statements.

Directors

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

G Marcus (Chairperson)

D C Brink[5] (Deputy Chairperson)

S F Booysen[1] (Group Chief Executive)

L N Angel (resigned on 22 April 2008)

D C Arnold

B P Connellan[5]

Y Z Cuba

S A Fakie (appointed on 1 January 2008)

G Griffin

M W Hlahla

M J Husain (appointed on 28 November 2008)

L N Jonker (resigned on 22 April 2008)

R A Jenkins[2]

R Le Blanc[2]

N P Mageza[1]

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

E C Mondlane, Jr[4]

T S Munday

J H Schindehütte[1]

F F Seegers[3]

T M G Sexwale (resigned on 9 January 2008)

F A Sonn[5]

P E I Swartz (resigned on 11 March 2008)

L L von Zeuner[1]

B J Willemse (appointed on 1 January 2008)

Notes

[1]*Executive director.*

[2]*British.*

[3]*Dutch.*

[4]*Mozambican.*

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

Directors' report

Re-election of retiring directors (resolution number 3 – ordinary resolutions)

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

F A Sonn will step down from the board at the conclusion of the 2009 AGM and is not available for re-election.

In terms of the Company's articles of association, one-third of the directors are required to retire at each AGM and may offer themselves for re-election.

The directors who retire in terms of the above arrangement at the 2009 AGM are Y Z Cuba, G Griffin, M W Hlahla, R Le Blanc, N P Mageza and T S Munday. The Absa Group board recommends the re-election of these directors.

Directors' interest in Absa Group Limited ordinary shares

The directors' interests in the issued shares of the Company as at the balance sheet date are disclosed in the tables to follow. The share options held by directors are disclosed separately in the Group remuneration report.

	Direct number of shares			
	Beneficial		Non-beneficial	
	2008	2007	**2008**	2007
Present directors				
G Marcus (Chairperson)	**1 000**	1 000	**—**	—
S F Booysen[1] (Group Chief Executive)	**261 667**	131 667	**—**	—
D C Arnold	**2 000**	2 000	**—**	—
B P Connellan	**1 000**	1 000	**—**	—
Y Z Cuba	**1 000**	1 000	**—**	—
S A Fakie[2]	**1 000**	n/a	**—**	n/a
G Griffin	**8 000**	4 000	**—**	—
M W Hlahla	**1 000**	1 000	**—**	—
R A Jenkins[3]	**1 000**	1 000	**—**	—
R Le Blanc[3]	**1 000**	1 000	**—**	—
N P Mageza[1]	**4 340**	4 340	**—**	—
E C Mondlane, Jr	**1 000**	—	**—**	—
T S Munday	**1 000**	1 000	**—**	—
J H Schindehütte[1]	**273 709**	240 485	**—**	—
F F Seegers[4]	**1 000**	1 000	**—**	—
F A Sonn	**95**	95	**—**	—
L L von Zeuner[1]	**136 727**	116 727	**—**	—
Past directors				
L N Angel[5]	**n/a**	1 000	**n/a**	—
L N Jonker[5]	**n/a**	1 000	**n/a**	—
T M G Sexwale[6]	**n/a**	1 000	**n/a**	—
	696 538	510 314	**—**	—

Notes

[1] *Executive director.*

[2] *Appointed as a director on 1 January 2008.*

[3] *British.*

[4] *Dutch.*

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

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

	Indirect number of shares			
	Beneficial		Non-beneficial	
	2008	2007	**2008**	2007
Present directors				
G Marcus (Chairperson)	**—**	—	**100**	—
D C Brink (Deputy Chairperson)	**25 000**	25 000	**10 000**	10 000
J H Schindehütte[1]	**—**	—	**13 600**	13 600
F A Sonn	**—**	—	**1 200**	1 200
B J Willemse[2]	**1 000**	n/a	**—**	n/a
Past directors				
L N Jonker[3]	**n/a**	—	**n/a**	3 500
P E I Swartz[4]	**n/a**	—	**n/a**	2 520
	26 000	25 000	**24 900**	30 820

Notes

[1] *Executive director.*

[2] *Appointed as a director on 1 January 2008.*

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

[4] *Resigned as a director on 11 March 2008.*

	Total direct and indirect number of shares			
	Beneficial		Non-beneficial	
	2008	2007	**2008**	2007
Present directors				
G Marcus (Chairperson)	**1 000**	1 000	**100**	—
D C Brink (Deputy Chairperson)	**25 000**	25 000	**10 000**	10 000
S F Booysen[1] (Group Chief Executive)	**261 667**	131 667	**—**	—
D C Arnold	**2 000**	2 000	**—**	—
B P Connellan	**1 000**	1 000	**—**	—
Y Z Cuba	**1 000**	1 000	**—**	—
S A Fakie	**1 000**	n/a	**—**	n/a
G Griffin	**8 000**	4 000	**—**	—
M W Hlahla	**1 000**	1 000	**—**	—
R A Jenkins[2]	**1 000**	1 000	**—**	—
R Le Blanc[2]	**1 000**	1 000	**—**	—
N P Mageza[1]	**4 340**	4 340	**—**	—
E C Mondlane, Jr[3]	**1 000**	—	**—**	—
T S Munday	**1 000**	1 000	**—**	—
J H Schindehütte[1]	**273 709**	240 485	**13 600**	13 600
F F Seegers[4]	**1 000**	1 000	**—**	—
F A Sonn	**95**	95	**1 200**	1 200
L L von Zeuner[1]	**136 727**	116 727	**—**	—
B J Willemse[5]	**1 000**	n/a	**—**	n/a
Past directors				
L N Angel[6]	**n/a**	1 000	**n/a**	—
L N Jonker[6]	**n/a**	1 000	**n/a**	3 500
T M G Sexwale[7]	**n/a**	1 000	**n/a**	—
P E I Swartz[8]	**n/a**	—	**n/a**	2 520
	722 538	535 314	**24 900**	30 820

Notes

[1] *Executive director.*

[2] *British.*

[3] *Mozambican.*

[4] *Dutch.*

[5] *Appointed as a director on 1 January 2008.*

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

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

[8] *Resigned as a director on 11 March 2008.*

Directors' interest in Batho Bonke Capital (Proprietary) Limited preference shares

As at the balance sheet date, the following Absa directors held Absa redeemable cumulative option-holding preference shares indirectly through their direct or indirect holdings of ordinary shares in Batho Bonke Capital (Proprietary) Limited:

	Number of shares 2008	2007
Present directors		
Y Z Cuba	**91 600**	91 600
M W Hlahla	**50 000**	50 000
N P Mageza[1]	**500 000**	500 000
F A Sonn	**500 000**	500 000
Past directors		
L N Angel[2]	**n/a**	1 280 165
T M G Sexwale[3]	**n/a**	4 183 090
P E I Swartz[4]	**n/a**	500 000
	1 141 600	7 104 855

Notes

[1] *Executive director.*

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

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

[4] *Resigned as a director on 11 March 2008.*

Directors' interest in Absa Bank Limited preference shares

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

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

Notes

[1] *Executive director.*

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

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

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

Acquisitions

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

Equity accounted associates and/or joint ventures

- Absa Bank Limited acquired a further 4,0% interest in Ambit Properties Limited, a property loan stock company, increasing its shareholding to 34,6% at a cost of R90 million during the year.
- Absa Bank Limited made an additional contribution to maintain its 50,0% interest in Integrated Processing Solutions (Proprietary) Limited, a cheque processing company, at a cost of R11 million on 1 November 2008.
- Absa Bank Limited acquired a 27,5% interest in Pinnacle Point Group Limited, a property development company, at a cost of R931 million on 9 December 2008.
- Absa Bank Limited acquired an additional 17,2% interest in Sekunjalo Investments Limited, an investment holding company, at a cost of R39 million during December 2008. The Group's shareholding is now 27,2%.
- On consolidation of Diluculo Investments (Proprietary) Limited, the Group acquired a 37,4% interest in Zevoli 146 (Proprietary) Limited, a property development company.
- During the year, Absa Group Limited made an additional contribution of R29 million in Maravedi Group (Proprietary) Limited.

Associates designated at fair value through profit or loss

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

Subsidiaries

- Absa Bank Limited has a 92,5% interest in the IFU Property Fund. Absa Bank Limited is deemed to have control over the fund from 2008 and the investment has been consolidated.
- Absa Bank Limited acquired an additional 50,0% interest in Ngwenya River Estate (Proprietary) Limited, a residential property investment company, increasing its shareholding to 100,0% at a cost of R36 million. This acquisition is subject to South African Reserve Bank (SARB) approval.
- Absa Bank Limited acquired an additional 50,0% interest in The Ballito Junction Development (Proprietary) Limited, a retail property development company, increasing its shareholding to 100,0% at a cost of R6 million.
- Absa Group Limited acquired an additional 2,6% interest in Abvest Holdings (Proprietary) Limited, a holding company for asset management related entities, at a cost of R3 million.
- Absa Group Limited acquired a 100,0% shareholding in Diluculo Investments (Proprietary) Limited, a property development company, at a cost of R100 on 29 January 2008.
- Absa Group Limited acquired a further 23,7% and 26,6% interest in Meeg Bank Limited, a banking and financial services company, on 7 March 2008 and 14 November 2008, respectively. Absa Group Limited's shareholding has consequently increased to 100,0% at a cost of R53 million on 7 March 2008 and R36 million on 14 November 2008.
- Absa Group Limited acquired a 50,0% plus one share interest in Woolworths Financial Services (Proprietary) Limited, a financial services company, at a cost of R875 million.

Directors' report

Others

- On 6 February 2008, Absa Consultants and Actuaries (Proprietary) Limited acquired a pension fund administration portfolio for R27 million from Glenrand MIB Benefit Services (Proprietary) Limited as a separate business by way of acquiring the contractual relationships together with the workforce.

Disposals

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

- Absa Bank Limited sold its shares in Campus on Rigel (Proprietary) Limited to a third party on 21 January 2008.
- Absa Group Limited sold its share in Batho Bonke Investments (Proprietary) Limited on 18 September 2008.
- Absa Group Limited sold its share in Maravedi Group (Proprietary) Limited on 31 August 2008.
- Absa Manx Holdings Limited (incorporated in Isle of Man), a wholly owned subsidiary of Absa Group Limited, disposed of Absa Syndicate Investments Limited and Absa Syndicate Investments Holdings Limited to a third party on 1 December 2008.
- Unifer Holdings Limited sold its share in Blakes and Associates Holdings (Proprietary) Limited on 31 August 2008.

Refer to notes 12 and 54 for additional information on the above acquisitions and disposals.

Special resolutions

The following special resolutions were passed by Absa Group Limited:

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

Secretary

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

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

Directors' and officers' interest in contracts

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

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

Authorised and issued share capital

Authorised

The authorised share capital of the Company of R1 760 935 000 is divided into:

- 800 000 000 ordinary par value shares of R2,00 each.
- 80 467 500 redeemable cumulative option-holding par value preference shares of R2,00 each.

Issued

- On 13 March 2008, 118 900 ordinary shares were issued at the option price of R69,00 per share in favour of the Absa Group Limited Share Incentive Trust.
- On 11 June 2008, 91 000 ordinary shares were issued at the option price of R63,40 per share in favour of the Absa Group Limited Share Incentive Trust.
- On 30 June 2008, 1 345 727 ordinary shares were issued at the option price of R38,43 per share in favour of the Absa Group Limited Share Incentive Trust.
- On 12 September 2008, 86 300 ordinary shares were issued at the option price of R69,00 per share in favour of the Absa Group Limited Share Incentive Trust.
- On 15 December 2008, 63 300 ordinary shares were issued at the option price of R64,10 per share in favour of the Absa Group Limited Share Incentive Trust.

Following the issue of ordinary shares and redemption of preference shares, the total issued share capital as at the balance sheet date, was made up as follows:

- 680 278 301 ordinary shares of R2,00 per share; and
- 75 260 000 redeemable cumulative option-holding shares of R2,00 each.

Directors' emoluments

Directors' emoluments in respect of the Company's executive directors are disclosed in the directors' remuneration report and note 47 of the consolidated financial statements.

Dividends

- On 19 February 2008, a dividend of 320,0 cents per ordinary share was declared to ordinary shareholders registered on 14 March 2008.
- On 7 August 2008, a dividend of 265,0 cents per ordinary share was declared to ordinary shareholders registered on 29 August 2008.
- On 9 February 2009, a dividend of 330,0 cents per ordinary share was declared to ordinary shareholders registered on 6 March 2009. This dividend is payable on 9 March 2009.

Events subsequent to balance sheet date

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

Auditors

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

Code of Corporate Practices and Conduct

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

Consolidated balance sheet

As at 31 December

	Note	GROUP 2008 Rm	2007[1] Rm
Assets			
Cash, cash balances and balances with central banks	2	**24 847**	20 629
Statutory liquid asset portfolio	3	**33 043**	22 957
Loans and advances to banks	4	**44 662**	54 025
Trading portfolio assets	5	**78 879**	25 824
Hedging portfolio assets	5	**3 139**	725
Other assets	6	**16 397**	24 303
Current tax assets	7	**23**	185
Loans and advances to customers	8	**532 171**	455 958
Reinsurance assets	10	**903**	485
Investments	11	**26 980**	29 792
Investments in associates and joint ventures	12	**2 144**	1 004
Intangible assets	13	**957**	301
Investment property	14	**667**	—
Property and equipment	15	**6 208**	4 610
Deferred tax assets	16	**243**	111
Non-current assets held-for-sale	55	**2 495**	—
Total assets		**773 758**	640 909
Liabilities			
Deposits from banks	17	**54 633**	58 033
Trading portfolio liabilities	18	**72 737**	34 919
Hedging portfolio liabilities	18	**1 080**	2 226
Other liabilities and sundry provisions	19	**14 785**	12 301
Current tax liabilities	7	**385**	183
Deposits due to customers	20	**382 281**	310 512
Debt securities in issue	21	**165 900**	156 424
Liabilities under investment contracts	22	**10 377**	7 908
Policyholder liabilities under insurance contracts	23	**3 076**	3 318
Borrowed funds	24	**12 296**	9 949
Deferred tax liabilities	16	**2 834**	2 576
Non-current liabilities held-for-sale	55	**408**	—
Total liabilities		**720 792**	598 349
Equity			
Capital and reserves			
Attributable to ordinary equity holders of the Group:			
Share capital	25	**1 354**	1 350
Share premium	25	**2 251**	2 292
Other reserves	27	**3 010**	384
Retained earnings		**40 665**	33 549
		47 280	37 575
Minority interest – ordinary shares		**1 042**	341
Minority interest – preference shares	26	**4 644**	4 644
Total equity		**52 966**	42 560
Total equity and liabilities		**773 758**	640 909

Note

[1]*Reclassified (refer to note 1.26).*

Consolidated income statement

For the year ended 31 December

		GROUP	
	Note	2008 Rm	2007[1] Rm
Net interest income		**21 795**	18 890
Interest and similar income	28	**75 949**	55 123
Interest expense and similar charges	29	**(54 154)**	(36 233)
Impairment losses on loans and advances	9	**(5 839)**	(2 433)
Net interest income after impairment losses on loans and advances		**15 956**	16 457
Net fee and commission income		**13 343**	11 600
Fee and commission income	30	**14 804**	12 873
Fee and commission expense	30	**(1 461)**	(1 273)
Net insurance premium income	31	**3 511**	3 192
Net insurance claims and benefits paid	32	**(1 890)**	(1 603)
Changes in investment and insurance liabilities	33	**(70)**	(489)
Gains and losses from banking and trading activities	34	**3 642**	1 650
Gains and losses from investment activities	35	**1 064**	1 561
Other operating income	36	**1 515**	845
Operating income before operating expenses		**37 071**	33 213
Operating expenditure		**(21 935)**	(19 209)
Operating expenses	37	**(21 193)**	(18 442)
Other impairments	38	**(18)**	(58)
Indirect taxation	39	**(724)**	(709)
Share of retained earnings from associates and joint ventures	12.1	**73**	73
Operating profit before income tax		**15 209**	14 077
Taxation expense	40	**(3 966)**	(4 052)
Profit for the year		**11 243**	10 025
Attributable to:			
Ordinary equity holders of the Group		**10 592**	9 595
Minority interest – ordinary shares		**194**	117
Minority interest – preference shares		**457**	313
		11 243	10 025
• basic earnings per share (cents)	41	**1 567,5**	1 428,9
• diluted earnings per share (cents)	41	**1 509,5**	1 341,4

Note

[1]*Reclassified (refer to note 1.26).*

Consolidated statement of changes in equity

For the year ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Regulatory general credit risk reserve Rm
Balance at 1 January 2008	**675 108**	**1 350**	**2 292**	**481**
Movement in regulatory general credit risk reserve	—	—	—	(434)
Movement in available-for-sale reserve and/or cash flow hedging reserve	—	—	—	—
Amount removed from equity and recognised in the income statement	—	—	—	—
Deferred tax	—	—	—	—
Fair value gains and losses	—	—	—	—
Foreign currency translation effects	—	—	—	—
Movement in insurance contingency reserve	—	—	—	—
Acquisition of subsidiary	—	—	—	—
Share of associates' and joint ventures' retained earnings	—	—	—	—
Disposal of associates and joint ventures – release of reserves	—	—	—	—
Profit for the year	—	—	—	—
Shares issued	1 705	3	72	—
Elimination of gains/losses on derivative instruments on own shares	—	—	(97)	—
Share buy-back in respect of Absa Group Limited Share Incentive Trust	—	—	(63)	—
Elimination of treasury shares held by Absa Group Limited Share Incentive Trust	278	1	7	—
Options exercised by employees	—	(2)	56	—
Shares issued to the trust	—	3	(49)	—
Elimination of treasury shares held by Absa Life Limited and Fund Managers	(187)	—	(6)	—
Elimination of the Absa Group Employee Share Ownership Trust	68	—	5	—
Options exercised by employees	—	—	5	—
Shares issued to the trust	—	—	—	—
Movement in share-based payment reserve	—	—	41	—
Transfer from share-based payment reserve	—	—	41	—
Value of employee services	—	—	—	—
Dividends declared	—	—	—	—
Balance at 31 December 2008	**676 972**	**1 354**	**2 251**	**47**
Notes	**25**	**25**	**25**	**27**

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

GROUP

2008	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Insurance contingency reserve Rm	Share-based payment reserve Rm	Associates and joint ventures Rm	Retained earnings Rm	Minority interest – ordinary shares Rm	Minority interest – preference shares Rm	Total Rm
	53	(889)	94	203	170	272	33 549	341	4 644	42 560
	—	—	—	—	—	—	434	—	—	—
	(89)	2 660	—	—	—	—	—	—	—	2 571
	85	1 636	—	—	—	—	—	—	—	1 721
	66	(1 030)	—	—	—	—	—	—	—	(964)
	(240)	2 054	—	—	—	—	—	—	—	1 814
	—	—	248	—	—	—	—	(7)	—	241
	—	—	—	22	—	—	(22)	—	—	—
	—	—	—	—	—	—	—	548	—	548
	—	—	—	—	—	73	(73)	—	—	—
	—	—	—	—	—	(3)	3	—	—	—
	—	—	—	—	—	—	10 592	194	457	11 243
	—	—	—	—	—	—	—	—	—	75
	—	—	—	—	—	—	—	—	—	(97)
	—	—	—	—	—	—	153	—	—	90
	—	—	—	—	—	—	—	—	—	8
	—	—	—	—	—	—	—	—	—	54
	—	—	—	—	—	—	—	—	—	(46)
	—	—	—	—	—	—	—	—	—	(6)
	—	—	—	—	—	—	—	—	—	5
	—	—	—	—	—	—	—	—	—	5
	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	149	—	3	—	—	193
	—	—	—	—	(44)	—	3	—	—	—
	—	—	—	—	193	—	—	—	—	193
	—	—	—	—	—	—	(3 974)	(34)	(457)	(4 465)
	(36)	1 771	342	225	319	342	40 665	1 042	4 644	52 966
	27	27	27	27	27	27			26	

Consolidated statement of changes in equity

For the year ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Regulatory general credit risk reserve Rm
Balance at 1 January 2007	669 122	1 338	2 067	46
Movement in regulatory general credit risk reserve	—	—	—	435
Movement in available-for-sale reserve and/or cash flow hedging reserve	—	—	—	—
Amount removed from equity and recognised in the income statement	—	—	—	—
Deferred tax	—	—	—	—
Fair value gains and losses	—	—	—	—
Foreign currency translation effects	—	—	—	—
Movement in insurance contingency reserve	—	—	—	—
Share of associates' and joint ventures' retained earnings	—	—	—	—
Profit for the year	—	—	—	—
Shares issued	6 618	13	345	—
Less: Costs incurred	—	—	—	—
Subsidiary step-up acquisitions	—	—	—	—
Share buy-back in respect of Absa Group Limited Share Incentive Trust	—	—	(130)	—
Elimination of treasury shares held by Absa Group Limited Share Incentive Trust	(23)	(0)	(5)	—
Options exercised by employees	—	6	98	—
Shares issued to the trust	—	(6)	(103)	—
Elimination of treasury shares held by Absa Life Limited and Fund Managers	(540)	(1)	(73)	—
Elimination of the Absa Group Employee Share Ownership Trust	(69)	(0)	(5)	—
Options exercised by employees	—	7	237	—
Shares issued to the trust	—	(7)	(242)	—
Movement in share-based payment reserve	—	—	93	—
Transfer from share-based payment reserve	—	—	93	—
Value of employee services	—	—	—	—
Dividends declared	—	—	—	—
Balance at 31 December 2007 as previously reported	675 108	1 350	2 292	481
Reclassification (refer to note 1.26)	—	—	—	—
Reclassified balance at 31 December 2007	675 108	1 350	2 292	481
Notes	25	25	25	27

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

GROUP

2007

Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Insurance contingency reserve Rm	Share-based payment reserve Rm	Associates and joint ventures Rm	Retained earnings Rm	Minority interest – ordinary shares Rm	Minority interest – preference shares Rm	Total Rm
(7)	(349)	154	183	182	203	27 876	236	2 992	34 921
—	—	—	—	—	—	(435)	—	—	—
60	(540)	—	—	—	—	—	—	—	(480)
61	1 064	—	—	—	—	—	—	—	1 125
(32)	221	—	—	—	—	—	—	—	189
31	(1 825)	—	—	—	—	—	—	—	(1 794)
—	—	(60)	—	—	—	—	7	—	(53)
—	—	—	20	—	—	(20)	—	—	—
—	—	—	—	—	91	(91)	—	—	—
—	—	—	—	—	—	9 595	117	313	10 025
—	—	—	—	—	—	—	—	1 658	2 016
—	—	—	—	—	—	—	—	(6)	(6)
—	—	—	—	—	—	2	—	—	2
—	—	—	—	—	—	—	—	—	(130)
—	—	—	—	—	—	—	—	—	(5)
—	—	—	—	—	—	—	—	—	104
—	—	—	—	—	—	—	—	—	(109)
—	—	—	—	—	—	—	—	—	(74)
—	—	—	—	—	—	—	—	—	(5)
—	—	—	—	—	—	—	—	—	244
—	—	—	—	—	—	—	—	—	(249)
—	—	—	—	(12)	—	1	—	—	82
—	—	—	—	(94)	—	1	—	—	—
—	—	—	—	82	—	—	—	—	82
—	—	—	—	—	—	(3 401)	(19)	(313)	(3 733)
53	(889)	94	203	170	294	33 527	341	4 644	42 560
—	—	—	—	—	(22)	22	—	—	—
53	(889)	94	203	170	272	33 549	341	4 644	42 560
27	27	27	27	27	27			26	

Consolidated cash flow statement

For the year ended 31 December

	Note	GROUP 2008 Rm	2007 Rm
Cash flow from operating activities			
Interest, fee and commission income		**87 342**	67 971
Interest, fee and commission expense		**(53 095)**	(37 744)
Insurance premiums and claims		**3 657**	3 247
Net trading and other income		**11 539**	2 382
Cash payments to employees and suppliers		**(20 192)**	(17 701)
Income taxes paid		**(4 559)**	(4 921)
Cash flow from operating profit before changes in operating assets and liabilities		**24 692**	13 234
Net increase in trading and hedging portfolio assets		**(56 589)**	(8 145)
Net increase in loans and advances to customers		**(74 516)**	(84 616)
Net decrease/(increase) in other assets		**5 321**	(46 299)
Net decrease in insurance and investment contracts		**(4 392)**	(2 515)
Net increase in trading and hedging portfolio liabilities		**36 575**	11 759
Net increase in amounts due to customers and banks		**69 708**	121 405
Net increase in other liabilities		**2 435**	2 172
Net cash generated from operating activities		**3 234**	6 995
Cash flow from investing activities			
Purchase of investment property	14	**(276)**	—
Purchase of property and equipment	15	**(2 439)**	(1 833)
Proceeds from sale of property and equipment		**210**	112
Purchase of intangible assets	13	**(209)**	(177)
Acquisition of subsidiaries, net of cash	54.1	**(126)**	17
Disposal of subsidiaries, net of cash	54.2	**(44)**	36
Acquisition of associates and joint ventures, net of cash		**(1 089)**	(150)
Disposal of associates and joint ventures, net of cash		**68**	—
Net increase in loans to associates and joint ventures	12.1	**(10)**	(13)
Net decrease/(increase) in investments		**2 147**	(2 987)
Net cash utilised from investing activities		**(1 768)**	(4 995)
Cash flow from financing activities			
Issue of ordinary shares		**81**	274
Issue of preference shares		**—**	1 652
Share buy-back		**—**	(130)
Proceeds from borrowed funds		**1 886**	1 725
Dividends paid		**(4 431)**	(3 714)
Net cash utilised from financing activities		**(2 464)**	(193)
Net (decrease)/increase in cash and cash equivalents		**(998)**	1 807
Cash and cash equivalents at the beginning of the year		**6 596**	4 787
Effect of exchange rate movements on cash and cash equivalents		**2**	2
Cash and cash equivalents at the end of the year	52	**5 600**	6 596

1. Summary of significant accounting policies

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

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

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

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

IFRS 8 – Operating Segments

IFRS 8 – *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8 was early adopted by the Group and requires a change in the presentation and disclosure of segment information based on the internal reports regularly reviewed by the Group's chief operating decision-maker (CODM) in order to assess each segment's performance and to allocate resources to them.

This change had a minor effect on the Group's current segment reporting:

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

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

IFRIC 11 – IFRS 2: Group and Treasury Share Transactions

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

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

IFRIC 12 – Service Concession Arrangements

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

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

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

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

1.1 Basis of presentation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated and Company financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.2 Use of estimates, assumptions and judgements

The preparation of financial information requires the use of estimates and assumptions about future conditions. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future may differ from those current estimates reported. The areas involving a higher degree of judgement or complexity, are those which relate to loan impairment, goodwill impairment and the valuation of financial instruments.

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

1.3 Consolidation

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

1.3.1 Subsidiaries

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

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

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

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

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

1.3.2 Investments in associates and joint ventures

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

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

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

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

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

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

Investments in entities that form part of venture capital activities of the Group have been designated at fair value through profit and loss and disclosed under "Investments". The designation has been made in accordance with IAS 39 – *Financial Instruments: Recognition and Measurement,* based on the scope exclusion that is provided in IAS 28 – *Investments in Associates.*

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

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

1.3.3 Transactions with minority interests

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

1.3.4 Special purpose entities

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

SPEs controlled by the Group are established under terms that:

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

1.4 Segment reporting

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

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

- Absa Wealth: Offers wealth solutions to South Africa's high net worth and ultra-high net worth individuals.
- Absa Home Loans: Offers innovative residential property-related ownership solutions to the Group's target market segments.
- Absa Card: Provides the full range of Visa and MasterCard products, merchant services and world-class customer services to a broad spectrum of the market.

- Absa Vehicle and Asset Finance (AVAF): Offers customised vehicle and asset finance products (ranging from the financing of manufacturing and mining equipment, leases, office automation and financing of private vehicles) and services to customers. AVAF also offers vehicle management solutions (such as fleet management and administration) to these markets and fleet partners.
- Retail Bank: Offers a comprehensive range of banking products and services to the South African affluent, middle and lower income segment of the market and small businesses.
- Absa Corporate and Business Bank (ACBB): Provides a comprehensive range of commercial banking products and services to corporates, medium and large businesses.
- Absa Capital: Provides investment banking services to the corporate, government and institutional investor segments.
- Bancassurance: Comprises various insurance products, financial advisory services, drafting and safe custody of wills, comprehensive administration, actuarial and consulting services and a variety of investment products.
- Other: Consists of various non-banking activities and includes investment income earned by Absa Group Limited, as well as income earned by the London branch, Isle of Man and Corporate Real Estate Services (CRES).

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

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

1.5 Foreign currencies

1.5.1 Functional and presentation currency

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

1.5.2 Foreign currency translations

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

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

1.5.3 Foreign currency transactions

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

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

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

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

1.6 Earnings per share

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

1.7 Financial instruments

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

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

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

1.7.1 Held-to-maturity

Held-to-maturity investments are non-derivative instruments with fixed or determinable payments and a fixed maturity where the Group has a positive intention and ability to hold the investments to such date. These investments are held at amortised cost, using the effective interest rate and reviewed for impairment at each reporting date.

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

- the Group intends to hold the financial asset for an undefined period;
- the Group stands ready to sell the financial asset in response to market interest rates or risks, liquidity needs, changes in availability of and the yield on alternative investments, changes in financing sources and terms or changes in foreign currency risk; or

- the issuer has a right to settle the financial asset at an amount significantly below its amortised cost.

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

1.7.2 Financial instruments at fair value through profit or loss

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

Financial instruments classified as held for trading

Financial instruments such as treasury bills, debt securities, equity shares and short positions in securities are classified as held for trading if they have been acquired principally for the purpose of selling and repurchasing in the near term, or if they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking.

These financial instruments are disclosed in the balance sheet as "Trading portfolio assets or liabilities" and are initially measured at fair value, with transaction costs recognised immediately in the income statement. Subsequently, their fair values are remeasured, and all gains and losses from changes therein are recognised in the income statement in "Gains and losses from banking and trading activities" as they arise.

Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below at initial recognition, and are so designated by management. The Group may only designate financial instruments at fair value through profit or loss when the designation results in more relevant information, as follows:

- It eliminates or significantly reduces valuation or recognition inconsistencies that would arise from measuring financial assets or financial liabilities, or recognising gains or losses on them, on different bases. Under this criterion, the main classes of financial instruments designated by the Group are:
  - financial assets backing insurance contracts and financial assets backing investment contracts, because the related liabilities (ie investment contracts) have cash flows that are contractually based on the performance of the assets or the related liabilities. Fair valuing the assets through profit or loss significantly reduces the recognition inconsistencies that would arise if the financial assets were classified as available-for-sale; and
  - financial assets, loans to customers, financial liabilities and structured notes, where doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost.
- When groups of financial assets, financial liabilities or combinations thereof are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and where information about the groups of financial instruments is reported to management on that basis. Under this criterion, certain private equity and other investments are the main class of financial instruments so designated. The Group has documented risk management and investment strategies designed to manage such assets at fair value, taking into consideration the relationship of assets to liabilities in a way that mitigates market risks.
- The Group can also designate at fair value through profit or loss if it relates to a contract containing one or more embedded derivatives that significantly modify the cash flows resulting from that contract.

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

Derivatives

Derivatives are recognised at fair value on the date on which the derivative contract is entered into and subsequently remeasured at fair value (attributable transaction costs are recognised in the income statement when incurred). All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives held for trading are included in “Gains and losses from banking and trading activities”.

1.7.3 Available-for-sale assets

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

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

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

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

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

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

1.7.4 Loans and receivables

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

After initial measurement, loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any transaction costs on acquisition and fees and costs that are an integral part of the effective interest rate.

The amortisation is included in "Interest and similar income" in the income statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of an identified or unidentified impairment methodology.

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

1.7.5 Embedded derivatives

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

An embedded derivative is only separated and reported at fair value with gains and losses being recognised in the income statement when the following requirements are met:

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

The Group does not separately measure embedded derivatives contained in insurance contracts that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

1.7.6 Financial liabilities

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

1.7.7 Impairment of assets at amortised cost

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

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

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

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

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

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

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

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

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses that group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account and the amount of the impairment loss is recognised in the income statement. If a loan receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

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

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

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

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

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

Identified impairment

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

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

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

Unidentified impairment

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

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

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

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

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

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

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

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

1.7.8 Renegotiated loans

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

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

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

1.7.9 Derecognition of financial assets

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

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

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

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

1.7.10 Derecognition of financial liabilities

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

1.7.11 Fair value

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

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

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

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

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

(b) Valuation techniques using market observable inputs. Such techniques may include:

- using recent arm's length market transactions;
- reference to the current fair value of similar instruments; and
- discounted cash flow analysis, pricing models or other techniques commonly used by market participants.

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

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

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

Debt securities, treasury and other eligible bills, and equities

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

Investments

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

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

Derivatives

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

Loans and receivables

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

Deposits and borrowed funds

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

1.7.12 Scrip lending

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

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

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

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

1.7.13 Hedge accounting

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

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

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

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

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

Fair value hedges

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

Any ineffectiveness is recognised immediately in “Gains and losses from banking and trading activities” in the income statement. When hedge accounting ceases, any adjustment to a hedged item for which the effective interest rate method is used, is amortised to the income statement as part of the recalculated effective interest rate of the items over the remaining life.

Cash flow hedges

Gains or losses, arising from fair value adjustments associated with the effective portion of a derivative designated as a cash flow hedge, are recognised initially in the cash flow hedging reserve in shareholders’ equity. Any ineffective portion of the hedging instrument is immediately recognised in the income statement in “Gains and losses from banking and trading activities”. When the cash flows that the hedging instrument is hedging materialise, resulting in income or expense, the associated gain or loss on the hedging instrument is simultaneously transferred from shareholders’ equity to the corresponding line in the income statement.

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

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in shareholders’ equity is immediately transferred to the income statement.

Derivatives that do not qualify for hedge accounting

Derivatives used as hedges that do not qualify for hedge accounting in terms of IAS 39 are fair valued, with gains and losses reflected in the income statement, which is the treatment for derivatives entered into for speculative purposes as well.

1.7.14 Offsetting

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

1.7.15 Repurchase and reverse repurchase agreements

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

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

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

1.7.16 Compound financial instruments

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest rate method, unless it is designated at fair value through profit or loss. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

1.7.17 Loan commitments

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

1.7.18 Financial guarantee contracts

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

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

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

1.8 Share capital

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity.

Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific future date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as an interest expense in the income statement.

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

1.9 Revenue recognition

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

1.9.1 Net interest income

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

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

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

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

Interest is accrued in respect of impaired advances, based on the original effective interest rate used to determine the recoverable amount.

1.9.2 Net income from financial instruments designated at fair value through profit or loss

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

1.9.3 Instalment credit agreements

Leases, instalment credit and rental agreements are regarded as leases. Rentals and instalment receivables thereunder, less unearned finance charges, are included under loans and advances. Finance charges are recognised as "Interest and similar income" in the income statement over the term of the lease using the net investment method (before tax) which reflects a constant periodic rate of return.

1.9.4 Net fee and commission income

Fee and commission income

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

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

Fee and commission expense

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

Trust and other fiduciary activities

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

1.9.5 Gains and losses from derivative and trading portfolio instruments

This includes income arising from the margins that are achieved through market-making and customer business and from changes in market value caused by movements in interest and exchange rates, equity prices, commodities and other market variables. Gains or losses on assets or liabilities reported in the trading portfolio are included in the income statement under "Gains and losses from banking and trading activities", together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

1.9.6 Dividends on equity instruments

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

1.9.7 Insurance premium income

The Group reflects gross premium income relating to insurance contracts in the income statement as insurance premium income. Deposits on investment contracts are excluded from the income statement. Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability. Premiums are shown before deduction of commission. Individual life, life annuities and single premiums are accounted for when the collection of the premiums in terms of the policy contract is due and payable. Deposits and withdrawals on investment contracts are excluded from the income statement and are recorded directly as an adjustment to the liability in the balance sheet.

1.9.8 Fee income and expenses from investment contracts

Service fees

Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the Group actively manages the consideration received from its customers.

Certain upfront payments received for asset management services (front-end fees) are deferred as a liability and recognised over the life of the contract.

The Group charges its customers for asset management and other related services using the following approaches:

- Front-end fees are charged to the client on inception. This approach is used particularly for single premium contracts. The consideration received is deferred as a liability and recognised over the life of the contract on a straight-line basis.
- Regular fees are charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds. Regular charges billed in advance are recognised on a straight-line basis over the billing period.

Commissions paid

The incremental cost directly related to the acquisition of new investment contracts or renewing existing investment contracts are deferred and amortised over the period during which the investment management services are provided.

1.9.9 Sale of assets under construction

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

1.9.10 Rental income

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

1.10 Deferred revenue liability

A deferred revenue liability (DRL) is recognised in respect of fees paid at the inception of an investment contract by the policyholder, which are directly attributable to a contract. The DRL is then released to revenue as the investment management services are provided over the expected duration of the contract, as a constant percentage of expected gross margins (including investment income) arising from the contract.

The pattern of expected future profit margins is based on historical and expected future experience and is updated at the end of each accounting period. The resulting change to the carrying value of the DRL is recognised in revenue.

Changes in the expected duration of the contract or expected future profit margins are treated as a change in accounting estimate.

1.11 Classification of insurance and investment contracts

The Group issues contracts that transfer insurance risk, financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The Group defines significant insurance risk as the possibility of having to pay significant benefits on the occurrence of an insured event compared to those benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

1.11.1 Insurance contracts

Short-term insurance contracts

Revenue recognition and measurement

For the majority of insurance contracts, premiums are recognised as revenue (earned premiums) proportionally over the risk period. The portion of premiums received on in-force contracts that relate to unexpired risks at the reporting date is reported as the unearned premium liability. The unearned premium liability for the majority of the business is calculated using the 365^{th} method. This method is appropriate when the risk is spread evenly over the period of insurance. Under this method the unearned premiums liability is calculated by multiplying the total premiums received by the ratio of the number of days for which the contract will still be active after the reporting date to the total number of days for which the contract was initially written. Premiums are shown before deduction of commission. The change in the liability is taken to the income statement in order that revenue is recognised over the period of the risk.

Claims and loss adjustment

Claims and loss adjustment expenses are charged to income as incurred, based on the estimated liability for compensation owed to contract holders or third parties affected by the contract holders. They include direct claims settlement costs and arise from events that have occurred up to the reporting date, even if they have been incurred but not reported (IBNR) to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses.

Liability adequacy test

At each reporting date, the Group reviews its unexpired risks and undertakes a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums, using the current estimates of future cash flows under its contracts after taking into account the investment return expected to arise on assets relating to the relevant general business provisions. If these estimates show that the carrying amount of its insurance liabilities (less related deferred acquisition costs) exceeds the estimated future cash flows, the deficiency is recognised in the income statement by setting up a provision in the balance sheet.

Life insurance contracts

These contracts insure events associated with human life (ie death, disability or survival) over a long duration. Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before the deduction of commission. Individual life policies, life annuities and single premiums are accounted for in terms of the policy contract. Benefits are recorded as an expense when they are incurred.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liabilities are valued at each reporting date using the financial soundness valuation (FSV) basis described in Professional Guidance Note (PGN) 104 issued by the Actuarial Society of South Africa (ASSA) and the liability is reflected as policyholder liabilities under insurance contracts. This is a permissible valuation methodology under IFRS 4 – *Insurance Contracts*.

Under the FSV basis, a liability is determined as the sum of the current estimate of the expected discounted value of all the benefit payments and the future administration expenses that are directly related to the contract, less the current estimate of the expected discounted value of the contractual premiums.

The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time of valuing the contract at each reporting date. Margins for adverse deviations are included in the assumptions.

In respect of outstanding claims, provision is made for the costs of intimated and unintimated claims.

Withdrawals from investment contracts are excluded from the income statement.

Intimated claims represent claims where the incident giving rise to a claim has occurred and has been reported to the insurer for settlement but has not yet been finalised and paid by the insurer. The liability is measured at the value assessed for the claim. Unintimated claims represent claims incurred but not yet reported or paid. The liability is estimated by assuming that future trends in reporting of claims will be similar to the past. The profile of claims run-off (over time) is modelled by using historic data of the Group and chain-ladder techniques. The profile is then applied to actual claims data of recent periods for which the run-off is believed not to be complete.

Valuation methodology

Assumptions used for valuing policy liabilities are based on best estimates of future experience, guided by recent past experience and increased by margins prescribed by the ASSA for prudence and further discretionary margins to ensure that profits are released appropriately over the term of each policy.

Policyholders' reasonable expectations are allowed for by valuing all guaranteed benefits. Maturity guarantee reserves have been valued in accordance with the requirements of PGN 110 issued by the ASSA. In terms of this guidance, an internationally recognised market-consistent stochastic model is used to perform a range of asset projections from which the maturity guarantee liability is derived. In terms of PGN 110 the projections allow for at least a certain minimum level of market volatility. The liability is equal to the discounted shortfall (of simulated maturity values against minimum guaranteed values) across all projections for the policies concerned.

Liability adequacy test

Liabilities are calculated in terms of the FSV basis as described in PGN 104. Since the FSV basis meets the minimum requirement of the liability adequacy test, it is not necessary to perform additional adequacy tests on the liability component. For the liability relating to potential future claims which have already been incurred on the reporting date, but of which the Group has not yet been informed, tests are performed to ensure that the liability is sufficient to cover historical run-off profiles and growth in the volume of business.

Deferred policy acquisition costs

Acquisition costs comprise commissions and other variable costs directly connected with the acquisition or renewal of short-term insurance contracts. The deferred acquisition costs (DAC) and deferred reinsurance commission revenue represent the portion of acquisition costs incurred and revenue received which corresponds to the unearned premium reserve.

The DAC is amortised in line with expected future premiums. The amortisation is recognised in the income statement.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period and is treated as a change in an accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value an impairment loss is recognised in the income statement. DAC are also considered in the liability adequacy test for each reporting period.

DAC are derecognised when the related contracts are settled or disposed of.

Reinsurance contracts held

Reinsurance contracts entered into by the Group with reinsurers, under which the Group is compensated for losses on one or more contracts issued by the Group and which meet the classification requirements for insurance contracts, are classified as reinsurance contracts held.

For contracts which do not meet the requirements to be classified as reinsurance, the total asset is recognised under financial assets.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured contracts and in accordance with the terms of each reinsurance agreement.

The Group's reinsurance assets are assessed for impairment at each reporting date. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises the impairment loss in the income statement. For historic amounts, the impairment is calculated as the total amount due from reinsurers for which there is a significant probability that the amounts due would not be recoverable, less any offsetting amounts. Liabilities are revalued assuming that no reinsurance is ceded.

Receivables and payables related to insurance and investment contracts

Receivables and payables are only recognised when they meet the definitions and recognition criteria of financial assets and/or liabilities. These include amounts due to and from intermediaries and insurance contract holders.

Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (ie salvage). The Group may also have the right to pursue third parties for payment of some or all costs (ie subrogation).

The Group does not allow for salvage recoveries or subrogation reimbursements in the measurement of insurance liabilities for claims. Salvage and subrogation reimbursements are recognised when the money is received.

Philosophy on release of profits on the valuation basis

PGN 104 allows for additional margins if the statutory actuary believes that the compulsory margins are insufficient for prudent reserving and/or to defer the release of profits in line with policy design.

It is the Group's policy that profit margins contained in the premium basis should only be released and added to profits once premiums have been received and the risk cover has been provided.

The following additional (discretionary) margins were incorporated in the liability calculations:

- Minimum liability equal to the surrender value of a policy and elimination of all negative liabilities to ensure that solvency is maintained if policy cancellations increase. It is not the philosophy of the Group to recognise an asset by (prematurely) recognising the expected future profits of a policy.
- Additional margin on mortality, disability and dreaded disease (equal to compulsory margins for most product lines) to take account of the size of the book of business, uncertainty surrounding future mortality trends

(especially the Aids pandemic), lack of catastrophe reinsurance, and the fact that certain classes of business are not underwritten.

- Reduced lapse assumptions on certain product lines due to the fact that lapses are inherently volatile and as it is not deemed prudent to take credit in advance for future lapses that might not arise.
- No recognition of future investment charges on linked business as the Group's profit recognition policy determines that asset-based fees are more appropriately accounted for as and when they are received.
- A percentage of premiums for certain regular premiums' business is not taken into account when liabilities are valued. The effect is to increase liabilities. This allows for uncertainty as to whether the premiums will actually be received and is in line with the profit recognition policy whereby profit is not recognised in advance.

1.11.2 Investment contracts

Policyholder contracts that do not transfer significant insurance risk are classified as investment contracts and are valued at fair value. Acquisition costs directly attributable to investment management contracts are capitalised to a deferred acquisition cost asset and amortised to the income statement over the term of the contract.

The Group issues investment contracts with fixed and guaranteed terms. Investment contracts with fixed and guaranteed terms are financial liabilities of which the fair value is dependent on the fair value of the financial assets backing the liabilities. These contracts and the corresponding policyholder liabilities are designated to be held at fair value though profit or loss at inception. Subsequent changes to fair value are taken to the income statement.

Valuation techniques are used to establish the fair value at inception and at each reporting date. The Group's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit-linked investment contract is determined using the current unit values that reflect the fair values of the financial assets contained within the Group's unitised investment funds linked to the financial liability, multiplied by the number of units attributed to the contract holder at the reporting date. The fair value of fixed interest rate products is determined by discounting the maturity value at market rates of interest.

If the investment contract is subject to a put or surrender option held by the customer, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable.

1.12 Cell arrangements

In respect of third party cells, where insurance contracts are issued to third parties, directly in the name of Absa Life Limited, the cell captive is considered to be the reinsurer, as there is insurance risk transfer. The policyholder liabilities and reinsurance assets in respect of these insurance contracts are recognised in the balance sheet of the Group, in terms of the reinsurance arrangement with the cell captive. Excess assets over policyholder liabilities, in the cell captive, belong to the cell owner and are not recognised by the Group.

The financial position and performance of first party cells are not included in the financial statements of the Group as no transfer of insurance risks takes place per the cell agreements.

1.13 Commodities

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

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

1.14 Intangible assets

1.14.1 Goodwill

Goodwill is initially measured at cost, being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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

The first step of the impairment review process requires the identification of independent operating units, by dividing the Group's business into as many largely independent income streams as is reasonably practical. The goodwill is then allocated to these independent operating units. The first step of this allocation is based on the areas of the business expected to benefit from the synergies derived from the acquisition. The second step reflects the allocation of the net assets acquired to the operating units and the difference between the consideration paid for those net assets and their fair value. The carrying value of the operating unit, including the allocated goodwill, is compared with the higher of its fair value less cost to sell and its value-in-use to determine whether any impairment exists. Detailed calculations may need to be carried out taking into consideration changes in the market in which a business operates (eg competition activity or regulatory change). In the absence of readily available market price data, these calculations are usually based on discounting expected cash flows at the Group's weighted average cost of capital, the determination of which requires the exercise of judgement.

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

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

1.14.2 Computer software, customer lists and other intangible assets

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

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

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

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

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

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

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

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

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

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

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

1.15 Property and equipment

1.15.1 Property and equipment not subject to lease agreements

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

All property and equipment, other than land, is depreciated on a straight-line basis to write down their cost to their residual values over their estimated useful lives.

The Group uses the following annual rates in calculating depreciation:

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

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

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

All borrowing costs are expensed in the period they occur.

The fair value of property and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement within "Other operating income" in the year the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end, and adjusted prospectively if appropriate.

1.15.2 Property and equipment subject to lease agreements

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

Finance leases

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

Operating leases

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

1.15.3 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value with any changes therein recognised in the income statement.

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property at year-end. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

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

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

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

1.15.4 Reclassification to investment property

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

1.16 Repossessed properties

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

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

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

1.17 Constructed assets held-for-resale

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

1.18 Non-current assets held-for-sale

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

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

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

1.19 Impairment of property, equipment and intangible assets

At each reporting date, or more frequently where events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount, property, equipment and intangible assets are assessed for impairment. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount, which is the higher of the asset's or the cash-generating unit's fair value less costs to sell, and its value-in-use. Fair value less costs to sell is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value-in-use is calculated by discounting the expected future cash in- or outflows to be obtained or incurred as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis.

The carrying values of property, equipment and intangible assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

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

1.20 Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

1.21 Provisions

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

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

Transactions are classified as contingent liabilities where the existence of the Group's possible obligations depends on uncertain future events beyond the Group's control or when the Group has a present obligation that is not probable or which the Group is unable to measure reliably.

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

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

1.22 Employee benefits

1.22.1 Post-retirement benefits

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

Defined benefit structures

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

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

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

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

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

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

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

Defined contribution structures

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

Contributions to any defined contribution plan are expensed as incurred.

Short-term benefits

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

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

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

1.22.2 Share-based compensation

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

Employee services settled in equity instruments

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

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

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

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

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

Employee services settled in cash

The fair value of the amount payable to employees in terms of a cash-settled share-based payment is recognised as an expense, with a corresponding increase in liabilities, over the vesting period. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff cost in the income statement. No amount is recognised for services received if the options granted do not vest because of a failure to satisfy a vesting condition.

Determination of fair values

The fair value of employee options and share appreciation rights are measured using the Black-Scholes formula or Monte Carlo simulations. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

1.23 Taxation

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

1.23.1 Current taxation

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

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

1.23.2 Deferred taxation

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

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

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

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

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

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

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

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

1.23.3 Secondary tax on companies

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

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

1.23.4 Value added tax (VAT)

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

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

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

1.24 Treasury shares

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

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

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

1.25 Managed funds and trust activities

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

1.26 Reclassifications

The Commercial Property Finance (CPF) fund which was previously disclosed as "Investments in associates and joint ventures" has been reclassified to "Investments". These entities are classified as venture capital organisations and the Group has elected to align the CPF fund with similar investments in the Group and apply the scope exception in IAS 28: *Investments in Associates* to designate the investments in these entities at fair value through profit or loss in terms of IAS 39: *Financial Instruments: Recognition and Measurement*.

		2007	
Balance sheet	As previously reported Rm	Reclassi-fications Rm	Reclassified balance Rm
Investments	29 327	465	29 792
Investments in associates and joint ventures	1 469	(465)	1 004
Other reserves	406	(22)	384
Retained earnings	33 527	22	33 549
Income statement			
Gains and losses from banking and trading activities	1 622	28	1 650
Share of retained earnings from associates and joint ventures	91	(18)	73
Taxation expense	(4 042)	(10)	(4 052)

1.27 New standards and interpretations not yet adopted

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

- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 consolidated financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions, the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Group's 2009 consolidated financial statements.

- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 consolidated financial statements, is not expected to have a material impact on the consolidated financial statements.
- Revised IAS 1 *Presentation of Financial Statements* (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. The amendment also requires two sets of comparative numbers to be provided for the financial position in any year where there has been a restatement or reclassification of balances. Revised IAS 1, which becomes mandatory for the Group's 2009 consolidated financial statements, will not affect the financial position or results of the Group but will introduce some changes to the presentation of the consolidated financial statements.
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a *pro rata* share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 consolidated financial statements, with retrospective application required, are not expected to have a material impact on the consolidated financial statements.
- Revised IFRS 3 *Business Combinations* (2008) incorporates the following changes that are likely to be relevant to the Group's operations:
  - The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
  - Contingent consideration will be measured at fair value, with subsequent changes therein recognised in the income statement.
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in the income statement.
  - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

  Revised IFRS 3, which becomes mandatory for the Group's 2010 consolidated financial statements, is expected to affect the Group's accounting for business combinations that arise after the effective date.
- Amended IAS 27 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in the income statement. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements as the Group is already applying these principles when accounting for transactions with minorities.
- Amendment to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be

reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application. The amendment is not expected to have any impact on the consolidated financial statements.

- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarifies that inflation may only be hedged in instances where changes in inflation are contractually specified portions of cash flows of a recognised financial instrument. It also clarifies that an entity is permitted to designate purchased or net purchased options as a hedging instrument in a hedge of a financial or non-financial item and to improve effectiveness, an entity is allowed to exclude the time value of money from the hedging instrument.

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

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

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

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

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

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

	GROUP 2008 Rm	GROUP 2007 Rm
2. Cash, cash balances and balances with central banks		
Balances with other central banks	**1 124**	500
Balances with the South African Reserve Bank (SARB)	**12 648**	10 396
Coins and bank notes	**4 726**	5 091
Money market assets	**6 349**	4 642
	24 847	20 629
Portfolio analysis		
Available-for-sale		
Money market assets	**1 111**	737
Designated at fair value through profit lor loss		
Money market assets	**5 182**	3 644
Held-to-maturity		
Money market assets	**56**	261
Loans and receivables	**18 498**	15 987
Balances with other central banks	**1 124**	500
Balances with the SARB	**12 648**	10 396
Coins and bank notes	**4 726**	5 091
	24 847	20 629

Included above are money market assets which are linked to investment contracts (refer to note 22).

	GROUP 2008 Rm	GROUP 2007 Rm
3. Statutory liquid asset portfolio		
Land Bank bills	**492**	492
Republic of South Africa (RSA) government bonds	**19 160**	13 024
Reverse repurchase agreements (refer to note 45)	**4 100**	—
SARB debentures	**1 814**	—
Treasury bills	**7 477**	9 441
	33 043	22 957
Portfolio analysis		
Available-for-sale	**12 668**	9 933
Land Bank bills	**492**	492
RSA government bonds	**2 905**	—
SARB debentures	**1 814**	—
Treasury bills	**7 457**	9 441
Available-for-sale instruments in fair value hedging relationship		
RSA government bonds	**12 077**	10 341
Designated at fair value through profit or loss	**8 273**	2 683
Reverse repurchase agreements	**4 100**	—
RSA government bonds	**4 173**	2 683
Held-to-maturity	**25**	—
RSA government bonds	**5**	—
Treasury bills	**20**	—
	33 043	22 957

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

	GROUP 2008 Rm	GROUP 2007 Rm

4. Loans and advances to banks

	2008 Rm	2007 Rm
Other loans and advances to banks	**27 415**	24 718
Reverse repurchase agreements (refer to note 45)	**17 247**	29 307
	44 662	54 025
Portfolio analysis		
Designated at fair value		
Reverse repurchase agreements	**7 169**	10 992
Loans and receivables	**37 493**	43 033
Other loans and advances to banks	**27 415**	24 718
Reverse repurchase agreements	**10 078**	18 315
	44 662	54 025

Loans with variable rates are R24 248 million (2007: R23 196 million) and fixed rates are R20 414 million (2007: R30 829 million).

Included above are loans and advances with the Group's parent company of R13 731 million (2007: R13 326 million). Refer to note 47 for the full disclosure of related party transactions.

Included above are loans and advances to banks with a carrying value of R2 462 million (2007: R68 million) that have been pledged as security, which excludes reverse repurchase agreements as disclosed in note 45. The amounts pledged is the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

5. Trading and hedging portfolio assets

	2008 Rm	2007 Rm
Commodities	**517**	465
Debt instruments	**5 178**	2 206
Derivative assets (refer to note 64.3)	**65 407**	21 704
Commodity derivatives	**4 722**	2 172
Credit derivatives	**343**	41
Equity derivatives	**2 322**	2 487
Foreign exchange derivatives	**32 050**	7 245
Interest rate derivatives	**25 970**	9 759
Equity instruments	**6 313**	109
Money market assets	**1 464**	1 340
Total trading portfolio assets	**78 879**	25 824
Hedging portfolio assets (refer to note 64.3)	**3 139**	725
	82 018	26 549
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**2 530**	5
Derivatives designated as fair value hedging instruments	**609**	720
Held for trading	**78 362**	25 359
Debt instruments	**5 178**	2 206
Derivative assets	**65 407**	21 704
Equity instruments	**6 313**	109
Money market assets	**1 464**	1 340
Non-financial instruments	**517**	465
	82 018	26 549

Included above are derivative positions with the Group's parent company of R15 672 million (2007: R4 707 million). Refer to note 47 for the full disclosure of related party transactions.

Trading portfolio assets with a carrying value of R5 178 million (2007: R3 199 million) have been pledged as security (refer to note 45). These assets are pledged for the duration of the respective agreements.

	GROUP 2008 Rm	GROUP 2007 Rm
6. Other assets		
Accounts receivable and prepayments	**7 278**	5 299
Deferred costs	**119**	90
Deferred acquisition costs (refer to note 6.1)	**92**	65
Other deferred costs	**27**	25
Inventories	**1 085**	632
Settlement accounts and collateral placed	**7 915**	18 282
	16 397	24 303
Portfolio analysis		
Loans and receivables	**14 910**	22 750
Accounts receivable	**6 995**	4 468
Settlement accounts and collateral placed	**7 915**	18 282
Non-financial assets	**1 487**	1 553
	16 397	24 303

Included above are settlement accounts with the Group's parent company of R228 million (2007: R257 million). Refer to note 47 for the full disclosure of related party transactions.

Included in accounts receivable and prepayments are assets with a carrying value of R547 million (2007: R400 million), that have been pledged as security in the form of cash collateral on derivative transactions.

	2008 Rm	2007 Rm
6.1 Deferred acquisition costs (refer to note 6)		
Cost	**949**	609
Accumulated amortisation	**(857)**	(544)
	92	65
Balance at the beginning of the year	**65**	123
Additions	**340**	175
Amortisation charge	**(313)**	(233)
Balance at the end of the year	**92**	65
Comprising:		
Investment management contracts	**76**	53
Short-term insurance contracts	**16**	12
	92	65
7. Current tax		
Current tax assets		
Amount due from revenue authorities	**23**	185
Current tax liabilities		
Amount due to revenue authorities	**385**	183

	GROUP	
	2008 Rm	2007 Rm

8. Loans and advances to customers

	2008 Rm	2007 Rm
Cheque accounts	**28 172**	20 819
Client liabilities under acceptances	**121**	108
Corporate overdrafts and specialised finance loans	**10 306**	5 907
Credit cards	**19 662**	13 841
Foreign currency loans	**13 352**	11 875
Instalment credit agreements (refer to note 8.1)	**68 141**	63 878
Gross advances	**84 722**	81 913
Unearned finance charges	**(16 581)**	(18 035)
Loans granted under resale agreements (Carries) (refer to note 45)	**7 072**	8 233
Loans to associates and joint ventures (refer to note 12.2)	**9 193**	10 040
Microloans	**4 034**	2 645
Mortgages	**303 369**	264 679
Other advances	**5 190**	1 753
Overnight finance	**11 146**	12 636
Personal loans	**19 250**	16 969
Preference shares	**9 380**	9 877
Term loans	**1 530**	1 204
Wholesale overdrafts	**31 111**	17 160
	541 029	461 624
Impairment losses on loans and advances (refer to note 9)	**(8 858)**	(5 666)
	532 171	455 958
Portfolio analysis		
Designated at fair value through profit or loss	**10 973**	14 311
Loans granted under resale agreements (Carries)	**1 544**	3 040
Loans to associates and joint ventures	**1 017**	763
Mortgages	**4 134**	6 706
Other advances	**620**	—
Wholesale overdrafts	**3 658**	3 802
Loans and receivables	**530 056**	447 313
	541 029	461 624

Included above are securitised assets of R6 248 million (2007: R7 320 million). Refer to note 46 for further details.

8. Loans and advances to customers *(continued)*

8.1 Instalment credit agreements

Maturity analysis

	GROUP 2008 Gross investment in finance leases Rm	GROUP 2008 Unearned finance charges Rm	GROUP 2008 Net investment in finance leases Rm
Less than one year	**25 954**	**(4 963)**	**20 991**
Between one and five years	**57 014**	**(11 232)**	**45 782**
More than five years	**1 754**	**(386)**	**1 368**
	84 722	**(16 581)**	**68 141**

	2007 Gross investment in finance leases Rm	2007 Unearned finance charges Rm	2007 Net investment in finance leases Rm
Less than one year	23 568	(4 763)	18 805
Between one and five years	57 357	(13 047)	44 310
More than five years	988	(225)	763
	81 913	(18 035)	63 878

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

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

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

Unguaranteed residual values of instalment credit agreements at the balance sheet date are estimated at R5 898 million (2007: R6 698 million).

The accumulated allowance for uncollectable lease payments receivable included in the allowance for impairments at the balance sheet date is R1 021 million (2007: R634 million).

9. Impairment losses on loans and advances

	GROUP 2008 Rm	GROUP 2007 Rm
Balance at the beginning of the year	**5 666**	4 739
Amounts written off during the year	**(2 606)**	(1 654)
Exchange differences	**—**	4
Interest on impaired assets (refer to note 28)	**(529)**	(274)
	2 531	2 815
Impairments raised during the year (refer to note 9.1)	**6 327**	2 851
Balance at the end of the year (refer to note 8)	**8 858**	5 666
Comprising:		
Identified impairments	**7 428**	3 656
Unidentified impairments	**1 430**	2 010
	8 858	5 666

	GROUP 2008 Rm	GROUP 2007 Rm
9. Impairment losses on loans and advances *(continued)*		
9.1 Income statement charge for impairment losses on loans and advances		
Impairments raised during the year	**6 327**	2 851
Identified impairments	**6 907**	2 545
Unidentified impairments	**(580)**	306
Recoveries of loans and advances previously written off	**(488)**	(418)
	5 839	2 433
10. Reinsurance assets		
Insurance contracts (refer to note 23)	**422**	254
Life insurance contracts	**72**	68
Short-term insurance contracts	**350**	186
Investment contracts (refer to note 22.2)	**481**	231
	903	485

Included above are reinsurance assets with the Group's parent company of R19 million (2007: Rnil). Refer to note 47 for the full disclosure of related party transactions.

Included in "Other assets" is R105 million (2007: R40 million) relating to amounts receivable from reinsurers for claims made against them.

	GROUP 2008 Rm	GROUP 2007 Rm
11. Investments		
Debt instruments	**11 306**	14 872
Investments linked to investment contracts (refer to note 22.2)	**7 123**	5 647
Debt instruments	**285**	363
Listed equity instruments	**1 476**	1 692
Unlisted equity instruments	**5 362**	3 592
Listed equity instruments	**2 467**	3 881
Unlisted equity and hybrid instruments	**6 084**	5 392
	26 980	29 792
Directors' valuation and market value		
Directors' valuation of unlisted equity and hybrid instruments	**11 446**	8 984
Market value of debt instruments	**11 591**	15 235
Market value of listed equity instruments	**3 943**	5 573
	26 980	29 792
Portfolio analysis		
Available-for-sale (refer to note 11.1)	**2 476**	3 364
Debt instruments	**1 616**	2 928
Listed equity instruments	**441**	11
Unlisted equity and hybrid instruments	**419**	425
Designated at fair value	**23 336**	25 410
Debt instruments	**8 522**	10 926
Investments linked to investment contracts	**7 123**	5 647
Listed equity instruments	**2 026**	3 870
Unlisted equity and hybrid instruments	**5 665**	4 967
Held-to-maturity		
Debt instruments	**1 168**	1 018
	26 980	29 792

Included above are investments with the Group's parent company of R581 million (2007: Rnil). Refer to note 47 for the full disclosure of related party transactions.

	GROUP 2008 Rm	GROUP 2007 Rm
11. Investments *(continued)*		
11.1 Available-for-sale investments		
Carrying value at the beginning of the year	**3 364**	251
Cost plus fair value movements	**3 407**	294
Impairment[1]	**(43)**	(43)
Movement in investments	**(887)**	3 113
Acquisitions and disposals	**(1 263)**	3 376
Fair value movements	**376**	(263)
Movement in impairments (refer to note 38)	**(1)**	—
Carrying value at the end of the year	**2 476**	3 364
Cost plus fair value movements	**2 520**	3 407
Impairment[1]	**(44)**	(43)

Note

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

Certain comparatives have been reclassified (refer to note 1.26).

12. Investments in associates and joint ventures

	2008 Rm	2007 Rm
Listed investments	**1 705**	594
Unlisted investments	**439**	410
	2 144	1 004

12.1 Movement in carrying amount

	2008 Rm	2007 Rm
Balance at the beginning of the year as previously reported	**1 469**	693
Reclassification to investments (refer to note 1.26)	**(465)**	(200)
Reclassified balance at the beginning of the year	**1 004**	493
Share of current year's retained income	**73**	73
Share of current year's income before taxation	**124**	150
Taxation on current income	**(49)**	(49)
Dividends received	**(2)**	(28)
Net movement in the cost of investments in associates and joint ventures (refer to note 12.4)	**1 043**	421
Change in loans to associates and joint ventures at cost	**10**	—
Amount recognised in liabilities for the Group's share of losses	**14**	17
Balance at the end of the year	**2 144**	1 004

12.2 Analysis of carrying amount

	2008 Rm	2007 Rm
Listed investments		
Shares at cost	**1 636**	555
Share of post-acquisition reserves	**69**	39
	1 705	594
Unlisted investments		
Shares at book value	**138**	161
Shares at cost	**138**	163
Impairment	**—**	(2)
Share of post-acquisition reserves	**291**	239
Share of non-distributable reserves	**260**	222
Amount recognised in liabilities for the Group's share of losses	**31**	17
Loans to associates and joint ventures	**10**	10
	439	410

Other commercial loans to associates and joint ventures included in "Loans and advances to customers" amounted to R9 193 million (2007: R10 040 million). Refer to note 8 for further details.

	GROUP 2008 Rm	GROUP 2007 Rm
12. Investments in associates and joint ventures *(continued)*		
12.3 Valuation		
Directors' valuation of unlisted investments	**439**	410
Market value of listed investments	**1 576**	568
	2 015	978
12.4 Net movement in the cost of investments in associates and joint ventures		
The following acquisitions were concluded during the current year, at cost:		
Ambit Properties Limited	**90**	n/a
During the year, the Group acquired an additional 4,0% interest in Ambit Properties Limited.		
Integrated Processing Solutions (Proprietary) Limited	**11**	n/a
On 1 November 2008, the Group made an additional contribution to maintain its 50,0% interest in Integrated Processing Solutions (Proprietary) Limited.		
Maravedi Group (Proprietary) Limited	**29**	n/a
During the year, the Group made an additional contribution in Maravedi Group (Proprietary) Limited.		
Pinnacle Point Group Limited	**931**	n/a
On 9 December 2008, the Group acquired a 27,5% interest in Pinnacle Point Group Limited.		
Sekunjalo Investments Limited	**59**	n/a
During the year, the Group acquired an additional 17,2% interest in Sekunjalo Investments Limited at a cost of R39 million. Sekunjalo Investments Limited was previously recognised as an investment at a carrying amount of R20 million. The Group's shareholding is now 27,2%.		
Zevoli 146 (Proprietary) Limited	**0**	n/a
On 29 January 2008, the Group acquired a 37,4% interest in Zevoli 146 (Proprietary) Limited.		
The following acquisitions were concluded during the previous year, at cost:		
Ambit Properties Limited	**n/a**	412
During the previous year, the Group acquired an additional 9,3% interest in Ambit Properties Limited.		
Batho Bonke Investments (Proprietary) Limited	**n/a**	2
During March 2007, the Group acquired a 49,8% interest in Batho Bonke Investments (Proprietary) Limited.		
Maravedi Group (Proprietary) Limited	**n/a**	7
On 20 November 2007, the Group acquired an additional interest in Maravedi Group (Proprietary) Limited.		
The following disposals were concluded during the current year:		
Batho Bonke Investments (Proprietary) Limited	**(2)**	n/a
On 18 September 2008, the Group sold its share in Batho Bonke Investments (Proprietary) Limited.		
Balance carried forward	**1 118**	421

	GROUP 2008 Rm	GROUP 2007 Rm
12. Investments in associates and joint ventures *(continued)*		
12.4 Net movement in the cost of investments in associates and joint ventures *(continued)*		
Balance brought forward	**1 118**	421
Blakes and Associates Holdings (Proprietary) Limited	**(16)**	n/a
On 31 August 2008, the Group sold its share in Blakes and Associates Holdings (Proprietary) Limited to a third party.		
Maravedi Group (Proprietary) Limited	**(22)**	n/a
On 31 August 2008, the Group sold its share in Maravedi Group (Proprietary) Limited.		
The following disposals were concluded during the previous year:		
Ambit Properties Limited	**n/a**	(0)
On 16 July 2007, the Group sold a share in Ambit Properties Limited to a third party.		
Axial Finance (Proprietary) Limited	**n/a**	(0)
On 16 February 2007, the Group sold its share in Axial Finance (Proprietary) Limited to a third party.		
CBZ Holdings Limited	**n/a**	(0)
On 4 September 2007, the Group sold its share in CBZ Holdings Limited to a third party. The Group's investment had been fully impaired.		
The following associate has been recognised as a subsidiary during the current year:		
Meeg Bank Limited	**(37)**	n/a
The following associate has been recognised as a subsidiary during the previous year:		
Ambit Management Services (Proprietary) Limited	**n/a**	(0)
Net movement in the cost of investments in associates and joint ventures (refer to note 12.1)	**1 043**	421
12.5 Details of the purchase consideration on net assets acquired on the aforementioned acquisitions are as follows:		
Cash paid	**1 089**	150
Elimination of profits to the extent of interest in Ambit Properties Limited	**—**	(32)
Property and equipment	**11**	303
Transfer from investments	**20**	—
	1 120	421
12.6 Details of the consideration received on net assets disposed of on the aforementioned disposals are as follows:		
Cash received	**68**	—
Profit on disposal	**(28)**	—
Transferred to subsidiaries	**37**	—
	77	—

For further information on the Group's associates and joint ventures, refer to note 47.

Certain comparatives have been reclassified (refer to note 1.26).

13. Intangible assets

GROUP

	2008 Cost Rm	2008 Accumulated amortisation and/or impairments Rm	2008 Carrying value Rm	2007 Cost Rm	2007 Accumulated amortisation and/or impairments Rm	2007 Carrying value Rm
Computer software development costs	**645**	**(433)**	**212**	465	(318)	147
Customer lists	**190**	**(30)**	**160**	—	—	—
Goodwill	**662**	**(85)**	**577**	239	(85)	154
Other	**8**	**—**	**8**	—	—	—
	1 505	**(548)**	**957**	704	(403)	301

Reconciliation of intangible assets

2008	Opening balance Rm	Additions Rm	Disposals Rm	Foreign exchange movements Rm	Amortisation Rm	Impairment charge Rm	Closing balance Rm
Computer software development costs	**147**	**180**	**(2)**	**8**	**(120)**	**(1)**	**212**
Customer lists	**—**	**190**	**—**	**—**	**(30)**	**—**	**160**
Goodwill	**154**	**423**	**—**	**—**	**—**	**—**	**577**
Other	**—**	**8**	**—**	**—**	**—**	**—**	**8**
	301	**801**	**(2)**	**8**	**(150)**	**(1)**	**957**

2007	Opening balance	Additions	Disposals	Foreign exchange movements	Amortisation	Impairment charge	Closing balance
Computer software development costs	91	162	—	—	(85)	(21)	147
Goodwill	139	15	—	—	—	—	154
	230	177	—	—	(85)	(21)	301

Included in the above additions are acquisitions through business combinations of R592 million (2007: Rnil), refer to note 54.

GROUP

	2008 Rm	2007 Rm
Composition of goodwill		
Abvest Holdings (Proprietary) Limited	**30**	27
Absa Vehicle Management (Proprietary) Limited	**112**	112
Ambit Management Services (Proprietary) Limited	**37**	15
Glenrand MIB employee benefits and healthcare	**22**	—
The Ballito Junction Development (Proprietary) Limited	**12**	—
Woolworths Financial Services (Proprietary) Limited	**364**	—
	577	154

	GROUP 2008 Rm
14. Investment property	
Balance at the beginning of the year	—
Additions	668
Change in fair value (refer to note 37)	(1)
Balance at the end of the year	667

Included in the above additions are acquisitions through business combinations of R392 million (2007: Rnil), refer to note 54.

Investment property comprises a number of properties that are leased to third parties for either commercial or residential use. Each of the leases contains an initial rental period ranging between six months to 10 years, depending on the use of the building being leased. Subsequent renewals are negotiated with the lessee. No contingent rentals are charged.

15. Property and equipment

	GROUP 2008			2007		
	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm
Computer equipment	4 243	(2 765)	1 478	4 040	(2 585)	1 455
Freehold property	2 159	(207)	1 952	1 857	(179)	1 678
Furniture and other equipment	4 476	(1 867)	2 609	3 111	(1 792)	1 319
Leasehold property	547	(387)	160	503	(355)	148
Motor vehicles	58	(49)	9	50	(40)	10
	11 483	(5 275)	6 208	9 561	(4 951)	4 610

Reconciliation of property and equipment

	2008					
	Opening balance Rm	Additions Rm	Disposals Rm	Foreign exchange movements Rm	Depreciation Rm	Closing balance Rm
Computer equipment	1 455	501	(12)	28	(494)	1 478
Freehold property	1 678	371	(86)	21	(32)	1 952
Furniture and other equipment	1 319	1 633	(71)	21	(293)	2 609
Leasehold property	148	44	—	—	(32)	160
Motor vehicles	10	2	(1)	3	(5)	9
	4 610	2 551	(170)	73	(856)	6 208

15. Property and equipment *(continued)*

	GROUP 2007					
	Opening balance Rm	Additions Rm	Disposals Rm	Foreign exchange move-ments Rm	Depre-ciation Rm	Closing balance Rm
Computer equipment	1 233	745	(48)	2	(477)	1 455
Freehold property	1 239	526	(58)	2	(31)	1 678
Furniture and other equipment	1 101	548	(93)	2	(239)	1 319
Leasehold property	167	9	—	—	(28)	148
Motor vehicles	10	5	—	—	(5)	10
	3 750	1 833	(199)	6	(780)	4 610

Included in the above additions are acquisitions through business combinations of R112 million (2007: Rnil), refer to note 54.

Freehold property is officially revalued every three years by both external and internal valuers. The most recent valuation was performed during December 2007 and indicated that the fair value of the freehold property amount to R2 083 million.

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

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

16. Deferred tax

16.1 Reconciliation of net deferred tax liability

	GROUP 2008 Rm	GROUP 2007 Rm
Balance at the beginning of the year	**2 465**	2 408
Deferred tax asset (released)/raised on STC credits (refer to note 16.4)	**(23)**	9
Acquisitions/disposals of subsidiaries (refer to note 54)	**2**	—
Deferred tax on amounts charged directly to equity	**964**	(189)
Available-for-sale investments	**(66)**	32
Fair value measurement	**(90)**	14
Transfer to income statement	**24**	18
Cash flow hedges	**1 030**	(221)
Fair value measurement	**572**	(530)
Transfer to income statement	**458**	309
Income statement charge (refer to note 40)	**(770)**	272
Tax effect of translation and other differences	**(47)**	(35)
Balance at the end of the year	**2 591**	2 465

	GROUP 2008 Rm	GROUP 2007 Rm
16. Deferred tax *(continued)*		
16.2 Deferred tax liability/(asset)		
Tax effects of temporary differences between tax and book value for:		
Accruals and provisions	**3 752**	2 603
Gains on investments	**(257)**	(161)
Impairment of advances	**(1 011)**	(441)
Lease and rental debtor allowances	**509**	505
Other differences	**—**	10
Property allowances	**(159)**	60
Deferred tax liability	**2 834**	2 576
Deferred tax asset	**(243)**	(111)
Deferred tax asset – normal	**(195)**	(86)
Deferred tax asset – STC (refer to note 16.4)	**(48)**	(25)
Net deferred tax liability	**2 591**	2 465

16.3 Future tax relief

The Group has estimated tax losses of R478 million (2007: R742 million), for which a R4 million (2007: Rnil) deferred tax asset has been raised. The above figures exclude tax losses and reversing temporary differences of R4 million (2007: Rnil) for which deferred tax assets have been raised.

	2008 Rm	2007 Rm
Balance at the beginning of the year	**742**	618
Losses incurred	**9**	266
Disposal of subsidiary	**48**	—
Operating losses utilised	**(317)**	(274)
Movement in temporary differences	**(4)**	132
Balance at the end of the year	**478**	742

16.4 Secondary taxation on companies (STC)

	2008 Rm	2007 Rm
Accumulated STC credits	**479**	218
Deferred tax asset raised (refer to note 16.2)	**48**	25
Raised at 10,0%	**48**	9
Raised at 12,5%	**—**	16
Movement in deferred tax asset for the year (refer to note 16.1)	**23**	(9)

If the total reserves of R43 675 million (2007: R33 933 million) as at the balance sheet date were to be declared as dividends, the secondary tax impact at a rate of 10,0% (2007: 10,0%) would be R4 368 million (2007: R3 393 million).

	GROUP 2008 Rm	GROUP 2007 Rm
17. Deposits from banks		
Call deposits	**7 299**	16 299
Fixed deposits	**2 228**	1 296
Foreign currency deposits	**6 119**	749
Other deposits	**11 213**	11 086
Repurchase agreements (refer to note 45)	**27 774**	28 603
	54 633	58 033
Portfolio analysis		
Designated at fair value through profit or loss	**9 002**	10 663
Financial liabilities at amortised cost	**45 631**	47 370
	54 633	58 033

Deposits with variable rates are R24 631 million (2007: R28 134 million) and fixed rates are R30 002 million (2007: R29 899 million).

Included above are deposits with the Group's parent company of R14 616 million (2007: R16 254 million). Refer to note 47 for the full disclosure of related party transactions.

	GROUP 2008 Rm	GROUP 2007 Rm
18. Trading and hedging portfolio liabilities		
Derivative liabilities (refer to note 64.3)	**67 838**	21 968
Commodity derivatives	**4 619**	2 182
Credit derivatives	**322**	14
Equity derivatives	**4 116**	1 566
Foreign exchange derivatives	**32 142**	7 746
Interest rate derivatives	**26 639**	10 460
Short sold positions	**4 899**	12 951
Total trading portfolio liabilities	**72 737**	34 919
Hedging portfolio liabilities (refer to note 64.3)	**1 080**	2 226
	73 817	37 145
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**285**	1 626
Derivatives designated as fair value hedging instruments	**795**	600
Held for trading	**72 737**	34 919
Derivative liabilities	**67 838**	21 968
Short sold positions	**4 899**	12 951
	73 817	37 145

Included above are derivative positions with the Group's parent company of R15 373 million (2007: R5 496 million). Refer to note 47 for the full disclosure of related party transactions.

	GROUP 2008 Rm	GROUP 2007 Rm
19. Other liabilities and sundry provisions		
Accruals	**100**	353
Audit fee accrual	**38**	30
Creditors	**7 228**	5 711
Deferred income	**407**	579
Liabilities under finance leases (refer to note 19.1)	**836**	892
Provisions (refer to note 19.2)	**2 606**	2 896
Retirement benefit obligation (refer to note 43)	**500**	355
Settlement balances	**2 754**	1 285
Share-based payment liability (refer to note 53)	**316**	200
	14 785	12 301
Portfolio analysis		
Designated at fair value	**955**	234
Financial liabilities at amortised cost	**10 817**	8 592
Non-financial liabilities	**3 013**	3 475
	14 785	12 301

Included above are settlement accounts with the Group's parent company for R1 540 million (2007: R121 million). Refer to note 47 for the full disclosure of related party transactions.

19.1 Liabilities under finance leases

	GROUP 2008 Minimum lease payments due Rm	Interest Rm	Principal Rm
Less than one year	**271**	**(133)**	**138**
Between one and two years	**234**	**(110)**	**124**
Between two and three years	**236**	**(87)**	**149**
Between three and four years	**262**	**(55)**	**207**
Between four and five years	**193**	**(21)**	**172**
More than five years	**47**	**(1)**	**46**
	1 243	**(407)**	**836**

	2007 Minimum lease payments due Rm	Interest Rm	Principal Rm
Less than one year	233	(148)	85
Between one and two years	255	(130)	125
Between two and three years	226	(109)	117
Between three and four years	231	(86)	145
Between four and five years	257	(55)	202
More than five years	240	(22)	218
	1 442	(550)	892

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

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

19.2 Provisions

GROUP

	2008				
	Leave pay provision Rm	Redundancy and restructuring Rm	Staff bonus and incentive provision Rm	Sundry provisions Rm	Total Rm
Balance at the beginning of the year	**530**	**2**	**1 597**	**767**	**2 896**
Additions	**237**	**4**	**1 554**	**523**	**2 318**
Amounts used	**(301)**	**—**	**(1 737)**	**(570)**	**(2 608)**
Balance at the end of the year	**466**	**6**	**1 414**	**720**	**2 606**

	2007				
	Leave pay provision Rm	Redundancy and restructuring Rm	Staff bonus and incentive provision Rm	Sundry provisions Rm	Total Rm
Balance at the beginning of the year	459	—	1 310	577	2 346
Additions	249	2	1 474	552	2 277
Amounts used	(178)	—	(1 187)	(362)	(1 727)
Balance at the end of the year	530	2	1 597	767	2 896

Provisions expected to be recovered or settled within no more than 12 months after the balance sheet date were R1 838 million (2007: R1 727 million). Sundry provisions are made with respect to commissions, clawbacks, warranties and litigation claims.

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

GROUP

	2008 Rm	2007 Rm
20. Deposits due to customers		
Call deposits	**62 303**	45 754
Cheque account deposits	**99 694**	96 961
Credit card deposits	**2 051**	2 173
Fixed deposits	**124 760**	102 406
Foreign currency deposits	**12 297**	10 114
Liabilities to clients under acceptances	**121**	108
Notice deposits	**7 297**	6 863
Other deposits	**12 098**	8 155
Repurchase agreements with non-banks (refer to note 45)	**2 217**	1 115
Saving and transmission deposits	**59 443**	36 863
	382 281	310 512
Portfolio analysis		
Designated at fair value	**11 419**	11 465
Financial liabilities at amortised cost	**370 862**	299 047
	382 281	310 512

	GROUP 2008 Rm	GROUP 2007 Rm
21. Debt securities in issue		
Abacas – Commercial paper issued and floating rate notes	**6 640**	12 416
Floating rate notes	**55 832**	35 949
Liabilities arising from securitised SPEs	**6 858**	9 985
Negotiable certificates of deposit	**69 260**	75 925
Other debt securities in issue	**23 487**	14 939
Promissory notes	**3 823**	7 210
	165 900	156 424
Portfolio analysis		
Designated at fair value		
Other debt securities in issue	**5 890**	3 764
Financial liabilities at amortised cost	**149 287**	144 339
Abacas – Commercial paper issued and floating rate notes	**6 640**	12 416
Floating rate notes	**55 832**	35 949
Liabilities arising from securitised SPEs	**6 858**	9 985
Negotiable certificates of deposit	**69 012**	75 925
Other debt securities in issue	**7 122**	2 854
Promissory notes	**3 823**	7 210
Hedged item in fair value hedging relationship	**10 723**	8 321
Negotiable certificates of deposit	**248**	—
Other debt securities in issue	**10 475**	8 321
	165 900	156 424
22. Liabilities under investment contracts		
Balance at the beginning of the year	**7 908**	5 655
Changes in investment contracts (refer to note 33)	**438**	534
Inflows on investment contracts	**3 264**	2 640
Policyholder benefits on investment contracts	**(1 440)**	(1 013)
Reinsurance assets and policies charge	**207**	92
Balance at the end of the year	**10 377**	7 908
Portfolio analysis		
Designated at fair value	**10 377**	7 908
22.1 Liabilities under investment contracts attributable to external policyholders		
Total liabilities under investment contracts	**10 984**	8 666
Elimination of intergroup balance	**(607)**	(758)
	10 377	7 908

22. Liabilities under investment contracts *(continued)*

22.2 Assets linked to investment contracts

	GROUP		
	2008		
	Linked to investment contracts Rm	Intergroup assets and liabilities Rm	Attributable to external policy-holders Rm
Money market assets (refer to note 2)	3 450	(48)	3 402
Investments (refer to note 11)	7 123	—	7 123
Other assets	69	—	69
Other liabilities	(139)	—	(139)
Reinsurance assets (refer to note 10)	481	—	481
	10 984	(48)	10 936

	2007		
	Linked to investment contracts Rm	Intergroup assets and liabilities Rm	Attributable to external policy-holders Rm
Money market assets (refer to note 2)	2 808	(42)	2 766
Investments (refer to note 11)	5 647	—	5 647
Other assets	7	—	7
Other liabilities	(27)	—	(27)
Reinsurance assets (refer to note 10)	231	—	231
	8 666	(42)	8 624

23. Policyholder liabilities under insurance contracts

	GROUP		
	2008		
	Gross Rm	Reinsurance Rm	Net Rm
Short-term insurance contracts:			
Claims outstanding (refer to note 23.1)	727	(340)	387
Claims reported and loss adjustment expense	564	(317)	247
Claims incurred but not reported	163	(23)	140
Unearned premiums at the end of the year	856	(10)	846
Balance at the beginning of the year	769	(38)	731
Increase during the year	2 556	(10)	2 546
Release during the year	(2 469)	38	(2 431)
	1 583	(350)	1 233
Long-term insurance contracts (refer to note 23.2)	1 493	(72)	1 421
	3 076	(422)	2 654

23. Policyholder liabilities under insurance contracts *(continued)*

	GROUP 2007 Gross Rm	Reinsurance Rm	Net Rm
Short-term insurance contracts:			
Claims outstanding (refer to note 23.1)	625	(148)	477
Claims reported and loss adjustment expense	477	(144)	333
Claims incurred but not reported	148	(4)	144
Unearned premiums at the end of the year	769	(38)	731
Balance at the beginning of the year	661	(21)	640
Increase during the year	2 064	(213)	1 851
Release during the year	(1 956)	196	(1 760)
	1 394	(186)	1 208
Long-term insurance contracts (refer to note 23.2)	1 856	(68)	1 788
Maintenance contracts accounted for as insurance contracts	68	—	68
	3 318	(254)	3 064

	GROUP 2008 Rm	2007 Rm
Comprising:		
Unit-linked insurance contracts		
Gross	**697**	855
Non-linked insurance contracts	**1 957**	2 209
Gross	**2 379**	2 463
Reinsurance (refer to note 10)	**(422)**	(254)
	2 654	3 064

23. Policyholder liabilities under insurance contracts *(continued)*

23.1 Reconciliation of claims outstanding, including claims incurred but not reported

	2008		
	Gross Rm	Reinsurance Rm	Net Rm
Balance at the beginning of the year	**625**	**(148)**	**477**
Cash paid for claims settled during the year	**(1 680)**	**20**	**(1 660)**
Increase/(decrease) in claims arising from current year claims	**1 722**	**(127)**	**1 595**
Increase/(decrease) in claims arising from prior years' claims	**60**	**(85)**	**(25)**
Balance at the end of the year (refer to note 23)	**727**	**(340)**	**387**

	2007		
	Gross Rm	Reinsurance Rm	Net Rm
Balance at the beginning of the year	536	(58)	478
Cash paid for claims settled during the year	(1 503)	167	(1 336)
Increase/(decrease) in claims arising from current year claims	1 536	(206)	1 330
Increase/(decrease) in claims arising from prior years' claims	56	(51)	5
Balance at the end of the year (refer to note 23)	625	(148)	477

23.2 Reconciliation of the gross long-term insurance contracts – without fixed terms

	GROUP	
	2008 Rm	2007 Rm
Balance at the beginning of the year	**1 856**	1 914
Cash paid in respect of claims (refer to note 32)	**(406)**	(418)
(Decrease)/increase in units and market value	**(120)**	93
Liabilities released for payment on death, surrender and other termination benefits	**(172)**	(325)
Other movements[1]	**(872)**	(611)
Premiums received in the year (refer to note 31)	**1 207**	1 203
Balance at the end of the year (refer to note 23)	**1 493**	1 856

Note

[1]*Includes items s the expected release of margins, cash paid in respect of expenses, changes in assumptions and mismatch releases.*

Change in accounting estimate – Policyholder liabilities under insurance contracts

Policyholder liabilities under insurance contracts are value using Professional Guidance Notes (PG N) 104, issued by the Actuarial Society of South Africa. PGN 104 allows for additional margins if the Statutory Actuary believes that the compulsory margins are insufficient for prudent provisioning and/or to defer the release of profits in line with policy design and Group practices. These margins are incorporated into the liability calculations.

It is the Group's policy that profit margins contained in the premium basis, which are expected to be released in future as the business runs off, should not be capitalised and recognised prematurely. Such margins should only be released to profits once premiums have been received and the risk cover has been provided.

One of the margins established in terms of the Group's accounting policy, is a percentage of premiums for certain regular premium business. This allows for uncertainty as to whether the premiums actually will be received and is in line with the profit recognition policy whereby profit is not recognised in advance.

Management considered it appropriate to provide for these margins as a result of not having sufficiently large volumes of business and accompanying data. As a result there were random fluctuations in the policyholder liabilities and the discretionary margins provided to some extent a buffer against these fluctuations. However the volumes of business have shown positive growth over the past financial years and a more credible volume of data has emerged. Management has reconsidered the percentage of premiums included in the policyholder liabilities and based on the additional data available set the margins to 0% (2007: 10%).

This has resulted in a decrease in policyholder liabilities and an increase in profit before taxation of R140 million (2007: Rnil). This amount is taxed in the corporate fund at 28%, amounting to R39 million, as it represents a transfer from the individual policyholder funds to the corporate fund.

		GROUP 2008 Rm	GROUP 2007 Rm
24. Borrowed funds			
24.1 Subordinated callable notes		**12 144**	9 796
The subordinated debt instruments listed below qualify as secondary capital in terms of the Banks Act, No 94 of 1990 (as amended).			
Interest rate	**Final maturity date**		
14,25%	22 March 2014	**3 100**	3 100
10,75%	26 March 2015	**1 100**	1 100
8,75%	1 September 2017	**1 500**	1 500
8,10%	27 March 2020	**2 000**	2 000
8,80%	7 March 2019	**1 725**	1 725
Three-month JIBAR + 0,75%	26 March 2015	**400**	400
Three-month JIBAR + 0,97%	31 March 2018	**1 080**	—
Three-month JIBAR + 1,00%	31 March 2018	**179**	—
Three-month JIBAR + 1,09%	31 March 2018	**361**	—
Three-month JIBAR + 1,20%	31 March 2018	**266**	—
Accrued interest		**379**	297
Fair value adjustment[1]		**54**	(326)

Note

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

The 14,25% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 22 March 2009. Interest is paid semi-annually in arrear on 22 March and 22 September of each year, provided that the last date for payment shall be 22 March 2009. If Absa Bank Limited does not exercise the redemption option, interest will be paid quarterly in arrear thereafter on 22 March, 22 June, 22 September and 22 December, with the first quarterly payment commencing on 22 June 2009.

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

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

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

24. Borrowed funds *(continued)*

24.1 Subordinated callable notes *(continued)*

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

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

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

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

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

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

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

				GROUP 2008 Rm	GROUP 2007 Rm
24.	**Borrowed funds** *(continued)*				
24.2	**Redeemable cumulative option-holding preference shares**			**152**	153
	Preference dividend rate	**Option exercise dates**	**Number**		
	72% of the prime overdraft rate	1 July 2007 to 1 July 2009 1 March, 1 June, 1 September or 1 December of each year	79 237 500	**158**	158
	Redemption of preference shares for the Absa Group Limited Employee Share Ownership Administrative Trust		(3 977 500)	**(8)**	(7)
	Shares held by the Absa Group Limited Employee Share Ownership Administrative Trust		(2 107 700)	**(4)**	(5)
	Accrued dividend			**6**	7

The dividends are compounded and payable semi-annually in arrear on 30 September and 31 March of each year. The shares were issued by Absa Group Limited on 1 July 2004 and the redemption dates commence on the first business day after the third anniversary of the date of issue of the redeemable preference shares and ending on the fifth anniversary of the date of issue. Such exercise and notice will be deemed to be effective only on the option exercise dates, being 1 March, 1 June, 1 September or 1 December of each year. The shares are convertible into ordinary shares at the option of the preference shareholders on the redemption dates in lots of 100.

	2008 Rm	2007 Rm
	12 296	9 949
Portfolio analysis		
Subordinated callable notes designated at fair value	**672**	—
Financial liabilities at amortised cost	**5 069**	5 104
Redeemable cumulative option-holding preference shares	**152**	153
Subordinated callable loans	**4 917**	4 951
Subordinated callable loans in fair value hedging relationship	**6 555**	4 845
	12 296	9 949

25. Share capital and premium

25.1 Ordinary share capital

	2008 Rm	2007 Rm
Authorised		
800 000 000 (2007: 800 000 000) ordinary shares of R2,00 each	**1 600**	1 600
Issued		
680 278 301 (2007: 678 573 074) ordinary shares of R2,00 each	**1 361**	1 357
Less: 2 400 220 (2007: 2 678 159) treasury shares held by the Absa Group Limited Share Incentive Trust	**(5)**	(6)
Less: 905 111 (2007: 718 202) treasury shares held by Absa Life Limited and Absa Fund Managers	**(2)**	(1)
Less: 500 (2007: 68 800) treasury shares held by Absa Group Limited Employee Share Ownership Administrative Trust	**(0)**	(0)
	1 354	1 350
Total issued capital		
Share capital	**1 354**	1 350
Share premium	**2 251**	2 292
	3 605	3 642

	GROUP 2008 Rm	2007 Rm

25. Share capital and premium *(continued)*

25.1 Ordinary share capital *(continued)*

Unissued shares

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

The Group has a share incentive trust in terms of which shares are issued and share options are granted. Details of the share incentive trust are set out in note 53. As required by the JSE Limited, the Share Incentive Trust has been consolidated into the Group's annual financial statements.

As required by IFRS, the shares held by the life fund within Absa Life Limited were eliminated as treasury shares in the Group's annual financial statements.

Shares issued during the year

The following ordinary shares were issued during the year to meet the obligations of the Absa Share Incentive Trust:

- On 13 March 2008, 118 900 shares at R69,00 per share, being R2,00 par value and R67,00 share premium.
- On 11 June 2008, 91 000 shares at R63,40 per share, being R2,00 par value and R61,40 share premium.
- On 30 June 2008, 1 345 727 shares at R38,43 per share, being R2,00 par value and R36,43 share premium.
- On 12 September 2008, 86 300 shares at R69,00 per share, being R2,00 par value and R67,00 share premium.
- On 15 December 2008, 63 300 shares at R64,10 per share, being R2,00 par value and R62,10 share premium.

Shares issued during the previous year

The following ordinary shares were issued during the previous year to meet the obligations of the Absa Share Incentive Trust:

- On 1 June 2007, 3 000 000 shares at R36,21 per share, being R2,00 par value and R34,21 share premium.
- On 3 September 2007, 3 241 000 shares at R69,00 per share, being R2,00 par value and R67,00 share premium.
- On 13 December 2007, 377 000 shares at R69,00 per share, being R2,00 par value and R67,00 share premium.

All shares issued by the Company were paid in full.

25.2 Preference share capital – unlisted

	2008 Rm	2007 Rm
Authorised		
80 467 500 (2007: 80 467 500) redeemable cumulative option-holding preference shares of R2,00 each	**161**	161
Issued		
75 260 000 (2007: 75 619 500) redeemable cumulative option-holding preference shares of R2,00 each	**151**	151

These shares meet the definition of debt under IAS 32 – *Financial Instruments: Presentation,* and have therefore been included under "Borrowed funds" (refer to note 24).

The 73 152 300 (2007: 73 152 300) preference shares held by Batho Bonke Capital (Proprietary) Limited are entitled to voting rights equivalent to those of the listed ordinary shares. The remaining shares held by the Absa Group Limited Employee Share Ownership Administrative Trust are not entitled to voting rights.

Shares redeemed during the year

The following options held in the Absa Group Limited Share Ownership Administrative Trust were exercised by employees:

- On 13 March 2008, 118 900 preference shares were redeemed and converted into ordinary share capital at R69,00 per share being R2,00 par value and R67,00 share premium.
- On 11 June 2008, 91 000 preference shares were redeemed and converted into ordinary share capital at R63,40 per share, being R2,00 par value and R61,40 share premium.
- On 12 September 2008, 86 300 preference shares were redeemed and converted into ordinary share capital at R69,00 per share, being R2,00 par value and R67,00 share premium.
- On 15 December 2008, 63 300 preference shares were redeemed and converted into ordinary share capital at R64,10 per share, being R2,00 par value and R62,10 share premium.

25. Share capital and premium *(continued)*

25.2 Preference share capital – unlisted *(continued)*

Shares redeemed during the previous year

The following options held in the Absa Group Limited Employee Share Ownership Administrative Trust were exercised by employees:

- On 3 September 2007, 3 241 000 preference shares were redeemed and converted into ordinary share capital at R69,00 per share, being R2,00 par value and R67,00 share premium.
- On 13 December 2007, 377 000 preference shares were redeemed and converted into ordinary share capital at R69,00 per share, being R2,00 par value and R67,00 share premium.

26. Minority interest – preference shares (listed)

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

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

Shares issued during the previous year

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

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

27. Other reserves

Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Available-for-sale reserve

The available-for-sale reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investment is derecognised or impaired, in which case the cumulative amount recognised in equity is released to the income statement.

Cash flow hedging reserve

The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Associates' and joint ventures' reserves

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

27. Other reserves *(continued)*

Regulatory general credit risk reserve

Total impairments, consisting of identified and unidentified impairments, calculated in terms of IAS 39 – *Financial Instruments: Recognition and Measurement,* should exceed the provisions calculated for regulatory purposes. Should this not be the case, the additional general credit risk reserve is created and maintained through an appropriation of distributable reserves to eliminate the shortfall.

Share-based payment reserve

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

Insurance contingency reserve

A contingency reserve is maintained at 10% of net written premiums as stipulated by the Short-term Insurance Act, 1988. The utilisation of this reserve, in case of catastrophe, is subject to the approval of the Financial Services Board (FSB).

28. Interest and similar income

	GROUP	
	2008 Rm	2007 Rm
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	**654**	613
Fair value adjustments on hedging instruments	**(2 221)**	(547)
Investments	**680**	1 295
Loans and advances to banks	**3 971**	1 819
Other loans and advances to banks	**2 340**	869
Reverse repurchase agreements	**1 631**	950
Loans and advances to customers	**68 366**	50 287
Cheque accounts	**3 700**	2 599
Corporate overdrafts and specialised finance loans	**1 102**	650
Credit cards	**3 087**	2 139
Foreign currency loans	**789**	695
Instalment credit agreements	**9 388**	7 988
Interest on impaired financial assets (refer to note 9)	**529**	274
Loans granted under resale agreement	**662**	504
Loans to associates and joint ventures	**181**	107
Microloans	**1 073**	318
Mortgages	**37 666**	27 761
Other advances[1]	**2 534**	1 009
Overnight finance	**1 438**	1 147
Personal loans	**3 113**	2 660
Preference shares	**1 122**	1 097
Term loans	**324**	115
Wholesale overdrafts	**1 658**	1 224
Other interest and hedging income	**432**	—
Statutory liquid asset portfolio	**4 067**	1 656
	75 949	55 123

Note

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

	GROUP 2008 Rm	2007 Rm
28. Interest and similar income *(continued)*		
Portfolio analysis		
Fair value adjustments on hedged items		
Statutory liquid asset portfolio (refer to note 64.2)	**1 157**	(343)
Fair value adjustments on hedging instruments	**(2 221)**	(547)
Cash flow hedges (refer to note 64.2)	**(1 301)**	(1 004)
Fair value hedges (refer to note 64.2)	**(920)**	457
Interest on financial assets held at amortised cost	**75 999**	53 607
Interest on financial assets designated at fair value	**1 014**	2 406
Debt instruments	**299**	894
Loans and advances	**426**	1 374
Statutory liquid asset portfolio	**289**	138
	75 949	55 123

Included above is interest received from the Group's parent company of R1 018 million (2007: R94 million). Refer to note 47 for the full disclosure of related party transactions.

	GROUP 2008 Rm	2007 Rm
29. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	**1 791**	789
Debt securities in issue	**18 905**	11 960
Deposits due to customers	**32 486**	21 438
Call deposits	**7 113**	4 083
Cheque account deposits	**5 699**	4 580
Credit card deposits	**75**	63
Fixed deposits	**13 088**	8 705
Foreign currency deposits	**973**	1 286
Notice deposits	**595**	470
Other deposits	**1 817**	1 105
Saving and transmission deposits	**3 126**	1 146
Deposits from banks	**1 102**	1 231
Call deposits	**659**	658
Fixed deposits	**160**	261
Other	**283**	312
Fair value adjustments on hedging instruments	**(829)**	560
Interest incurred on finance leases	**148**	157
Other interest	**551**	98
	54 154	36 233
Portfolio analysis		
Fair value adjustments on hedged items (refer to note 64.2)	**818**	(417)
Borrowed funds	**368**	(241)
Debt securities in issue	**450**	(176)
Fair value adjustments on hedging instruments (refer to note 64.2)		
Fair value hedges	**(829)**	560
Interest paid on financial liabilities designated at fair value	**1 666**	—
Debt securities in issue	**706**	—
Deposits due to customers	**960**	—
Interest paid on financial liabilities held at amortised cost	**52 499**	36 090
Borrowed funds	**1 423**	1 030
Debt securities in issue	**17 749**	12 136
Deposits from banks	**1 102**	1 231
Deposits due to customers	**31 526**	21 438
Interest incurred on finance leases	**148**	157
Other interest	**551**	98
	54 154	36 233

Included above is interest paid to the Group's parent company of R259 million (2007: R247 million). Refer to note 47 for the full disclosure of related party transactions.

	GROUP 2008 Rm	GROUP 2007 Rm
30. Net fee and commission income		
Fee and commission income		
Asset management and other related fees	**124**	123
Consulting and actuarial fees	**206**	162
Credit-related fees and commissions	**11 099**	9 611
Credit cards	**1 624**	1 551
Cheque accounts	**3 027**	2 575
Electronic banking	**3 021**	2 657
Other	**1 316**	1 027
Saving accounts	**2 111**	1 801
External administration fees	**326**	217
Insurance commission received	**962**	877
Other fees and commissions	**97**	88
Pension fund payment services	**526**	489
Trust and other fiduciary services	**1 464**	1 306
Project finance fees	**686**	513
Portfolio and other management fees	**238**	255
Trust and estate income	**259**	228
Unit and property trust income	**281**	310
	14 804	12 873
Fee and commission expense	**(1 461)**	(1 273)
	13 343	11 600

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

	GROUP 2008 Rm	GROUP 2007 Rm
30.1 Included above is net fees and commissions linked to financial instruments not at fair value		
Fee and commission income		
Credit cards	**732**	740
Cheque accounts	**3 027**	2 575
Electronic banking	**3 021**	2 657
Other	**825**	587
Saving accounts	**2 111**	1 801
	9 716	8 360
Fee and commission expense	**(168)**	(147)
	9 548	8 213
31. Net insurance premium income		
Gross insurance premiums	**3 896**	3 531
Life insurance contracts (refer to note 23.2)	**1 207**	1 203
Short-term insurance contracts	**2 689**	2 328
Premiums ceded to reinsurers	**(385)**	(339)
Reinsurance on life insurance contracts	**(52)**	(62)
Reinsurance on short-term insurance contracts	**(333)**	(277)
	3 511	3 192

	GROUP 2008 Rm	GROUP 2007 Rm
32. Net insurance claims and benefits paid		
Gross claims and benefits paid on insurance contracts	**2 124**	1 847
Life insurance claims and benefits (refer to note 23.2)	**406**	418
Short-term insurance claims and benefits	**1 718**	1 429
Reinsurance recoveries	**(234)**	(244)
Reinsurance recoveries on life insurance contracts	**(16)**	(17)
Reinsurance recoveries on short-term insurance contracts	**(218)**	(227)
	1 890	1 603
Comprising:		
Life	**390**	401
Credit life	**87**	187
Funeral business	**65**	74
Home mortgage protection	**161**	133
Other	**77**	7
Short-term	**1 500**	1 202
Guarantees	**86**	111
Miscellaneous	**58**	35
Motor and personal	**239**	211
Property and engineering	**1 117**	845
	1 890	1 603
33. Changes in insurance and investment liabilities		
Decrease in insurance liabilities	**(368)**	(45)
Increase in investment contracts (refer to note 22)	**438**	534
	70	489
34. Gains and losses from banking and trading activities		
Associates and joint ventures	**—**	2
Dividends received	**—**	8
(Loss)/profit realised on disposal	**—**	(6)
Designated at fair value through profit or loss	**(374)**	1 221
Debt instruments	**65**	(73)
Debt securities in issue	**(750)**	(116)
Deposits due to customers	**(1 794)**	183
Deposits from banks	**(1 606)**	(435)
Equity instruments	**1 244**	873
Loans and advances to banks	**1 491**	510
Loans and advances to customers	**976**	333
Statutory liquid assets	**—**	(54)
Held for trading		
Derivatives and trading instruments	**3 982**	348
Ineffective hedges	**34**	79
Cash flow hedges (refer to note 64.2)	**76**	(60)
Fair value hedges (refer to note 64.2)	**(42)**	139
	3 642	1 650

	GROUP 2008 Rm	GROUP 2007 Rm
35. Gains and losses from investment activities		
Associates and joint ventures	**31**	41
Dividends received	**2**	4
Profit realised on disposal	**29**	37
Designated at fair value through profit or loss	**398**	921
Cash, cash balances and balances with central banks	**91**	111
Debt instruments	**232**	99
Equity instruments	**75**	711
Held for trading		
Derivatives and trading instruments	**160**	(16)
Investments linked to investment contracts	**492**	579
Cash, cash balances and balances with central banks	**(20)**	100
Equity instruments	**512**	479
Subsidiaries		
(Loss)/profit realised on disposal	**(17)**	36
	1 064	1 561
36. Other operating income		
Exchange differences	**237**	96
Income from maintenance contracts	**48**	34
Investment property rentals	**22**	—
Profit on disposal of intangible assets	**740**	68
Profit on disposal of property and equipment	**51**	80
Property development profit	**57**	191
Gross sales	**106**	308
Cost of sales	**(49)**	(117)
Rental income from property subleases	**111**	94
Sundry income[1]	**249**	282
	1 515	845

Included above is income received from the Group's parent company of R211 million (2007: R3 million). Refer to note 47 for the full disclosure of related party transactions.

Note

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

	GROUP 2008 Rm	GROUP 2007 Rm
37. Operating expenses		
Amortisation of intangible assets (refer to note 13)	**150**	85
Auditors' remuneration	**89**	73
Audit fees	**78**	67
Audit fees – under provision from prior periods	**6**	2
Other fees	**5**	4
Cash transportation	**413**	347
Depreciation (refer to note 15)	**856**	780
Equipment rental and maintenance	**278**	295
Information technology	**1 489**	1 185
Investment property charges	**7**	—
Change in fair value of investment property (refer to note 14)	**1**	—
Operating expenses	**6**	—
Marketing costs	**961**	931
Operating lease expenses on property	**895**	817
Other operating costs	**2 215**	1 761
Other professional fees	**1 136**	1 254
Printing and stationery	**268**	266
Staff costs	**11 604**	9 944
Bonuses	**1 554**	1 474
Employer contributions to post-retirement funds	**613**	529
Other staff costs	**512**	377
Salaries	**8 571**	7 196
Share-based payments (refer to note 53)	**143**	193
Training costs	**211**	175
Telephone and postage	**832**	704
	21 193	18 442
Average number of employees employed by the Group	**37 361**	36 024
Number of employees employed by the Group at year-end	**37 828**	36 893
38. Other impairments		
Financial instruments	**30**	—
Available-for-sale instruments (refer to note 11.1)	**1**	—
Other assets	**29**	—
Other	**(12)**	58
Computer software development costs (refer to note 13)	**1**	21
Repossessed properties	**(13)**	37
	18	58

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

	GROUP 2008 Rm	GROUP 2007 Rm
38. Other impairments *(continued)*		

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

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

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

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

39. Indirect taxation

	2008 Rm	2007 Rm
Payments to third parties	**47**	37
Training levy	**84**	77
Value added tax net of input credits	**593**	595
	724	709

40. Taxation expense

	2008 Rm	2007 Rm
Current		
Foreign taxation	**545**	280
Secondary taxation on companies	**308**	346
South African current taxation	**3 948**	3 170
South African current taxation – prior year	**(65)**	(16)
	4 736	3 780
Deferred		
Deferred taxation (refer to note 16.1)	**(770)**	272
Accelerated tax depreciation	**(208)**	241
Allowances for loan losses	**(570)**	(95)
Other provisions	**14**	25
Other temporary differences	**(6)**	101
	3 966	4 052

	GROUP 2008 Rm	GROUP 2007 Rm
40. Taxation expense *(continued)*		
Reconciliation between accounting profit and the tax expense		
Operating profit before income tax	**15 209**	14 077
Share of retained earnings of associates and joint ventures	**(73)**	(73)
	15 136	14 004
Tax calculated at a tax rate of 28% (2007: 29%)	**4 238**	4 061
Effect of different tax rates in other countries	**(33)**	(42)
Effect on opening deferred taxes resulting from the reduction in the income tax rate	**(24)**	—
Expenses not deductible for tax purposes	**156**	296
Income not subject to tax	**(666)**	(648)
Other	**(12)**	39
Secondary taxation on companies	**307**	346
	3 966	4 052

41. Earnings per share

41.1 Basic earnings per share

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

	2008 Rm	2007 Rm
Profit attributable to ordinary equity holders of the Group	**10 592**	9 595
Weighted average number of ordinary shares in issue (millions)	**675,7**	671,5
Issued shares at the beginning of the year (millions)	**678,5**	672,0
Effect of shares issued during the year (weighted millions)	**0,8**	2,8
Treasury shares held by the Absa Group Limited Employee Share Ownership Administrative Trust (weighted millions)	**(0,0)**	(0,1)
Treasury shares held by the Absa Group Limited Share Incentive Trust (weighted millions)	**(2,7)**	(2,5)
Treasury shares held by Absa Life and Absa Fund Managers (weighted millions)	**(0,9)**	(0,7)
Basic earnings per share (cents)	**1 567,5**	1 428,9

41.2 Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potential dilutive ordinary shares. The Group has two categories of potential dilutive ordinary shares: redeemable, cumulative option-holding preference shares and share options. The convertible debt is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual quoted market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. The difference is shares that would be obtained for no value.

Contingently issuable shares are only included as potential dilutive ordinary shares when all of the conditions of the contingency are deemed to have been met, based on the information available, at the balance sheet date.

In calculating the diluted earnings per share on share options to employees and other share-based payment arrangements, the Group adjusts the exercise price, which impacts the weighted average shares issued at no value, of potential ordinary shares to include the fair value of services that will be recognised as an expense in a future period.

	GROUP 2008 Rm	2007 Rm
41. Earnings per share *(continued)*		
41.2 Diluted earnings per share *(continued)*		
Net profit attributable to ordinary equity holders of the Group	**10 592**	9 595
Interest expense on convertible debt (net of taxation)	**16**	15
Diluted earnings	**10 608**	9 610
Diluted weighted average number of ordinary shares in issue (millions)	**702,8**	716,4
Weighted average number of ordinary shares in issue (millions)	**675,7**	671,5
Adjustments for shares issued at no value		
Options linked to redeemable preference shares (weighted millions)	**23,3**	36,8
Share options (weighted millions)	**3,8**	8,1
Diluted earnings per share (cents)	**1 509,5**	1 341,4

The dilution represents the effective discount between the average option price and the average market price at which option holders can convert into ordinary shares. This includes options issued in respect of the Absa Group Limited Share Incentive Trust, the Absa Group Limited Employee Share Ownership Administrative Trust and Batho Bonke Capital (Proprietary) Limited.

42. Headline earnings

	GROUP 2008		2007	
	Gross Rm	Net[1] Rm	Gross Rm	Net[1] Rm
Headline earnings is determined as follows:				
Net profit attributable to ordinary equity holders of the Group		**10 592**		9 595
Adjustments for:				
IAS 16 – Net profit on disposal of property and equipment (refer to note 36)	**(51)**	**(37)**	(80)	(57)
IAS 21 – Recycled foreign currency translation reserve, disposal of investments in foreign operations	**(38)**	**(38)**	(20)	(29)
IAS 27 – Net loss/(profit) on disposal of subsidiaries (refer to note 35)	**17**	**17**	(36)	(26)
IAS 28 and 31 – Net profit on disposal of associates and joint ventures (refer to notes 34 and 35)	**(29)**	**(29)**	(31)	(31)
IAS 28 – Headline earnings component of associates' and joint ventures' earnings	**(58)**	**(54)**	(45)	(45)
IAS 38 – Net profit on disposal and impairment of intangible assets (refer to notes 36 and 38)	**(739)**	**(636)**	(47)	(43)
IAS 39 – Release of available-for-sale reserves	**127**	**92**	74	49
IAS 39 – Impairment of available-for-sale assets (refer to note 38)	**1**	**1**	—	—
Headline earnings		**9 908**		9 413
Interest expense on convertible debt		**16**	—	15
Diluted headline earnings		**9 924**		9 428
Headline earnings per share (cents)		**1 466,2**		1 401,9
Diluted headline earnings per share (cents)		**1 412,1**		1 316,1

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

	GROUP 2008 Rm	2007 Rm
43. Retirement benefit obligations		
Balance sheet obligation disclosed in other liabilities (refer to note 19)		
Pension benefits – subsidiaries' defined benefit plan (refer to note 43.1)	**499**	354
Other post-retirement benefits	**1**	1
	500	355
Income statement charge included in staff costs		
Pension benefits – subsidiaries' defined benefit plan (refer to note 43.1)	**73**	50
Pension benefits – Absa Group Pension Fund (refer to note 43.3.1)	**1**	1
	74	51
43.1 Subsidiaries' defined benefit plan		
Funded obligation		
Present value of funded obligation	**503**	372
Unrecognised actuarial losses	**(4)**	(18)
	499	354
Reconciliation of movement in obligation		
Balance at the beginning of the year	**372**	296
Benefits paid	**(32)**	(23)
Current service costs	**9**	5
Exchange differences	**109**	20
Interest expense	**64**	45
Net unrecognised actuarial (gains)/losses	**(19)**	29
Balance at the end of the year	**503**	372
Total expense comprise		
Current service costs	**9**	5
Interest expense	**64**	45
	73	50
The principal actuarial assumptions used relating to African subsidiaries were as follows:		
Discount rate (%)	**13,50**	13,50
Expected rate on plan assets (%)	**12,00**	12,00
Future pension increases (%)	**4,40**	4,40
Future salary increases (%)	**11,00**	11,00
Assumptions regarding future mortality experience are set based on advice from published statistics and experience.		
The average life expectancy in years of a pensioner retiring at the age of 65 is as follows:		
Male	**12,50**	11,50
Female	**14,40**	13,50
Pension fund assets		
Investments		
Government bonds	**97**	97
Treasury bills	**430**	139
Current assets		
Bank balance with Barclays Bank, Mozambique S.A.	**4**	146
Interest owing by government	**9**	3
	540	385

The assets have been ring fenced to the retirement benefits, but do not qualify as plan assets in terms of IAS 19 – *Employee Benefits* as they are not in a separate entity and therefore are carried on the Group's balance sheet. The major constraint in this regard is the lack of enabling legislation in certain African countries.

43. Retirement benefit obligations *(continued)*

43.2 Subsidiaries' post-retirement medical aid contributions

Woolworths Financial Services (Proprietary) Limited subsidises a portion of the medical aid contributions of retired employees who participate in the Wooltru Healthcare Fund. The accrued and future liability in respect of post-retirement medical aid contributions are valued annually on the balance sheet date. The liability was actuarially valued based on the healthcare benefits currently provided to staff using appropriate mortality and withdrawal assumptions. For purposes of the valuation it was assumed that medical inflation is 9,2% per annum. The discount rate used to value the liability is 10,7% per annum. At the balance sheet date, the accrued liability amounted to R4 million in respect of those current and retired employees who participate in the Wooltru Healthcare Fund. Employees who joined the healthcare fund after 1 November 2000 are not entitled to receive post-retirement healthcare benefits.

The provision for post-retirement medical aid benefits determined in terms of IAS 19 – Employee benefits is as follows:

	GROUP 2008 Rm
Funded obligation	
Funding liability	4
Funding deficit	4
Unrecognised actuarial gain	—
Net obligation	4

Reconciliations of movement in the obligation and funding liability have not been provided as amounts are less than R1 million.

	GROUP 2008 Rm	GROUP 2007 Rm
43. Retirement benefit obligations *(continued)*		
43.3 The Absa Group Pension Fund		
43.3.1 Defined benefit plan		
Funded obligation		
Present value of funded obligations	**(4 833)**	(4 497)
Fair value of plan assets	**5 659**	5 765
Net assets before contingency and investment reserves	**826**	1 268
Contingency reserves as per the rules of the fund	**(148)**	(234)
Investment reserve account	**—**	(864)
Net unrecognised surplus	**678**	170
Reconciliation of movement in obligation		
Balance at the beginning of the year	**4 497**	3 928
Actuarial losses	**358**	630
Benefits paid	**(389)**	(355)
Current service costs	**1**	1
Interest expense	**366**	293
Balance at the end of the year	**4 833**	4 497
Reconciliation of movement in plan assets		
Balance at the beginning of the year	**5 765**	5 511
Actuarial (losses)/gains	**(163)**	179
Benefits paid	**(389)**	(355)
Employer contributions	**1**	1
Expected return on plan assets	**445**	429
Balance at the end of the year	**5 659**	5 765
Pension fund plan assets		
Debt instruments	**2 252**	2 294
Equity instruments	**3 197**	3 257
Other assets	**210**	214
	5 659	5 765

Pension fund assets include ordinary shares and interest-bearing instruments issued by the Group with a fair value of R271 million (2007: R298 million). Refer to note 47 for the full disclosure of related party transactions.

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

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

The expected return on assets is determined by calculating a total return estimate based on weighted average returns for each class. Asset class returns are estimated using current and projected economic and market factors such as inflation, credit spreads and equity risk premiums.

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

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

43. Retirement benefit obligations *(continued)*

43.3 The Absa Group Pension Fund *(continued)*

43.3.1 Defined benefit plan *(continued)*

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

GROUP	2008	2007
The principal actuarial assumptions used for the defined benefit plan were as follows:		
Discount rate	**7,5%**	8,5%
Expected return on plan assets	**8,0%**	8,0%
Future salary increases	**7.0% + merit**	6,0% + merit
Assumptions regarding future mortality experience are set based on advice from published statistics and experience.		
The average life expectancy in years of a pensioner retiring at the age of 60 is as follows:		
Male	**20,4**	20,4
Female	**25,3**	25,3

Expected rate of future pension increases

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

43.4 Post-retirement benefits

All permanent employees are members of the Absa Group Pension Fund (the fund), with the exception of employees that have commenced employment within the Group at the age of 55 or older. All members, at 31 March 1997, had the option to convert to the defined contribution structure of which the majority did. Members joining the fund on or after 1 April 1997 are only entitled to benefits under the defined contribution structure.

Of the employees belonging to the fund, 99,9% (2007: 99,9%) were members of the defined contribution structure, while 0,1% (2007: 0,1%) were members of the defined benefit structure. As at the balance sheet date, the defined benefit structure had 44 (2007: 53) contributing members.

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

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

43. Retirement benefit obligations *(continued)*

43.4 Post-retirement benefits *(continued)*

The fund is governed by the Pension Funds Act of 1956, which requires that an actuarial valuation be carried out at least every three years. The most recent statutory valuation of the fund was effected on 1 April 2008 and confirmed that the fund was in a sound financial position. This valuation was in accordance with the Pension Funds Second Amendment Act of 2001 (the Act). This Act facilitates the determination of the surplus apportionment to members, while avoiding the inappropriate distribution of surpluses. The Act requires that a fund explicitly establish additional contingency reserves to ensure the financial soundness of the fund going forward. The valuation has been performed using a projected unit benefit method in respect of the defined benefit structure.

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

43.4.1 Post-retirement medical aid contributions

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

44. Dividends per share

	GROUP 2008 Rm	GROUP 2007 Rm
Dividends paid to ordinary equity holders during the year		
On 19 February 2008 final dividend number 43 of 320,00 cents per ordinary share (20 February 2007: 265,00 cents)	**2 171**	1 781
On 7 August 2008 interim dividend number 44 of 265,00 cents per ordinary share (2 August 2007: 240,00 cents)	**1 803**	1 620
	3 974	3 401
Dividends paid to ordinary equity holders relating to income for the year		
On 7 August 2008 interim dividend number 44 of 265,00 cents per ordinary share (2 August 2007: 240,00 cents)	**1 803**	1 620
On 9 February 2009 final dividend number 45 of 330,00 cents per ordinary share (19 February 2008: 320,00 cents)	**2 245**	2 171
	4 048	3 791
The STC payable by the Group in respect of the dividend approved and declared subsequent to the balance sheet date, amounts to R225 million.		
No provision has been made for this dividend and the related STC in the financial statements at the balance sheet date.		
Dividends paid to minority preference equity holders during the year		
19 February 2008 final dividend number 4 of 4 436,00 cents per preference share (20 February 2007: 3 784,00 cents)	**219**	114
7 August 2008 interim dividend number 5 of 4 797,49 cents per preference share (2 August 2007: 4 043,00 cents)	**238**	199
	457	313
Dividends paid to minority preference equity holders relating to income for the year		
7 August 2008 interim dividend number 5 of 4 797,49 cents per preference share (2 August 2007: 4 043,00 cents)	**238**	199
9 February 2009 final dividend number 6 of 4 734,49 cents per preference share (19 February 2008: 4 436,00 cents)	**236**	219
	474	418

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

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

Reverse repurchase agreements and cash collateral on securities borrowed

Reverse repurchase agreements are accounted for as collateralised loans under loans and advances while cash collateral is shown under other assets.

	GROUP			
	Cash collateral on securities borrowed 2008 Rm	**Reverse repurchase agreements 2008 Rm**	Cash collateral on securities borrowed 2007 Rm	Reverse repurchase agreements 2007 Rm
Assets				
Banks (refer to note 4)	**—**	**17 247**	—	29 307
Other	**3 993**	**7 072**	15 664	8 233
Statutory liquid assets (refer to note 3)	**—**	**4 100**	—	—
	3 993	**28 419**	15 664	37 540

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

Repurchase agreements

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

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

The assets transferred and not derecognised in the above repurchase agreements are valued at R5 178 million (2007: R3 199 million), refer to note 5. They are pledged as security for the term of the underlying repurchase agreement.

The remainder of the repurchase agreements are secured by securities on-pledged, (from loans and advances) as described in the reverse repurchase section above, as well as securities on-pledged from other loans.

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

Cars securitisation

The Group has transferred instalment credit agreements to Collateralised Auto Receivables Securitisation (Proprietary) Limited and Collateralised Auto Receivables Securitisation Series 1 (Proprietary) Limited.

These entities are consolidated by the Group based on the following conclusions reached in terms of SIC-12:

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

Accordingly, the instalment credit agreements are included in the balance sheet under "Loans and advances to customers".

Refer to note 21 for further details on the related liabilities.

Homes securitisation

The Group has transferred retail mortgages to Home Obligors Mortgage Enhanced Securities (Proprietary) Limited (Homes).

Homes is consolidated by the Group based on the following conclusions reached in terms of SIC-12:

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

Accordingly, the retail mortgages are included in the balance sheet under "Loans and advances to customers".

Refer to note 21 for further details on the related liabilities.

47. Related parties

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

The following are defined as related parties of the Group:

- Key management personnel (refer to notes 47.1 and 47.2).
- The parent, Barclays Bank PLC (refer to note 47.3).
- Subsidiaries (refer to note 47.4).
- Associates, joint ventures and retirement benefit funds (refer to note 47.5).

47. Related parties *(continued)*

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

(i) executive and non-executive directors;

(ii) members of the Group Executive Committee (Exco);

(iii) children, dependants and spouses of executive and non-executive directors, and members of Group Exco; and

(iv) an entity controlled/jointly controlled or significantly influenced by any individual referred to in (i) to (iii) above.

47.1 Transactions with key management personnel

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

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

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

47. Related parties *(continued)*

47.1 Transactions with key management personnel *(continued)*

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

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

Other investments

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

Insurance premiums paid and claims received

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

	GROUP 2008 Rm	2007 Rm
47. Related parties *(continued)*		
47.2 Key management personnel compensation		
Directors		
Post-employment benefits	**1**	1
Salaries and other short-term benefits	**57**	57
Share-based payments	**11**	18
	69	76
Other key management personnel		
Post-employment benefits	**1**	1
Salaries and other short-term benefits	**42**	34
Share-based payments	**11**	6
	54	41
47.3 Transactions with parent company		
The following are balances with, and transactions entered into with, the parent company:		
Balances		
Loans and advances	**13 731**	13 326
Derivative assets	**15 672**	4 707
Nominal value of derivative assets	**363 956**	361 881
Other assets	**228**	257
Reinsurance assets	**19**	—
Investments	**581**	—
Deposits	**(14 616)**	(16 254)
Derivative liabilities	**(15 373)**	(5 496)
Nominal value of derivative liabilities	**(379 349)**	(204 120)
Other liabilities	**(1 540)**	(121)
Transactions		
Dividends paid	**2 333**	1 949
Interest paid	**259**	247
Interest received	**1 018**	94
Other operating income	**211**	3

All transactions entered into are on the same commercial terms and conditions as in the normal course of business.

47. Related parties *(continued)*
47.4 Subsidiaries

Details of the material subsidiaries are as follows:

Name	Nature of business
Absa Development Company Holdings (Proprietary) Limited	Specialises in township development and sale of residential, commercial and industrial land.
Absa Manx Holdings Limited	Captive insurance company for the Group and responsible for investments in the insurance markets.
Absa Trading and Investment Solutions Holdings Limited	Financial investment company.
AllPay Consolidated Investment Holdings (Proprietary) Limited	Distributes social security grants and other payments to beneficiaries on behalf of third parties, mainly provincial government departments.
Barclays Bank Mozambique S.A. (incorporated in Mozambique)	Commercial bank that provides retail and limited corporate services from a network of outlets and ATMs.
Diluculo Investments (Proprietary) Limited	Investment holding and management company, providing project and management services to property funds and trading projects (acquired during 2008).
Meeg Bank Limited	Provides a comprehensive range of banking and financial services to the personal market, small- to medium-sized corporates and the public sector in the Eastern Cape (previously disclosed as an associate, became a subsidiary during 2008).
National Bank of Commerce Limited (incorporated in Tanzania)	Commercial bank that provides retail and limited corporate services from a national network of outlets and ATMs.
Unifer Holdings Limited	Microlending holding company.
Woodbook Finance Limited	Markets and delivers a range of banking and insurance products to medical and dental practitioners and private hospitals.
Woolworths Financial Services (Proprietary) Limited	Provides credit cards, in-store cards and personal loans (acquired during 2008).
Absa Bank Limited and subsidiaries	
Absa Bank Limited	Offers a comprehensive range of retail, commercial, corporate and investment banking services to a wide range of customer bases.
Absa Debtor Finance Company (Proprietary) Limited	Provides debtor financing to business customers.
Ambit Management Services (Proprietary) Limited	Property management company.
Conbros Limited	Used to provide offshore loan facilities (currently winding down).
The Ballito Junction Development (Proprietary) Limited	Retail property development company (previously disclosed as an associate, became a subsidiary during 2008).
Ngwenya River Estate (Proprietary) Limited	Residential property development (previously disclosed as an associate, became a subsidiary during 2008).
Absa Financial Services and subsidiaries	
Absa Financial Services Limited	Holding company of financial service related entities.
Absa Insurance and Financial Advisors (Proprietary) Limited (previously known as Absa Brokers (Proprietary) Limited)	Provides a full spectrum of financial advisory services ranging from risk management to wealth creation, preservation and estate planning.
Absa Consultants and Actuaries (Proprietary) Limited	Offers comprehensive administrative, actuarial and consulting services, including asset consulting services in respect of pension funds, provident funds and other employee benefit group schemes.
Absa Fund Managers Limited	Offers a variety of unit trust investment products, ranging from low-risk fixed-interest funds, such as the Absa Money Market Fund, to higher-risk specialist equity funds investing both domestically and internationally.
Absa Insurance Company Limited	Short-term insurance provider to house and vehicle owners.
Absa Investment Management Services (Proprietary) Limited	Approved investment manager and linked investment service provider. It offers off-the-shelf local and international linked investment products, as well as investment solutions to suit specific needs.
Absa Life Limited	Provides life insurance products focusing on risk and investment products that complement the Group's offerings to various market segments.
Absa Mortgage Fund Managers (Proprietary) Limited	Provides loans to small and large companies, close corporations, trusts, property investors and developers for the development, acquisitions or refinancing of income-producing commercial and industrial properties.
Absa iDirect Limited (previously known as Global Insurance Company Limited)	Short-term insurance business.

GROUP

Country of incorporation	Issued capital 2008 Rm	Direct/ indirect holding 2008 %	Issued capital 2007 Rm	Direct/ indirect holding 2007 %	Shares at book value 2008 Rm	Shares at book value 2007 Rm
South Africa	**0**	**100**	0	100	**14**	14
Isle of Man	**0**	**100**	0	100	**436**	436
South Africa	**8**	**100**	8	100	**857**	857
South Africa	**0**	**100**	0	100	**0**	0
Mozambique	**165**	**80**	165	80	**131**	131
South Africa	**0**	**100**	n/a	n/a	**0**	n/a
South Africa	**4**	**100**	4	50	**116**	27
Tanzania	**81**	**55**	81	55	**86**	86
South Africa	**13**	**100**	13	100	**0**	0
South Africa	**0**	**100**	0	100	**75**	75
South Africa	**918**	**50**	n/a	n/a	**906**	n/a
South Africa	**359**	**100**	303	100	**11 297**	7 297
South Africa	**1**	**100**	1	100	**0**	0
South Africa	**0**	**100**	0	100	**15**	15
Isle of Man	**0**	**100**	0	100	**—**	—
South Africa	**35**	**100**	35	50	**28**	25
South Africa	**0**	**50**	0	50	**96**	49
South Africa	**0**	**100**	0	100	**118**	118
South Africa	**0**	**100**	0	100	**2**	2
South Africa	**0**	**100**	0	100	**1**	1
South Africa	**3**	**100**	3	100	**3**	3
South Africa	**31**	**100**	31	100	**31**	31
South Africa	**0**	**100**	0	100	**0**	0
South Africa	**24**	**100**	24	100	**24**	24
South Africa	**2**	**100**	2	100	**2**	2
South Africa	**1**	**100**	1	100	**40**	46

47. Related parties *(continued)*
47.4 Subsidiaries *(continued)*

Details of the principal subsidiaries are as follows:

Name	Nature of business
Absa Stockbrokers (Proprietary) Limited	Enables customers to trade online or by telephone in shares, warrants and exchange traded funds.
Absa Syndicate Investments Holdings Limited	A corporate member of Lloyd's based in London. It underwrote on 10 syndicates (disposed during 2008).
Absa Trust Limited	Main activities include the drafting and safe custody of wills, the administration of deceased estates and trusts, portfolio management and estate and financial planning.
Abvest Holdings and subsidiaries	
Abvest Holdings (Proprietary) Limited	Holding company of asset management related entities.
Absa Asset Management (Proprietary) Limited	An institutional asset management company that offers fixed income, equity, structured products and alternative investment solutions to customers through various pooled and segregated investment mandates.
Share trusts	
Absa Group Limited Employee Share Ownership Administrative Trust	Share purchase and option scheme to all staff.
Absa Group Limited Share Incentive Trust	Share purchase and option scheme to senior staff.
Batho Bonke Absa Historical Disadvantaged South Africans (HDSA) Employee Trust	Black economic empowerment (BEE) trust.
Special purpose entities	
Absa Benefit Fund	Cell captive.
Absa Foundation Trust	Funds community upliftment. Receives a percentage of the Group's dividends which it distributes to identified community-related projects.
Absa General Fund	Fund used to invest in unit trusts.
Alpha Trust	Provides preference share funding.
Asset Backed Collaterised Securities (Proprietary) Limited (Abacas)	Special purpose vehicle for Absa Capital division.
Collaterised Auto Receivables Securitisation (Proprietary) Limited	Securitisation vehicle for Absa Vehicle and Asset Finance.
Collaterised Auto Receivables Securitisation Series 1 (Proprietary) Limited	Securitisation vehicle for Absa Vehicle and Asset Finance.
Home Obligors Mortgage Enhanced Securities (Proprietary) Limited	Securitisation vehicle for Absa Home Loans.
Absa Property Equity Fund	Unit trust.
IFU Property Fund	Unit trust.

Subsidiaries' aggregate profits and losses after taxation	**2008 Rm**	2007 Rm
Aggregate profits after taxation	**10 040**	9 856
Aggregate losses after taxation	**(132)**	(137)

GROUP

Country of incorporation	Issued capital 2008 Rm	Direct/ indirect holding 2008 %	Issued capital 2007 Rm	Direct/ indirect holding 2007 %	Shares at book value 2008 Rm	Shares at book value 2007 Rm
South Africa	**0**	**100**	0	100	**0**	0
United Kingdom	**n/a**	**n/a**	8	100	**n/a**	8
South Africa	**0**	**100**	0	100	**11**	11
South Africa	**0**	**100**	0	97	**79**	76
South Africa	**0**	**100**	0	100	**36**	36
South Africa	**—**	**—**	—	—	**—**	—
South Africa	**—**	**—**	—	—	**—**	—
South Africa	**—**	**—**	—	—	**—**	—
South Africa	**—**	**—**	—	—	**—**	—
South Africa	**—**	**—**	—	—	**—**	—
South Africa	**—**	**—**	—	—	**—**	—
South Africa	**—**	**—**	—	—	**—**	—
South Africa	**0**	**—**	0	—	**—**	—
South Africa	**0**	**100**	0	100	**0**	0
South Africa	**0**	**100**	0	100	**0**	0
South Africa	**0**	**100**	0	100	**0**	0
South Africa	**n/a**	**91**	n/a	86	**160**	160
United Kingdom	**n/a**	**93**	n/a	n/a	**118**	n/a

47. Related parties *(continued)*

47.5 Associates, joint ventures and retirement benefit funds

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

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

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

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

	2007		
	Associates and joint ventures Rm	Retirement benefit funds Rm	Total Rm
Deposits	(499)	(41)	(540)
Interest and similar income	(825)	—	(825)
Interest expense and similar charges	30	3	33
Fees received	(143)	(14)	(157)
Fees paid	60	525	585
Loans and advances	9 277	—	9 277
Other assets	27	—	27
Other liabilities	(92)	—	(92)
Value of investments managed by the Group	—	4 029	4 029

47. Related parties *(continued)*

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

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

Name	Nature of business
Absa Corob Trust Joint Venture[1]	Acquires immovable property for investment.
Abseq Properties (Proprietary) Limited[1]	Property development and investment company.
African Trading Spirit 309 (Proprietary) Limited[1]	Property development.
Agrista (Proprietary) Limited[1]	Agricultural consultants.
Ambit Properties Limited	Property loan stock company.
Axial Finance (Proprietary) Limited	Provides vehicle financing (sold during 2007).
Banco Comercial Angolano	A commercial bank that provides retail and commercial banking services from a network of branches in Angola.
Barrie Island Property Investments (Proprietary) Limited[1]	Investment in mixed use property.
Blake and Associates Holdings (Proprietary) Limited	Provides debt recovery management and operates an international call centre (sold during 2008).
Batho Bonke Investments (Proprietary) Limited	Investment in a diverse portfolio of companies where valuable BEE contributions can be made (sold during 2008).
Blue Nightingale 608 (Proprietary) Limited[1]	Investment in commercial property.
Campus on Rigel (Proprietary) Limited[1]	Property investment company (sold during 2008).
Cherry Vanilla Investments (Proprietary) Limited[1]	Retirement village development (acquired during 2008).
Culemborg Investment Properties (Proprietary) Limited[1]	Residential property development (acquired during 2008).
FFS Finance South Africa (Proprietary) Limited	Provides financing solutions to Ford Motor Company customers.
Integrated Processing Solutions (Proprietary) Limited	Joint venture with Standard Bank involved in cheque processing activities (acquired during 2008).
MAN Financial Services (S.A.) (Proprietary) Limited	Joint venture between Absa Bank Limited and MAN Financial Services GmbH for financing of trucks and buses.
Mall on 14th Avenue (Proprietary) Limited[1]	Property development (acquired during 2008).
Maravedi Group (Proprietary) Limited	Provides debtor management (sold during 2008).
Maxcity Properties (Proprietary) Limited[1]	Investment in mixed use property.
Meeg Bank Limited	Provides a comprehensive range of banking and financial services to the personal market, small- to medium-sized corporates and the public sector in the Eastern Cape (became a subsidiary during 2008).
Ngwenya River Estate (Proprietary) Limited[1]	Residential property development (became a subsidiary during 2008).
Northern Lights Trading 197 (Proprietary) Limited[1]	Investment in commercial property.
Pacific Heights Investments 196 (Proprietary) Limited[1]	Property development (acquired during 2008).
Palm Hill Property Investments (Proprietary) Limited[1]	Property development.
Persistent Properties (Proprietary) Limited[1]	Investment in residential property.
Pinnacle Point Group Limited	Property development company (acquired during 2008).
Retail Africa Wingspan Investments (Proprietary) Limited[1]	Property fund (acquired during 2008).
RZT Zelpy 4809 (Proprietary) Limited[1]	Investment in residential property.
Sanlam Home Loans (Proprietary) Limited	Manages and administers the granting of loans as well as secure funding for these loans.
Sekunjalo Investments Limited	Investment holding company (became an associate during 2008).
Somerset West Auto Park (Proprietary) Limited[1]	Investment in auto dealers and fitment centres.
The Ballito Junction Development (Proprietary) Limited[1]	Retail property development of a shopping centre complex in Ballito Bay (became a subsidiary during 2008).
The Racing Investment Trust[1]	Property development.
Unitrans Finance (Proprietary) Limited	Strategic alliance between Absa Bank Limited and Unitrans Motors (Proprietary) Limited.
Virgin Money South Africa (Proprietary) Limited	Joint venture between Absa Bank Limited and Virgin Money Group Limited to provide retail financial services products under the Virgin brand.
Zevoli 146 (Proprietary) Limited	Property development (acquired during 2008).

Note

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

47. Related parties *(continued)*
47.5 Associates, joint ventures and retirement benefit funds *(continued)*

Name	Country of incorporation
Equity-accounted associates and joint ventures	
Ambit Properties Limited[1]	South Africa
Banco Comercial Angolano	Angola
Blake and Associates Holdings (Proprietary) Limited[1,4]	South Africa
FFS Finance South Africa (Proprietary) Limited	South Africa
Integrated Processing Solutions (Proprietary) Limited[5]	South Africa
MAN Financial Services (S.A.) (Proprietary) Limited	South Africa
Meeg Bank Limited[1,3]	South Africa
Pinnacle Point Group Limited[1,5]	South Africa
Sanlam Home Loans (Proprietary) Limited	South Africa
Sekunjalo Investments Limited[1,5]	South Africa
Unitrans Finance (Proprietary) Limited[1]	South Africa
Virgin Money South Africa (Proprietary) Limited	South Africa
Zevoli 146 (Proprietary) Limited[5]	South Africa
Associates and joint ventures designated at fair value through profit or loss	
Absa Corob Trust Joint Venture[1]	South Africa
Abseq Properties (Proprietary) Limited[1]	South Africa
African Trading Spirit 309 (Proprietary) Limited[1]	South Africa
Agrista (Proprietary) Limited[1]	South Africa
Barrie Island Property Investments (Proprietary) Limited[1]	South Africa
Blue Nightingale 608 (Proprietary) Limited[1]	South Africa
Cherry Vanilla Investments (Proprietary) Limited[5]	South Africa
Culemborg Investments Properties (Proprietary) Limited[5]	South Africa
Mall on 14th Avenue (Proprietary) Limited[1,5]	South Africa
Maxcity Properties (Proprietary) Limited[1]	South Africa
Northern Lights Trading 197 (Proprietary) Limited	South Africa
Pacific Heights Investments 196 (Proprietary) Limited[1,5]	South Africa
Palm Hill Property Investments (Proprietary) Limited[1]	South Africa
Persistent Properties (Proprietary) Limited[1]	South Africa
Retail Africa Wingspan Investments (Proprietary) Limited[5]	South Africa
RZT Zelpy 4809 (Proprietary) Limited[1]	South Africa
Somerset West Auto Park (Proprietary) Limited[1]	South Africa
The Racing Investment Trust	South Africa

Notes

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

GROUP

2008 Carrying value Rm	Total assets[2] Rm	Total liabilities[2] Rm	Equity-accounted earnings Rm	Loans (from)/to entities Rm	Ownership %
714	2 758	2 208	30	136	35
63	2 182	1 966	14	8	50
—	—	—	5	—	—
300	9 650	9 051	38	4 846	50
11	22	—	—	—	50
56	2 569	2 456	11	1 659	50
—	—	—	(11)	—	—
931	583	298	—	—	28
—	4 866	4 863	—	1 695	50
59	886	437	—	—	27
0	0	—	—	—	35
0	24	84	(14)	65	50
10	52	52	—	33	37
2 144	23 592	21 415	73	8 442	
—	46	23	—	18	50
—	808	564	—	385	50
—	62	62	—	—	24
—	—	—	—	—	47
—	41	36	—	38	40
—	0	0	—	36	30
—	57	0	—	30	30
—	121	120	—	177	33
—	—	—	—	44	30
—	—	—	—	214	40
—	—	—	—	—	50
—	—	—	—	—	50
—	113	97	—	73	40
—	32	32	—	30	50
—	0	0	—	—	33
—	0	0	—	—	25
—	0	0	—	17	33
—	42	40	—	26	20

47. Related parties *(continued)*

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

Name	Country of incorporation
Equity-accounted associates and joint ventures	
Ambit Properties Limited[1]	South Africa
Banco Comercial Angolano	Angola
Batho Bonke Investments (Proprietary) Limited[1,4]	South Africa
Blake and Associates Holdings (Proprietary) Limited[1]	South Africa
FFS Finance South Africa (Proprietary) Limited	South Africa
MAN Financial Services (S.A.) (Proprietary) Limited	South Africa
Maravedi Group (Proprietary) Limited[1]	South Africa
Meeg Bank Limited[1]	South Africa
Sanlam Home Loans (Proprietary) Limited	South Africa
Unitrans Finance (Proprietary) Limited[1]	South Africa
Virgin Money South Africa (Proprietary) Limited	South Africa

Associates and joint ventures designated at fair value through profit or loss	
Absa Corob Trust Joint Venture[1]	South Africa
Abseq Properties (Proprietary) Limited[1]	South Africa
African Trading Spirit 309 (Proprietary) Limited[1]	South Africa
Agrista (Proprietary) Limited[1,4]	South Africa
Alamo Trading Company (Proprietary) Limited[1]	South Africa
Barrie Island Property Investments (Proprietary) Limited[1,4]	South Africa
Blue Nightingale 608 (Proprietary) Limited[1,4]	South Africa
Campus on Rigel (Proprietary) Limited[1]	South Africa
Maxcity Properties (Proprietary) Limited[1,4]	South Africa
Ngwenya River Estate (Proprietary) Limited[1,4]	South Africa
Northern Lights Trading 197 (Proprietary) Limited	South Africa
Palm Hill Property Investments (Proprietary) Limited[1]	South Africa
Persistent Properties (Proprietary) Limited[1,4]	South Africa
RZT Zelpy 4809 (Proprietary) Limited[1,4]	South Africa
Somerset West Auto Park (Proprietary) Limited[1,4]	South Africa
The Ballito Junction Development (Proprietary) Limited[1]	South Africa
The Racing Investment Trust	South Africa

Notes

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

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

[3] *Disposed during the year.*

[4] *Acquired during the year.*

GROUP

2007

Carrying value Rm	Total assets[2] Rm	Total liabilities[2] Rm	Equity-accounted earnings Rm	Loans (from)/to entities Rm	Ownership %
594	1 386	1 013	38	152	31
49	1 626	1 431	3	—	50
2	0	0	0	—	50
11	95	54	2	—	28
261	9 755	9 233	49	4 676	50
46	2 180	2 089	11	1 272	50
4	233	220	(11)	—	45
37	1 095	1 016	1	10	50
0	5 887	5 555	0	2 301	50
0	0	0	(3)	—	35
0	14	48	(17)	—	50
1 004	22 271	20 660	73	8 411	
2	44	24	—	18	50
150	813	545	—	387	50
30	62	2	—	—	50
0	3	1	—	—	47
0	0	0	—	—	50
3	0	0	—	—	40
32	0	0	—	—	30
0	0	1	—	—	33
38	0	0	—	200	40
49	62	62	—	33	50
70	0	0	—	—	50
17	54	37	—	52	40
8	26	18	—	18	50
30	0	0	—	94	25
0	0	0	—	—	33
25	178	106	—	102	50
11	0	0	—	—	20

	GROUP 2008 Rm	2007 Rm
48. Managed funds		
Estates	**2 545**	2 850
Other	**10 439**	14 800
Participation bond schemes	**2 125**	1 675
Portfolio management	**6 399**	5 571
Trusts	**5 019**	5 719
Unit trusts	**98 573**	90 935
	125 100	121 550
49. Financial guarantee contracts		
Financial guarantee contracts	**1 001**	824

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

	GROUP 2008 Rm	2007 Rm
50. Commitments		
Authorised capital expenditure		
Contracted but not provided for	**703**	135

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

	GROUP 2008 Rm	2007 Rm
Operating lease payments due		
No later than one year	**1 110**	873
Later than one year and no later than five years	**2 251**	1 820
Later than five years	**473**	274
	3 834	2 967

Operating lease payments represent rentals payable by the Group for certain of its office properties and equipment. Leases are negotiated for an average term of three to five years and rentals are renegotiated annually.

	GROUP 2008 Rm	2007 Rm
51. Contingencies		
Guarantees	**9 484**	9 037
Irrevocable facilities	**42 788**	40 040
Letters of credit	**6 429**	3 273
Other contingencies	**25**	23
	58 726	52 373

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

Guarantees include the following:

- Performance guarantee contracts: Contracts where the Group undertakes to make specified payments to a counterparty should a specified third party not perform in terms of its specified contractual obligations.
- Payment guarantee contracts: Contracts where the Group undertakes to make specified payments to a counterparty should a specified third party not make payments to the counterparty in terms of its specified contractual obligations.

Legal proceedings

The Group has been party in proceedings against it during the year, and as at year-end the following few cases need further disclosure:

- During 2001 a US$100 million facility was granted to Trans Sahara Trading (IOM) Limited (TST). The Government of Zambia (GRZ) breached an undertaking it gave to the Group and in addition interfered in the operations of TST leading to TST's inability to service the facility. The Group contends that this conduct gives rise to a liability on the part of TST, which the GRZ denies. MNB attorneys, previously acting on behalf of TST, have obtained an interim charging order entitling them to dispose of a portion of the oil stock owned by TST in settlement of legal fees due. In view of the Group's obvious interest in these proceedings, application for leave to intervene has been launched.

51. Contingencies *(continued)*

Since the presiding court will be required to make a ruling as to ownership, and therefore the validity of the Group's security, these proceedings are considered crucial to the outcome of the recovery effect. Leave to intervene was granted to the Group on 22 July 2008, at which time the attorney general (AG) of the GRZ was joined to the proceedings. The proceedings have since been postponed to 8 December 2008 in order to afford the AG an opportunity to file an answering affidavit. In the interim and in order to prevent the prescription of its claim, the Group has issued summons against the GRZ directly. Although these proceedings constitute an aggressive step, every effort has been made to sensitise stakeholders within the GRZ of the reason for the Group doing so in an effort to maintain amicable settlement negotiations. The Group held credit insurance in respect of the facility. After protracted negotiation, an agreement was concluded in terms whereof the insurers paid to the Group an amount of US$12 million.

- A Group employee has been accused of opening an incorrectly designated bank account within the Ovation Group of companies, which was subsequently used for fraudulent purposes. The Group has received 22 letters of demand from persons who deposited money (approximately R3,5 million) into the incorrectly opened account. All these monies appear to have been lost. During the year a portion of these claimants have instituted claims in respect of which the Group has entered appearance to defend, and a summary judgement application is now pending. It is anticipated that the claim will be both legally and factually difficult. The curators of other entities within the Ovation Group are currently investigating its affairs from which further claims may conceivably flow. This matter is closely linked to the Fidentia group.
- Rotrax Cars SA CC (the customer) has made a claim against the Group for allegedly closing a facility in an inappropriate manner. From initial investigations it appears that the customer failed to comply with its obligations in terms of the facility granted to it. The Group proceeded to institute recovery action against the customer. The summons served by Bernert and CAFA (plaintiffs) does not disclose a cause of action against the Group and the Group filed notices for the plaintiffs to clarify the cause of complaint. The plaintiffs withdrew their claim in June 2005, however they subsequently launched an application to withdraw the notice of withdrawal, which application was dismissed by the court in June 2006. The plaintiffs have launched an application for leave to appeal the judgement and have sought permission for their claim to be reinstated. It is expected that the application for leave to appeal will only be heard in the event that the plaintiffs proceed to set down the application. The chances of the plaintiffs being successful and the claim being reinstated are reasonably possible. If successful, damages are estimated at R50 million. The Group will defend the claim if the court grants the order to reinstate the claim.

	GROUP	
	2008 Rm	2007 Rm
52. Cash and cash equivalents		
Cash, cash balances and balances with central banks	**4 726**	5 091
Loans and advances to banks	**874**	1 505
	5 600	6 596
53. Share-based payments		
During the year, R94 million (2007: R81 million) and R49 million (2007: R112 million) were charged to the income statement in respect of equity-settled and cash-settled share-based payment transactions respectively.		
Staff costs		
The income statement charge for share-based payments is as follows (refer to note 37):		
Equity-settled arrangements:		
Absa Group Limited Employee Share Ownership Administrative Trust	**—**	17
Absa Group Limited Executive Share Award Scheme	**6**	1
Absa Group Limited Performance Share Plan	**41**	—
Absa Group Limited Share Incentive Trust	**47**	63
Cash-settled arrangements:		
Absa Group Limited Phantom Performance Share Plan	**2**	91
Absa Group Limited Phantom Joiners Share Award Plan	**43**	18
Absa Group Limited Phantom Executive Share Award Scheme	**4**	3
	143	193
Total carrying amount of liabilities for cash-settled arrangements (refer to note 19)	**316**	200

The intrinsic value of the liability reflects the difference between the fair value of the options vested and the option exercise price and amounts to Rnil (2007: Rnil).

53. Share-based payments *(continued)*

53.1 Absa Group Limited Share Incentive Trust (Share Incentive Trust)

In terms of the rules of the Share Incentive Trust, the maximum number of shares of the Group that may be issued or transferred and/or in respect of which options may be granted to the participants, shall be limited to shares representing 10% of the total number of issued shares from time to time. This scheme is an equity-settled share-based payment arrangement and options are allocated to employees according to the normal human resources talent management processes. The options issued up to August 2005 (issue 192) had no performance criteria linked to them and vested in equal tranches after three, four and five years respectively. No dividends accrue to the option holder over the vesting period. The options expire after a period of 10 years from the issuing date. Options issued since August 2005 (issue 193) have performance criteria associated with them, which require headline earnings per share to exceed an agreed benchmark over a three-year period from the grant date for the options to vest. Participants need to be in the employment of the Group at the vesting date in order to be entitled to the options.

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

	GROUP	
	2008	
	Number of options ’000	**Weighted exercise price R**
Outstanding at the beginning of the year	**13 618**	**67,90**
Exercised during the year	**(3 252)**	**51,16**
Forfeited during the year	**(399)**	**75,20**
Outstanding at the end of the year	**9 967**	**74,52**
Of which are exercisable	**5 944**	**58,61**

	2007	
	Number of options ’000	Weighted exercise price R
Outstanding at the beginning of the year	18 778	53,01
Exercised during the year	(4 668)	50,72
Forfeited during the year	(752)	73,65
Granted during the year	260	107,47
Outstanding at the end of the year	13 618	67,90
Of which are exercisable	5 603	45,88

Options exercised during the year resulted in 3 252 141 shares (2007: 4 668 453 shares) being allocated at an average exercise price of R51,16 (2007: R50,72) each. The related weighted average share price at the time of exercise was R102,87 (2007: R134,25).

53. Share-based payments *(continued)*

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

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

GROUP

	2008			
Exercise price ranges (R)	**Average option exercise price R**	**Weighted average contractual remaining life Years**	**Weighted average fair value[1] R**	**Number of options outstanding**
17,85 – 43,92	**27,68**	**0,86**	**n/a**	**121 107**
21,16 – 36,19	**26,89**	**1,57**	**n/a**	**265 436**
24,74 – 39,27	**36,84**	**2,73**	**n/a**	**579 909**
27,05 – 35,97	**33,58**	**3,57**	**n/a**	**859 682**
32,00 – 46,05	**35,00**	**4,80**	**12,37**	**942 029**
44,39 – 73,35	**50,85**	**5,80**	**23,02**	**3 235 587**
74,97 – 94,63	**91,34**	**6,82**	**29,04**	**3 172 724**
89,57 – 113,95	**105,53**	**7,38**	**34,27**	**531 000**
82,97 – 112,92	**105,02**	**8,04**	**44,91**	**260 000**

	2007			
	Average option exercise price R	Weighted average contractual remaining life Years	Weighted average fair value[1] R	Number of options outstanding
17,85 – 43,92	17,85	1,64	n/a	273 761
21,16 – 36,19	26,57	2,56	n/a	347 964
24,74 – 39,27	37,30	3,74	n/a	852 465
27,05 – 35,97	33,67	4,54	n/a	1 387 442
32,00 – 46,05	35,01	5,63	12,18	1 699 473
44,39 – 73,35	48,09	6,75	20,30	4 723 458
74,97 – 94,63	91,70	7,79	29,91	3 542 751
89,57 – 113,95	105,53	8,38	34,27	531 000
82,97 – 112,92	105,02	9,04	44,91	260 000

Note

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

The following shares and options are available for allocation:

GROUP

	2008	
	Percentage of total issued shares	**Number of shares '000**
Maximum shares and options available	**10,0**	**68 028**
Shares and options subject to the trust	**(1,5)**	**(9 967)**
Balance of shares and options available	**8,5**	**58 061**

	2007	
	Percentage of total issued shares	Number of shares '000
Maximum shares and options available	10,0	67 857
Shares and options subject to the trust	(2,0)	(13 618)
Balance of shares and options available	8,0	54 239

53. Share-based payments *(continued)*

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

Fair value assumptions of share options granted during the previous year

Fair values for the Share Incentive Trust options are calculated at the date of grant using a modified Black-Scholes model.

The significant weighted average assumptions used to estimate the fair value of the options granted are as follows:

	GROUP 2007
Weighted average fair value of options at grant date (R)	44,91
Weighted average share price at grant date (R)	129,47
Exercise price (R)	107,47
Expected volatility (%)[1]	30
Expected option life (years)	5
Expected forfeiture ratio for executive management (%)	8,46
Expected forfeiture ratio for business unit heads (%)	5,07
Expected forfeiture ratio for senior management (%)	16,27
Expected forfeiture ratio for middle and junior management (%)	22,16
Dividend yield (%)	3,5
Risk-free rate of return on South African government zero coupon bonds (%)	8,0

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

Note

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

53.2 Batho Bonke Capital (Proprietary) Limited

The Group entered into a BEE transaction with Batho Bonke Capital (Proprietary) Limited in July 2004. As the shares issued in terms of the transaction vested immediately and the issue was before 1 January 2005, the provisions of IFRS 2 – *Share-based Payment* were not applicable. No costs will be recognised in the income statement of the Group.

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

	GROUP		
	Weighted average exercise price R	Number of options 2008 '000	Number of options 2007 '000
Outstanding at the beginning of the year	48 – 69	**73 152**	73 152
Forfeited during the year	48 – 69	**—**	—
Outstanding at the end of the year	48 – 69	**73 152**	73 152
Of which are exercisable	48 – 69	**73 152**	73 152

The options outstanding at the balance sheet date have a weighted average contractual life of 0,5 years (2007: 1,5 years).

53. Share-based payments *(continued)*

53.3 Absa Group Limited Employee Share Ownership Administrative Trust

As of the implementation date (1 July 2004), all employees of South African wholly owned subsidiaries (excluding executive directors of Absa Group Limited and Absa Bank Limited), were eligible to participate in this one-off equity-settled share-based payment scheme. Each employee who elected to participate was issued and allotted 200 compulsory redeemable cumulative option-holding preference shares against a receipt of the R400,00 subscription price. A maximum of 7 315 200 preference shares were available for allocation to the trust.

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

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

	Weighted average exercise price R	GROUP Number of options 2008 '000	GROUP Number of options 2007 '000
Outstanding at the beginning of the year	48 – 69	**946**	4 847
Exercised during the year	66,87	**(368)**	(3 618)
Forfeited during the year	48 – 69	**(19)**	(283)
Outstanding at the end of the year	48 – 69	**559**	946
Of which are exercisable	48 – 69	**559**	946

Options exercised during the year resulted in 367 600 (2007: 3 618 000) being allocated at an average exercise price of R66,87 (2007: R69,00) each. The related weighted average share price at the time of exercise was R102,94 (2007: R131,77).

The options outstanding at the balance sheet date have a weighted average contractual life of 0,5 years (2007: 1,5 years).

Fair value assumptions of share options

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

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

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

Note

[1]*The risk-free rate of return represents the yield, recorded on the date of option grant, on a South African government zero coupon bond of term equal to the expected life of the option.*

53. Share-based payments *(continued)*

53.4 Absa Group Limited Phantom Performance Share Plan (Phantom PSP)

The Phantom PSP is a cash-settled plan and payments made to participants in respect of their awards are in the form of cash. The Phantom PSP shares (and any associated notional dividend shares) are awarded at no cost to the participants. The amount that is ultimately paid to the participants is equal to the market value of a number of ordinary shares, as determined after a three-year vesting period. The vesting of the Phantom PSP awards will be subject to non-market performance conditions which will be measured over a three-year period, starting on the first day of the financial year in which the award is made. The awards will vest after three years to the extent that the performance conditions are satisfied. These awards are forfeited in total if the Group's performance fails to meet the minimum performance criteria.

	GROUP	
	Number of options	
	2008 '000	2007 '000
Outstanding at the beginning of the year	**2 323**	1 118
Forfeited during the year	**(139)**	(177)
Granted during the year	**17**	1 382
Outstanding at the end of the year	**2 201**	2 323

The options outstanding at the balance sheet date have no exercise price and a weighted average contractual life of 1,1 years (2007: 1,9 years).

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

Fair value assumptions of share options

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

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

53.5 Absa Group Limited Executive Share Award Scheme (ESAS)

The ESAS is an equity-settled share-based payment arrangement, where the participant's notional bonus comprises a number of restricted nil-cost options, based on the allocation price of ordinary shares. Such an initial allocation is held in trust or in the name of the participant. If the participant is in the employ of the Group after the three-year vesting period, the participant will receive 20% matched options. If the bonus award remains in the ESAS for another two years, the participant receives another 10% matched options. Dividend shares are paid to participants on the ordinary shares as if the shares were held from inception. The number of dividend shares awarded is therefore calculated on the initial share allocation and on the 20% and/or 10% matched shares, over the three- or five-year period. Employees that received a performance bonus in excess of a predetermined amount were compelled to place a set percentage of their bonus award into the ESAS. Employees also had the option of utilising more of their bonus award for voluntary ESAS options.

The following number of initial options allocated in terms of the scheme are eligible for the 20% and/or 10% matched options:

53. Share-based payments *(continued)*

53.5 Absa Group Limited Executive Share Award Scheme (ESAS) *(continued)*

	GROUP Number of options 2008 '000	2007 '000
Outstanding at the beginning of the year	**37**	37
Forfeited during the year	**(41)**	—
Granted during the year	**1 019**	—
Outstanding at the end of the year	**1 015**	37

The options outstanding at the balance sheet date have no exercise price and a weighted average contractual life of 3,1 years (2007: 2,5 years). None of these options were exercisable at the balance sheet date.

Fair value assumptions of share options

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

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

53.6 Absa Group Limited Phantom Joiners Share Award Plan (JSAP)

The JSAP is a cash-settled share-based payment arrangement that enables the Group to attract and motivate new employees by buying out the "in the money" portion of a participant's shares or options under their previous employers' share scheme by offering the employees Absa Group Limited phantom shares. There is no consideration payable for the grant of an award and the vesting of the award is not subject to performance conditions. Dividends accrue to the participant over the vesting period which can be over two, three, five or six years.

	GROUP Number of options 2008 '000	2007 '000
Outstanding at the beginning of the year	**312**	90
Exercised during the year	**(127)**	(45)
Forfeited during the year	**(19)**	(17)
Granted during the year	**788**	284
Outstanding at the end of the year	**954**	312

The options outstanding at the balance sheet date have no exercise price and a weighted average contractual life of 2,9 years (2007: 1,9 years).

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

Fair value assumptions of share options

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

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

53. Share-based payments *(continued)*

53.7 Absa Group Limited Phantom Executive Share Award Scheme (Phantom ESAS)

The Phantom ESAS is a cash-settled share-based payment arrangement, where the participant's notional bonus comprises a number of restricted nil-cost options, based on the allocation price of ordinary shares. If the participant is in the employ of the Group after the three-year vesting period, the participant will receive 20% matched phantom options. If the bonus award remains in the Phantom ESAS for another two years, the participant receives an additional 10% bonus phantom options. Dividend phantom shares are paid to participants on the ordinary phantom shares as if the shares were held from inception. The number of dividend phantom shares awarded is therefore calculated on the initial allocation and on the 20% and/or 10% bonus phantom shares, over the three- or five-year period. Employees that received a performance bonus in excess of a predetermined amount were compelled to place a set percentage of their bonus award into the Phantom ESAS. Employees also had the option of utilising more of their bonus award for voluntary ESAS options.

The following number of initial options allocated in terms of the scheme are eligible for the 20% and/or 10% matched options:

	GROUP	
	Number of options	
	2008 '000	2007 '000
Outstanding at the beginning of the year	**456**	—
Forfeited during the year	**(26)**	(31)
Granted during the year	**124**	487
Outstanding at the end of the year	**554**	456

The options outstanding have no exercise price and a weighted average contractual life of 1,0 year (2007: 3,5 years).

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

Fair value assumptions of share options

The fair value of the Phantom ESAS awards at grant date is based on the share price at grant date. The Group considers adjustments to reflect expectations of options that might be forfeited before the shares vest. At each reporting date the Group adjusts the liability to reflect differences:

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

53.8 Absa Group Limited Performance Share Plan (PSP)

The PSP was implemented in the current year as an equity-settled share-based payment arrangement. Participants are awarded a number of nil-cost options. These options will then be converted into Absa Group Limited shares after a three-year vesting period and on achieving performance conditions attached to the award. The vesting of the PSP awards will be subject to non-market and market-related performance conditions which will be measured over a three-year period, starting on the first day of the financial year in which the award is made. The awards will vest after three years to the extent that the performance conditions are satisfied. These awards are forfeited in total if the Group performance fails to meet the minimum performance criteria.

	GROUP
	Number of options 2008 '000
Outstanding at the beginning of the year	—
Forfeited during the year	**(126)**
Granted during the year	**2 134**
Outstanding at the end of the year	**2 008**

53. Share-based payments *(continued)*

53.8 Absa Group Limited Performance Share Plan (PSP) *(continued)*

The options outstanding at the balance sheet date have no exercise price and a weighted average contractual life of 2,2 years. None of these options were exercisable at the balance sheet date.

Fair value assumptions of share options

The fair value of the PSP awards at grant date is based on the share price at grant date. The Group considers adjustments to reflect expectations for options that might be forfeited before the shares vest. For purposes of determining the expected life and number of options to vest, historical exercise and forfeiture patterns were used

54. Acquisitions and disposals of subsidiaries

54.1 Acquisitions of subsidiaries during the current year

		GROUP 2008 Rm
54.1.1	The Group has a 92,5% interest in the IFU Property Fund. The Group is deemed to have control over the fund from 2008 and the investment has been consolidated.	
	Details of the net assets acquired and goodwill arising are as follows:	
	Loans and advances to banks	10
	Other assets	4
	Investment property	231
	Deferred tax assets	27
	Other liabilities and sundry provisions	(128)
	Minority interest	(10)
	Net assets acquired	134
	Satisfied by:	
	Value of shares issued	134
	Fair value of net assets acquired	(134)
	Goodwill	—
54.1.2	On 1 October 2008 the Group acquired an additional 50,0% interest in Ngwenya River Estate (Proprietary) Limited increasing its shareholding to 100,0%. Ngwenya River Estate (Proprietary) Limited was previously recognised as an associate. The investment is fully consolidated and minority interest of 50,0% is being provided for until SARB approval for the acquisition is obtained. In terms of IFRS 3, the Group has a period of 12 months from the date of acquisition to finalise the determination of the fair values of assets and liabilities. Some of these fair values are best estimates as at the balance sheet date based on determinations which are still in the process of being finalised.	
	Details of the net assets acquired and goodwill arising are as follows:	
	Property and equipment: Freehold property	81
	Other liabilities and sundry provisions	(25)
	Net assets acquired	56
	Satisfied by:	
	Cash outflow on acquisition	36
	Investment in venture capital organisation	20
	Total consideration	56
	Fair value of net assets acquired	(56)
	Goodwill	—

	GROUP 2008 Rm
54. Acquisitions and disposals of subsidiaries *(continued)*	
54.1 Acquisitions of subsidiaries during the current year *(continued)*	
54.1.3 On 10 November 2008 the Group acquired an additional 50,0% interest in The Ballito Junction Development (Proprietary) Limited increasing its shareholding to 100,0%. The Ballito Junction Development (Proprietary) Limited was previously recognised as an associate. In terms of IFRS 3, the Group has a period of 12 months from the date of acquisition to finalise the determination of the fair values of assets and liabilities. Some of these fair values are best estimates as at the balance sheet date based on determinations which are still in the process of being finalised.	
Details of the net assets acquired and goodwill arising are as follows:	
Cash, cash balance and balances with central banks	1
Other assets	9
Investment property	161
Property and equipment: Furniture and other equipment	4
Deferred tax assets	4
Other liabilities	(163)
Net assets acquired	16
Satisfied by:	
Cash outflow on acquisition	6
Investment in venture capital organisation	22
Total consideration	28
Fair value of net assets acquired	(16)
Goodwill	12
54.1.4 On 6 December 2008 the Group acquired an additional 2,6% interest in Abvest Holdings (Proprietary) Limited increasing its shareholding to 100,0%. Details of the net assets acquired and goodwill arising are as follows:	
Cash, cash balance and balances with central banks	0
Net assets acquired	0
Satisfied by:	
Cash outflow on acquisition	3
Fair value of net assets acquired	(0)
Goodwill	3
54.1.5 On 29 January 2008 the Group acquired a 100,0% interest in Diluculo Investments (Proprietary) Limited, which is now a wholly owned subsidiary.	
Satisfied by:	
Cash outflow on acquisition	0
Fair value of net assets acquired	(0)
Goodwill	—

54. Acquisitions and disposals of subsidiaries *(continued)*

54.1.6 The Group acquired a further 23,7% and 26,6% in Meeg Bank Limited on 7 March 2008 and 14 November 2008, respectively. The Group's shareholding has consequently increased to 100,0% at a cost of R53 million on 7 March 2008 and R36 million on 14 November 2008.

Meeg Bank Limited contributed profit before tax of R9 million for the period from acquisition date to 31 December 2008. If the acquisition had occurred on 1 January 2008, the Group's share of the revenue from Meeg Bank Limited revenue would have been R126 million and profit before tax would have been R32 million. Details of the net assets acquired and goodwill arising are as follows:

	GROUP 2008 Rm
Cash, cash balances and balances with central banks	338
Statutory liquid asset portfolio	16
Other assets	14
Loans and advances to customers	865
Investments	2
Property and equipment	16
Freehold property	10
Furniture and other equipment	6
Deferred tax asset	1
Other liabilities and sundry provisions	(40)
Deposits due to customers	(1 101)
Minority interest	(30)
Net assets acquired	81
Satisfied by:	
Cash outflow on acquisition	53
Transfer from investments in associates and joint ventures	27
Total consideration	80
Fair value of assets acquired	(81)
Negative goodwill	(1)

54.1.7 On 1 October 2008, Absa Group Limited acquired 50,0% plus one share in Woolworths Financial Services (Proprietary) Limited from Woolworths (Proprietary) Limited.

Woolworths Financial Services contributed a net profit before tax of R49 million to the Group for the period 1 October 2008 to 31 December 2008. If the acquisition had occurred on 1 January 2008, the Group's share of the revenue from Woolworths Financial Services (Proprietary) Limited would have been R867 million and profit before tax would have been R232 million.

Details of the net assets acquired and goodwill arising are as follows:

	GROUP 2008 Rm
Cash, cash balances and balances with central banks	535
Other assets	99
Current tax assets	42
Loans and advances to customers	5 419
Deferred tax assets	43
Intangible assets	186
Customer lists	178
Other	8
Property and equipment	11
Computer equipment	2
Motor vehicles	9
Other liabilities and sundry provisions	(2 991)
Current tax liabilities	(8)
Debt securities in issue	(2 179)
Deferred tax liabilities	(73)
Minority interest	(542)
Net assets acquired	542
Satisfied by:	
Cash outflow on acquisition	875
Deferred consideration	28
Attributable costs	3
Total consideration	906
Fair value of net assets acquired	(542)
Goodwill	364

The goodwill is attributed to the synergies expected to arise after the Group's acquisition of Woolworths Financial Services (Proprietary) Limited.

54. Acquisitions and disposals of subsidiaries *(continued)*

54.1 Acquisitions of subsidiaries during the current year *(continued)*

54.1.8 On 6 February 2008, Absa Consultants and Actuaries (Proprietary) Limited acquired a pension fund administration portfolio from Glenrand MIB Benefit Services (Proprietary) Limited as a separate business by way of acquiring the contractual relationships together with the workforce. Details of the net assets acquired and goodwill arising are as follows:

	GROUP 2008 Rm
Intangible asset: Customer list	5
Net assets acquired	5
Satisfied by:	
Cash outflow on acquisition	27
Fair value of net assets acquired	(5)
Goodwill	22

54.2 Disposal of subsidiaries during the current year

On 1 December 2008 Absa Manx Insurance Company Limited (incorporated in Isle of Man), a wholly owned subsidiary of Absa Group Limited, disposed of Absa Syndicate Investments Holdings Limited (incorporated in the United Kingdom) and Absa Syndicate Investments Limited (incorporated in the United Kingdom) to a third party. The net assets of Absa Syndicate Investments Holdings Limited as at the date of disposal were as follows:

	GROUP 2008 Rm
Cash, cash balances and balances with central banks	44
Other assets	1
Other liabilities and sundry provisions	(13)
Current tax liabilities	(8)
Net asset value	24
Satisfied by:	
Loss on disposal	(12)
Investment in subsidiary	22
Dividend receivable	(10)
Total consideration	0

54. Acquisitions and disposals of subsidiaries *(continued)*

54.3 Acquisitions of subsidiaries during the prior year

	GROUP 2007 Rm
On 14 August 2006, Absa Bank Limited set up the Absa Property Equity Fund, a traded unit trust. The Group has an 86,5% interest in the fund. The Group is deemed to have control over the investment from 2007 and the investment has been consolidated. Details of the net assets acquired and goodwill arising are as follows:	
Cash, cash balances and balances with central banks	15
Investments	169
Other liabilities and sundry provisions	(26)
Net assets acquired	158
Satisfied by:	
Transfer from investments	143
Cash and cash equivalents acquired	15
Total consideration	158
Fair value of net assets acquired	(158)
Goodwill	—
Absa Bank Limited acquired a further 50,0% interest in Ambit Management Services (Proprietary) Limited during November 2006 (previously recognised as an associate), increasing its shareholding to 100,0%. The subsidiary has only been consolidated from the date of SARB approval, being 1 February 2007. Details of net assets acquired and goodwill arising are as follows:	
Cash, cash balances and balances with central banks	2
Other assets	1
Current tax liabilities	(3)
Net assets acquired	0
Satisfied by:	
Transfer from investments in associates and joint ventures	(2)
Cash and cash equivalents acquired	2
Total consideration	0
Fair value of net assets acquired	(0)
Goodwill	—
Total cash and cash equivalents acquired	17

54.4 Disposal of subsidiary during the prior year

During 2007, the Group deregistered UBS Insurance 1993 Limited. The net assets of the subsidiary at the date of deregistration were as follows:	
Other assets	55
Net asset value	55
Settlement of loans due from the Group	55

The Group disposed of Bankhaus Wölbern & Co. during 2006. As per the terms of the agreement, additional contingency payments were payable in subsequent years if certain predetermined criteria were met. The Group received such a payment to the amount of R36 million as full and final settlement during the previous year.

55. Non-current assets and liabilities held-for-sale

The Group, through the private equity division in Absa Capital, has transferred assets to a value of R2 686 million to a newly formed fund during the year. The Group remains exposed to some of the risks and rewards on these assets and consequently continued to recognise these assets within "Non-current assets held-for-sale" on the balance sheet. The associated liability representing third party investments already received by the fund was carried within "Non-current liabilities held-for-sale" and carried at fair value.

	GROUP 2008 Rm
Non-current asset held-for-sale	
Investments	**2 495**
Non-current liabilities held-for-sale	
Other liabilities and sundry provisions	**408**

56. Financial risks

56.1 Introduction

Risk management is fundamental to Absa's business and plays a crucial role in enabling management to operate more effectively in a changing environment. Over time it has evolved into one of Absa's core capabilities. It is integral to the evaluation of strategic alternatives and the setting of objectives, all within a risk management framework that ensures alignment with the Group's risk appetite and overall strategy.

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

It is the policy of the board to maintain an independent internal audit function to undertake internal audit work throughout the Group. The objective of the internal audit function is to provide reliable, valued and timely assurance to the board and executive management of the effectiveness of controls mitigating current and evolving high risks and in doing so enhancing the controls culture within the Group.

Oversight of risk management is the responsibility of two board subcommittees: the Group Risk and Capital Management Committee (GRCMC) and the GACC. The GACC assists the board with regard to financial information, accounting policies, internal control and compliance matters. The GRCMC's function is to assist the board in fulfilling its responsibilities with regard to risk management and to ensure compliance with the requirements of the Banks Act regarding risk and capital management.

56.2 The year under review

During 2008 the global banking industry experienced significant setbacks as a result of the after effects of the subprime crisis and the subsequent meltdown in the global financial sector and economic recession. Central banks throughout the world, in particular Western Europe, the United Kingdom and the United States of America, were obliged to provide capital and liquidity support to their respective financial sectors. The South African market has largely not been exposed to the subprime crisis, but the global recession and financial crisis are impacting on the South African economy. This is likely to negatively impact all parts of the business in the year ahead.

Through an embedded risk governance structure, a continuous focus on credit, the managing of daily liquidity positions, and the monitoring of the Group's risk weighted assets demand, the Group responded to the changing economic conditions experienced during 2008 and ensured compliance with minimum regulatory and board approved capital targets.

The Group also continuously monitors on a continuous basis risk trends in business areas where the environment is changing and/or its growth rates are increasing to ensure that the Group remains within its set risk appetite. The board is informed of changes in the environment relating to specific risk trends, the Group's positioning and exposure, and actions being taken or planned.

Retail credit risk

The focus during 2008 was to embed the processes in terms of the Advanced Internal Rating Based (AIRB) approach and to ensure appropriate responses to the worsening economic conditions locally and internationally.

The Group's portfolio was under increasing pressure owing to the deteriorating trend in the South African and global economy. This is especially the case for the mortgage and vehicle asset finance segments of the book.

A number of initiatives were implemented as mitigating actions, including:

- Lending criteria and policies in general were reviewed and tightened significantly to respond to the rapidly changing economic conditions. Examples of changes made, include: Loan to value (LTV) capped at a maximum of 70% for home loan applications by new clients; a revised LTV matrix for new and used vehicles; the removal of flexi-reserves under certain circumstances for home loans; and the increase of the cut-off of the new and existing client application scorecard for vehicle finance.
- Significant investments were made to enhance collection capabilities and enhance efficiencies in the collection processes. The number of collectors increased from 1 000 to 2 000, while technology and processes were enhanced. Furthermore extended working hours and shifts to optimise productivity and efficiencies were introduced.

Looking forward, the economic outlook is such that the performance of the retail portfolios will remain under pressure.

Wholesale credit risk

The focus in 2008 was to embed the Foundation Internal Ratings Based (FIRB) approach for the wholesale portfolios and to start preparing for migration to the AIRB approach.

56. Financial risks *(continued)*

56.2 The year under review *(continued)*

Although these portfolios were not under the same pressure as the retail portfolios during 2008, a number of proactive steps were taken to ensure the Group's resilience. These included:

- In the CPF portfolio lending criteria and policies were revised. Examples of mitigating actions include the increase of cover ratios for all segments; reduced LTVs with a maximum of 80% and increased pre-sales agreements.
- The target market criteria for specialised finance were reviewed with the introduction of minimum share cover and reduced scale.

Market risk

By following a controlled trading strategy and applying tight market risk management controls during the stressed market conditions experienced in 2008, Absa Capital successfully continued its client flow business expansion plan and reported good trading revenues for the year.

Absa enhanced its prepayment risk management framework during 2008, to ensure that prepayment risk arising from fixed rate customer assets in a downward interest rate cycle is more proactively managed within a defined risk appetite.

Absa also completed the hedging build phase for its structural products and equity. As a result, the interest rate sensitivity in Absa's banking book has been reduced further in line with the interest rate risk management objective of ensuring a higher degree of margin stability and lower interest rate risk over time.

The Group remains vigilant and continuously takes corrective action to address any control and risk weaknesses that have been exposed, particularly arising from the unprecedented global crisis.

Liquidity and funding risk

While international financial markets experienced significant stress in 2008, the South African domestic money market liquidity remains largely unaffected. Overall the Group's key liquidity risk metrics, which have been formulated to achieve a prudent liquidity profile, were maintained at acceptable levels. Through ongoing stress testing, scenario analysis and contingency planning, the Group continues to actively manage its stress liquidity buffers applying Basel II and best international practice. Overall the Group's liquidity position remains strong.

Group Treasury and Absa Capital successfully raised secondary bank capital through issuing a consumer price index (CPI)-linked bond and CPI-linked senior unsecured bonds. The bond issue was the first time that a South African bank issued an inflation-linked subordinated bond into the domestic capital market. This long-term funding raised supported the bank's liquidity objectives.

The Group achieved further improvement in its capital structure by issuing R1,9 billion inflation-linked subordinated debt instruments (Tier II capital) during 2008.

Basel II and capital management

Approval for the use of the Internal Ratings Based (IRB) approach in respect of credit risk, the Internal Models Approach (IMA) for market risk, and the Advanced Measurement Approach (AMA) for operational risk was endorsed by the SARB. Though having received approval, the robustness of internal models and of risk management processes will be under increased scrutiny and the Group needs to continuously demonstrate the following:

- adequacy of capital to ensure financial stability; and
- robust mechanisms to manage risks within the business by successfully entrenching the internal capital adequacy assessment process (ICAAP) and the use test.

During 2008, the Group submitted its first annual ICAAP submission to the SARB, where the embedment of the ICAAP use test principles was clearly demonstrated in its major businesses. Although the Group made substantial progress in this regard, the embedment of the use test principles is a continuous process that will be enhanced over time in areas such as strategy setting, stress testing and incentives linked to the risk/reward principle.

Key Basel II focus areas for 2009 include the following:

- The further enhancement of risk models and the monitoring thereof.
- The development of the IRB approach for wholesale credit risk in the Absa Capital and Absa Commercial and Business Banking operations.

Capital supply was constrained during 2008. The financial market crisis severely impacted the ability of financial institutions to issue capital market instruments and execute securitisation transactions. Lower profits due to pressure on consumers also resulted in reduced capital supply.

56. Financial risks *(continued)*

56.2 The year under review *(continued)*

Given the deterioration in the credit environment over the financial year, the Group remains vigilant to the potential effect of procyclicality introduced by Basel II and will continue to focus on appropriate levels of capital. In this regard, the board has resolved to increase the target capital adequacy ratios for 2009 to 10% for Tier I capital (from 8,75%) and 13% for the total capital adequacy ratio (from 12%). The Group is adequately capitalised above the minimum regulatory requirement and the board-approved targets. This was as a result of the emphasis placed by the Capital Management Committee on risk-weighted asset growth as well as the slower than expected asset growth.

57. Credit risk

57.1 Introduction

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations. Credit risk may also increase where the downgrading of an entity's credit rating causes the fair value of the Group's investment in that entity's financial instruments to fall. The credit risk that the Group faces arises mainly from commercial and consumer loans and advances, including credit card lending and trading transactions. The Group dedicates considerable resources to controlling credit risk effectively to minimise losses.

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

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

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

In addition to drawn loans and advances, the Group is exposed to other credit risks. These exposures comprise loan commitments, contingent liabilities, financial guarantees, debt securities, other exposures arising in the course of trading activities, settlement risk and debt securities. The risks are managed in a similar way to those in loans and advances, and are subject to the same or similar approval and governance processes.

The nature of the credit risks among these exposures differ considerably:

- Loan commitments may become loans and the risks are thus similar to those attached to loans.
- Contingent liabilities (such as guarantees, assets pledged as security, acceptances and endorsements) historically experience low loss rates.
- Losses arising from exposures held for trading (derivatives and debt securities) are accounted for as trading losses, rather than credit charges, even though the drop in value causing the loss may be attributable to credit deterioration.

The most significant other credit risks are in respect of guarantees, irrevocable loan commitments, debt securities, available-for-sale debt instruments, and settlement risk.

Guarantees and irrevocable loan commitments: The Group is exposed to loss through financial guarantees, acceptances and endorsements, and irrevocable loan commitments it issues to customers and commitments to provide loan finance which cannot be withdrawn once entered into. The credit risks associated with such contracts are managed in a similar way to loans and advances.

Debt securities: Debt securities, treasury and other eligible bills are generally unsecured with the exception of asset-backed securities and similar instruments which are secured by pools of financial assets. Managing the risks associated with debt securities differs in two important respects from the process for risk management of loans and advances. Firstly, a market price is generally available for a bond or other debt security, which is a good indication of creditworthiness. Secondly, many debt securities are rated by independent rating agencies, which is a further indication of credit quality. However, even with continuous monitoring by the rating agencies, there is often a lag between a credit event and re-rating. Therefore, while useful, external ratings can only inform and, as a result, are not a substitute for the credit assessment undertaken for each exposure by the Group, using its own grading system.

57. Credit risk *(continued)*

57.1 Introduction *(continued)*

Settlement risk: The Group is also exposed to settlement risk in its dealings with other financial institutions. These risks arise, for example, in foreign exchange transactions when the Group pays away its side of the transaction to another bank or counterparty before receiving payment from the third party. The risk is that the third party may not meet its obligation. It also arises on derivative contracts where the carrying value of the financial asset is related to the credit condition of the counterparty.

While these exposures are of short duration, they can be significant. In recent years, settlement risk has been reduced by several industry initiatives that have enabled simultaneous and final settlement of transactions to be made (such as payment-versus-payment through continuous linked settlement and delivery-versus-payment in central bank money).

The Group has worked with its peers in the development of these arrangements. As a result, the majority of high-value transactions are increasingly settled by such mechanisms. Where these mechanisms are not available, the risk is further reduced by dealing predominantly with highly rated counterparties, holding collateral and limiting the size of the exposures according to the rating of the counterparty. Furthermore, manifestation of credit risk is manifested as country risk where difficulties may arise in the country in which the exposure is domiciled, thus impeding or reducing the value of the asset, or where the counterparty is the country itself. Thus the rating of any counterparty domiciled in another country is limited to the rating of the country.

57.2 Credit risk management

In managing credit risk, the Group applies the five-step risk management process outlined in the principal risks policy (PRP), which is supported by the individual credit risk control frameworks. This policy is approved by the board of directors on recommendation from the GRCMC and defines the roles of key individuals and committees in the risk management process.

In terms of the PRP, the Group Risk Director appoints a principal risk owner (PRO) for each principal risk, who is responsible for working with the risk owners in the business units to ensure that each principal risk is appropriately managed and controlled.

The credit risk control framework provides a structure within which credit is managed and for which specific operational policies and procedures are drafted as applicable to specific business areas.

The Group has a centralised database of large corporate, sovereign and bank facilities and is currently constructing a database covering all the Group's assets. System-based credit application processes for bank lending are operational throughout the Group and an electronic corporate credit application system is deployed in all of the Group's major businesses.

Each business segment has an embedded credit risk management team. These teams assist Group Risk in the formulation of the Group's risk policy, that adhere to all the principles and requirements for the regulations relating to banks, and the implementation of it across the businesses. Examples include ensuring that:

- maximum exposure guidelines are in place relating to the exposures to any individual customer or counterparty;
- there is a specified risk appetite by country which avoids excessive concentration of credit risk by country; and
- policies are in place that limit lending to certain industry sectors.

Those corporate accounts which are deemed to contain heightened levels of risk are recorded on graded problem loan lists known as either watch lists or early warning lists. These are updated monthly and circulated to the relevant risk control points. Once listing has taken place, exposure is carefully monitored and, where possible, exposure reductions are effected. These lists are graded in line with the perceived severity of the risk attached to the lending. Businesses with exposure to corporate customers all work to three categories of increasing concern. By the time an account becomes impaired it will normally, but not necessarily, have passed through all three categories, which reflects the need for ever-increasing caution and control.

Where an obligor's financial health gives grounds for concern, it is immediately placed into the appropriate category. All obligors are subject to a full review of all facilities on, at least, an annual basis. Interim reviews may be undertaken if circumstances dictate.

57. Credit risk *(continued)*

57.2 Credit risk management *(continued)*

Within the Retail banking portfolios, which tend to comprise homogeneous assets, statistical techniques more readily allow impairment to be monitored on a portfolio basis. It is consistent with the Group's policy of raising an impairment allowance as soon as objective evidence of impairment is identified as a result of one or more loss events that have occurred after initial recognition.

Where models are used, they are based upon customers' personal and financial performance information over recent periods as a predictor for future performance. The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

The Group manages country risk by setting a country risk appetite, which is known as the country guideline and agreed at the Credit Risk Committee (CRC). All cross-border or domestic foreign currency transactions are aggregated to give the current utilisation, in terms of country loss-given default (CLGD), against country appetite. The level of CLGD incurred by a counterparty transaction will largely depend on three main factors: the country severity, the product severity and counterparty grade.

CLGD is incurred in the country of direct risk, defined as where the majority of operating assets are held. This may differ from the country of incorporation. However, where transactions are secured with collateral, the country risk can be transferred from the country of the borrower to the country of the collateral provider. This is only permitted where the collateral sufficiently covers the borrowing and is not expected to decrease over time.

Country risk grades are assigned to all countries where the Group has, or is likely to have, exposure and are reviewed every quarter to ensure they remain appropriate. Country grades, which are derived from long-term sovereign foreign currency ratings, range from 1 (lowest probability of default) to 21 (highest probability of default). A ceiling is applied where a country is graded 12 or worse so that the counterparty cannot be graded better than the country, unless some form of protection is available in the event of a cross-border event, such as a significant portion of a counterparty's assets or income being held or generated in hard currency.

The principal committees that review credit risk management, formulate the overall Group credit policy and resolve all significant credit policy issues, are the CRC and the GRCMC. The GACC also reviews the impairment allowance as part of financial reporting. All these committees receive regular and comprehensive reports on risk issues.

The monthly CRC meetings, chaired by the Group Risk Director, exercises oversight through review and challenge of the size and constitution of the portfolios when viewed against the Group's risk appetite for retail as well as wholesale credit risks.

The Group Executive Committee (Exco) monitors and manages risk-adjusted performance of businesses and receives a quarterly risk update including a copy of the Group's risk profile report.

The GRCMC reviews the Group risk profile, approves the Group control framework and approves minimum control requirements for principal risks. It receives a quarterly report covering all of the principal risks.

The GACC considers the adequacy and effectiveness of the Group control framework and receives quarterly reports on control issues of significance and half-yearly impairment allowances and regulatory reports. Both the GRCMC and GACC also receive reports dealing in more depth with specific issues relevant at the time. The proceedings of both committees are reported to the board, which also receives a concise quarterly risk report. The board approves the overall Group risk appetite.

57.3 Credit risk measurement

The Group uses different ratings processes for each of the approaches adopted.

Standardised approach

Within portfolios subject to the standardised approach, there are currently limited ratings processes applied. The retail portfolios do not apply any statistical ratings, while the corporate books within each of the Group's African countries, is rated using a generic model adopted across Barclays and the Group's African portfolios. This model produces a risk grade of between 1 and 5 using both analytical and subjective behavioural information.

Owing to the lack of model sophistication and available data, significant reliance is still placed on expert judgement based on detailed assessments of customers' financial and business risks, transaction characteristics and collateral. This is overseen by a number of control mechanisms (eg delegated authorities).

57. Credit risk *(continued)*

57.3 Credit risk measurement *(continued)*

IRB approaches

For portfolios subject to the IRB approaches, the Group uses a combination of statistical, structural and expert modelling techniques throughout its credit-rating systems to measure credit risk. The majority of the models are developed internally using the Group's own historical data and other external information where appropriate. In some cases, externally developed models and rating tools are used for the corporate portfolios where limited loss information is available.

The appropriateness of these external models for use within the Group is validated as part of the model approval process. It is also a Group policy that all existing models are backtested and validated annually to ensure their applicability to the current portfolio and credit conditions. The key building blocks in the measurement system are the probability of customer default (PD), exposure at default (EAD) and severity of loss in the event of default (LGD). These systems assist the Group in frontline credit decisions on new commitments and in managing the portfolio of existing exposures.

These internal estimates also form the foundation of calculating risk-weighted exposure amounts in accordance with the Basel II approach adopted, as well as a variety of measures used to measure and manage credit risk in the business, including:

- risk tendency (point-in-time (PIT) PD x EAD x LGD);
- expected loss (through-the-cycle (TTC) PD x EAD x downturn LGD);
- calculation of impairment on accounts;
- the credit risk economic capital (EC); and
- risk appetite.

Probability of customer default – commonly known as PD: Internal risk ratings

The Group assesses the credit quality of borrowers and other counterparties by assigning an internal risk rating. Two different categories of default ratings are used. The first reflects the statistical probability of a customer in a rating class defaulting within the next 12-month period, and is referred to as a PIT rating.

A PIT PD measures the unconditional probability of a counterparty defaulting over a defined future period, typically the next 12 months. The term "unconditional" in the statistical sense is used, meaning "averaging, with proper probabilities, all of the future, conditional PDs that would occur in each of the different credit environments that could arise in the future". The PIT PD is sensitive to current economic and borrower circumstances. References might be made to this measure simply as a PD (without qualification), however, analysts sometimes use the expression PIT PD to avoid any possible confusion with the TTC PD.

The second category (TTC PD) reflects the average 12 months default rate over the course of a complete economic cycle. This type of rating provides a measure of risk that is independent of the current credit conditions and is therefore much more stable over time than a PIT rating.

Multiple rating methodologies may be used to inform the rating decision on individual large credits, such as internal and external models, rating agency grades and, for wholesale assets, market information such as credit spreads. For smaller credits, a single source may suffice, such as the result from a rating model.

The Group categorises its current exposures according to a 21-grade internal default grade (DG) rating scale that corresponds to a statistical probability of customers in that rating class defaulting within a 12-month period. The 21 DGs represent the best estimate of credit risk for each counterparty, based on current economic conditions.

For SARB disclosure purposes a 26 default grade scale is used. The scale used for SARB purposes is TTC and is based on PDs used to calculate the risk weighted assets (RWA), while the internal 21-grade DG scale is a PIT scale.

Exposure in the event of default – commonly known as exposure at default (EAD)

Exposure in the event of default represents the expected level of utilisation of the credit facility when default occurs. During the course of a loan, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit. However, when the Group evaluates loans, it takes exposure at default into consideration, using its extensive historical experience. This recognises that customers may make greater than average usage of their facilities as they approach default. For derivative instruments, exposure in the event of default is the estimated cost of replacing contracts with a positive value should counterparties fail to perform their obligations.

57. Credit risk *(continued)*

57.3 Credit risk measurement *(continued)*

Severity of loss-given default – commonly known as LGD

When a customer defaults, a portion of the amount outstanding on his/her loans is usually recovered. The portion that is not recovered, the actual loss, together with the economic costs associated with the recovery process, combine to produce a figure called the LGD. The severity of the LGD is measured as a percentage of the EAD. Using historical information, the Group can estimate how much it is likely to lose, on average, for various types of loans in the event of default.

To illustrate, LGD is lower for residential mortgages than for unsecured loans because of the property pledged as collateral. The level of LGD depends on the type of collateral (if any); the seniority or subordination of the exposure; the industry in which the customer operates (if a business); the jurisdiction applicable and recovery expenses involved. The outcome is also dependent on economic conditions that may determine, for example, the prices that can be realised for assets or whether businesses can readily be refinanced.

Expected loss and risk tendency

The three components described on the previous page, PD, EAD and LGD, are building blocks used in a variety of applications that measure credit risk across the entire portfolio. Two of these applications, expected loss (EL) and risk tendency (RT), are measurements of loss which enable the application of consistent credit risk measurement across all retail and wholesale credit exposures.

RT is a statistical estimate of the average loss for the loan portfolio for a 12-month period taking into account portfolio size and risk characteristics under current credit conditions. It is a PIT measure and therefore requires a PIT PD as an input. RT provides insight into the credit quality of the portfolio and assists management in tracking risk changes as the Group’s stock of credit exposures evolves in size or risk profile in the course of business. RT is generally only calculated on the performing book and cannot be used to forecast impairments.

EL is a statistical estimate of the average loss for the loan portfolio for the next 12 months, based on a long-term average loss tendency that incorporates at least one business cycle. This type of measure therefore provides a measure of loss that is independent of the current credit conditions for a particular customer type, and is much more stable over time. It is primarily used in the capital measurement processes.

RT and EL are calculated for both corporate and retail loans as follows:
RT = PIT PD x EAD x LGD and EL = TTC PD x EAD x downturn LGD.
The RT and EL of each individual loan is aggregated to produce the RT and EL of the various sub portfolios in the Group and ultimately for the whole Group.
To interpret RT, the following should be considered:

- RT is calculated using PDs that are relevant to the current credit conditions for each customer. These figures are therefore a PIT estimate based on current economic and credit conditions.
- RT is calculated for different purposes and using different methods than impairment allowances, so RT cannot be used as a forecast of the total allowances for impairment. It is rather a statistical estimate that reflects changes in the size and quality of the loan portfolio. RT does not equate to the Group’s budget or internal forecast of impairment allowance in the future.
- The principal reasons for the difference between impairment and RT are:
  - RT is a forecast estimate of the average loss associated with the current performing portfolio over a 12-month period; impairment is the accounting value of incurred loss realised on the whole portfolio.
  - Impairment covers only the loans at the date of estimation and does not make allowance for subsequent growth or change in the composition of the loan book which can affect RT.
  - RT is a statistical estimate of losses arising only in the current performing loan portfolio and therefore it is not calculated for default advances.
  - Impairment can include significant additional charges, write backs and recoveries arising during the year from impaired loans. These items can materially affect the impairment allowance charge, but are not included in RT.

57. Credit risk *(continued)*

57.3 Credit risk measurement *(continued)*

– The actual credit impairment charge arising from new defaults in any one year, from loans that are performing at the start of the year, vary significantly around the RT value. This can be attributed to changes during the year in the economic environment or in the business conditions in specific sectors or countries and from unpredictable or unexpected external events. This applies especially in wholesale portfolios where the default of a small number of large exposures will significantly increase the period's impairment allowance but will not have been included in the RT figure. For retail portfolios, consisting of a very large number of small exposures, the variation in the rate of change in new impairments compared with the RT figure is usually much smaller than for wholesale portfolios.

57.3.1 Maximum exposure to credit risk

For financial assets recognised on balance sheet, the exposure to credit risk equals the carrying amount. For financial guarantees, the maximum exposure to credit risk is the maximum amount that the Group would have to pay if the guarantee was called upon (contract value). For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The following represents the maximum exposure, at the balance sheet date, to credit risk for on- and off-balance sheet financial instruments, before taking into account any collateral held or other credit enhancements and after the allowance for impairment and netting where appropriate.

(a) Credit risk exposures relating to on-balance sheet assets

	GROUP	
	2008 Rm	2007 Rm
Balances with other central banks	**1 124**	500
Balances with the SARB	**12 648**	10 396
Money market assets	**6 349**	4 642
Cash, cash balances and balances with central banks (refer to note 2)	**20 121**	15 538
Land Bank bills	**492**	492
RSA government bonds	**19 160**	13 024
Reverse repurchase agreements	**4 100**	—
SARB debentures	**1 814**	—
Treasury bills	**7 477**	9 441
Statutory liquid asset portfolio (refer to note 3)	**33 043**	22 957
Other loans and advances to banks	**27 415**	24 718
Reverse repurchase agreements	**17 247**	29 307
Loans and advances to banks (refer to note 4)	**44 662**	54 025
Debt instruments	**5 178**	2 206
Derivative assets	**65 407**	21 704
Money market assets	**1 464**	1 340
Trading portfolio assets (refer to note 5)	**72 049**	25 250
Derivatives designated as cash flow hedging instruments	**2 530**	5
Derivatives designated as fair value hedging instruments	**609**	720
Hedging portfolio assets (refer to note 5)	**3 139**	725
Accounts receivable	**6 722**	4 468
Settlement accounts and collateral placed	**7 421**	18 282
Other assets (refer to note 6)	**14 143**	22 750

57. Credit risk *(continued)*

57.3 Credit risk measurement *(continued)*

57.3.1 Maximum exposure to credit risk *(continued)*

(a) Credit risk exposures relating to on-balance sheet assets *(continued)*

	GROUP 2008 Rm	GROUP 2007 Rm
Retail banking	**347 084**	311 804
Cheque accounts	**7 070**	6 560
Credit cards	**18 047**	12 945
Instalment credit agreements	**46 293**	45 012
Loans to associates and joint ventures	**5 441**	6 466
Microloans	**3 688**	2 460
Mortgages	**253 011**	227 141
Other advances	**1 693**	1 506
Personal loans	**11 841**	9 714
Absa Corporate and Business Bank	**120 280**	90 340
Corporate	**18 553**	10 640
Large and Medium	**74 197**	56 827
Other	**27 530**	22 873
Absa Capital	**64 332**	53 011
Other	**475**	803
Loans and advances to customers (refer to note 8)	**532 171**	455 958
Debt instruments	**11 591**	15 235
Investments (refer to note 11)	**11 591**	15 235
Total assets subject to credit risk (refer to note 57.3.2)	**730 919**	612 438
Assets not subject to credit risk[1]	**42 839**	28 471
Total assets per the balance sheet	**773 758**	640 909
(b) Credit risk exposures relating to off-balance sheet items		
Financial guarantees	**1 001**	824
Guarantees	**9 484**	9 037
Irrevocable facilities	**42 788**	40 040
Letters of credit	**6 429**	3 273
Other contingencies	**25**	23
	59 727	53 197

Note

[1]*Includes coins and bank notes, prepayments, constructed assets held-for-sale, repossessed properties, deferred costs, cash under management, investments in equity instruments, reinsurance assets, deferred tax assets, intangible assets, investment property, non-current assets held-for-sale and property and equipment which are not subject to credit risk.*

57. Credit risk *(continued)*

57.3 Credit risk measurement *(continued)*

57.3.1 Maximum exposure to credit risk *(continued)*

(c) Financial assets and liabilities designated at fair value through profit or loss

The following represents the maximum exposure at the balance sheet date to credit risk of financial instruments designated at fair value through profit or loss, before taking into account any collateral held or other credit enhancements.

	GROUP	
	2008 Rm	2007 Rm
Assets		
Cash, cash balances and balances with central banks (refer to note 2)	**5 182**	3 644
Statutory liquid asset portfolio (refer to note 3)	**8 273**	2 683
Loans and advances to banks (refer to note 4)	**7 169**	10 992
Loans and advances to customers (refer to note 8)	**10 973**	14 311
Investments (refer to note 11)	**8 522**	10 926
	40 119	42 556
Liabilities		
Deposits from banks (refer to note 17)	**9 002**	10 663
Other liabilities and sundry provisions (refer to note 19)	**955**	234
Deposits due to customers (refer to note 20)	**11 419**	11 465
Debt securities in issue (refer to note 21)	**5 890**	3 764
Liabilities under investment contracts (refer to note 22)	**10 377**	7 908
Borrowed funds (refer to note 24)	**672**	—
	38 315	34 034

At the balance sheet date, the Group did not use credit derivatives as a mechanism to hedge its exposure to credit risk for financial assets and financial liabilities designated at fair value.

(d) Contractual obligation at maturity of liabilities designated at fair value through profit or loss

The following represents the carrying value of liabilities designated at fair value through profit or loss and the amount which the Group is contractually required to pay to the holder of the obligation at maturity.

	GROUP	
	2008	
	Carrying value Rm	**Contractual obligation Rm**
Liabilities		
Deposits from banks (refer to note 17)	**9 002**	**9 034**
Other liabilities and sundry provisions (refer to note 19)	**955**	**950**
Deposits due to customers (refer to note 20)	**11 419**	**8 972**
Debt securities in issue (refer to note 21)	**5 890**	**4 569**
Liabilities under investment contracts (refer to note 22)	**10 377**	**10 366**
Borrowed funds (refer to note 24)	**672**	**765**
	38 315	**34 656**

For 2007, the amount which the Group was contractually required to pay the holder of the obligation at maturity, approximated the carrying value.

(e) Increase/(decrease) in fair value attributable to changes in credit risk

	GROUP	
	2008 Rm	2007 Rm
Assets		
Loans and advances to customers	**24**	21
Investments	**26**	(4)

The cumulative change in fair value due to changes in credit risk for loans and advances to customers designated at fair value through profit or loss is calculated by assigning to each customer an internal risk grading based on the customer's probability of default. The risk grading determines the credit spread incorporated in the valuation curve. Changes in the risk grading will result in a change in fair value of the loan due to changes in credit risk.

The change in fair value for financial assets designated at fair value is calculated by stripping out the trading margin from the fixed rate instruments to determine the split between interest and credit movement.

For financial instruments other than loans and advances to customers and investments, the constant credit spread approach was applied from the date that the assets and liabilities were originated. No changes were noted in the credit risk of the assets and liabilities and the applicable credit spreads, after origination.

57. Credit risk *(continued)*
57.3 Credit risk measurement *(continued)*
57.3.2 Financial assets subject to credit risk

For the purposes of the Group's disclosure regarding credit quality, the maximum exposure to credit risk of financial assets at the balance sheet date have been analysed as follows:

	Cash, cash balances and balances with central banks[1] Rm	Statutory liquid assets portfolio Rm	Loans and advances to banks Rm
Neither past due nor impaired (refer to note 57.3.3(a))	**20 121**	**33 043**	**44 662**
Past due but not impaired (refer to note 57.3.5)	—	—	—
Impaired (refer to note 57.3.6(a))	—	—	—
Impairment allowance (refer to notes 9 and 57.3.6(b))	—	—	—
Identified impairments			
Identified collective	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Identified individual	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Unidentified impairments	—	—	—
Carrying value of financial assets (refer to note 57.3.1(a))	**20 121**	**33 043**	**44 662**

	Cash, cash balances and balances with central banks[1] Rm	Statutory liquid assets portfolio Rm	Loans and advances to banks Rm
Neither past due nor impaired (refer to note 57.3.3(a))	15 538	22 957	54 025
Past due but not impaired (refer to note 57.3.5)	—	—	—
Impaired (refer to note 57.3.6 9(a))	—	—	—
Impairment allowance (refer to notes 9 and 57.3.6(b))			
Identified impairments			
Identified collective	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Identified individual	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Unidentified impairments	—	—	—
Carrying value of financial assets (refer to note 57.3.1(a))	15 538	22 957	54 025

Notes

[1]*Cash, cash balances and balances with central banks exclude coins and bank notes which are not subject to credit risk.*
[2]*Trading portfolio assets and investments exclude equity instruments and commodities as they are not subject to credit risk.*
[3]*Other assets exclude prepayments, constructed assets held-for-sale, repossessed properties, cash under management and deferred costs which are not subject to credit risk.*

GROUP

2008

Trading portfolio assets[2] Rm	Hedging portfolio assets Rm	Other assets[3] Rm	Loans and advances to customers Rm	Investments[2] Rm	Total Rm
72 049	**3 139**	**14 062**	**495 342**	**11 591**	**694 009**
—	**—**	**65**	**2 711**	**—**	**2 776**
—	**—**	**20**	**42 976**	**—**	**42 996**
		(4)	**(8 858)**		**(8 862)**
—	**—**	**—**	**(946)**	**—**	**(946)**
—	**—**	**—**	**(475)**	**—**	**(475)**
—	**—**	**—**	**(471)**	**—**	**(471)**
—	**—**	**—**	**(6 482)**	**—**	**(6 482)**
—	**—**	**—**	**(4 800)**	**—**	**(4 800)**
—	**—**	**—**	**(1 682)**	**—**	**(1 682)**
—	**—**	**(4)**	**(1 430)**	**—**	**(1 434)**
72 049	**3 139**	**14 143**	**532 171**	**11 591**	**730 919**

2007

Trading portfolio assets[2] Rm	Hedging portfolio assets Rm	Other assets[3] Rm	Loans and advances to customers Rm	Investments[2] Rm	Total Rm
25 250	725	22 750	433 941	15 235	590 421
—	—	—	2 798	—	2 798
—	—	—	24 885	—	24 885
			(5 666)		(5 666)
—	—	—	(295)	—	(295)
—	—	—	(146)	—	(146)
—	—	—	(149)	—	(149)
—	—	—	(3 361)	—	(3 361)
—	—	—	(2 187)	—	(2 187)
—	—	—	(1 174)	—	(1 174)
—	—	—	(2 010)	—	(2 010)
25 250	725	22 750	455 958	15 235	612 438

57. Credit risk *(continued)*

57.3 Credit risk measurement *(continued)*

57.3.3 Financial assets neither past due nor impaired

The Group categorises its current exposures according to a 21-grade internal rating scale DG that corresponds to a statistical probability of customers in that rating class defaulting within a 12-month period. An indicative mapping of the DG buckets to the equivalent international rating agency scales can be performed as illustrated in the table below:

DG mapping (to risk-rated or credit-scored models)				Rating agency mappings (international rating scales)		
DG	Min PD (>)	Max PD (≤)	PD (midpoint)	Standard & Poor's	Moody's	Fitch
1	0,000%	0,019%	0,010%	AAA	Aaa	AAA
2	0,020%	0,029%	0,025%	AA	Aa	AA
3	0,030%	0,049%	0,040%	A+	A1	A+
4	0,050%	0,099%	0,075%	A/A-	A2/A3	A/A-
5	0,100%	0,149%	0,125%	BBB+	Baa1	BBB+
6	0,150%	0,199%	0,175%	BBB+/BBB	Baa1/Baa2	BBB+/BBB
7	0,200%	0,249%	0,225%	BBB	Baa2	BBB
8	0,250%	0,299%	0,275%	BBB/BBB-	Baa2/Baa3	BBB/BBB-
9	0,300%	0,399%	0,350%	BBB-	Baa3	BBB-
10	0,400%	0,499%	0,450%	BBB-/BB+	Baa3/Ba1	BBB-/BB+
11	0,500%	0,599%	0,550%	BB+	Ba1	BB+
12	0,600%	1,199%	0,900%	BB	Ba2	BB
13	1,200%	1,549%	1,375%	BB/BB-	Ba2/Ba3	BB/BB-
14	1,550%	2,149%	1,850%	BB/BB-	Ba2/Ba3	BB/BB-
15	2,150%	3,049%	2,600%	BB-	Ba3	BB-
16	3,050%	4,449%	3,750%	B+	B1	B+
17	4,450%	6,349%	5,400%	B+/B	B1/B2	B+/B
18	6,350%	8,649%	7,500%	B	B2	B
19	8,650%	11,349%	10,000%	B-	B3	B-
20	11,350%	18,649%	15,000%	CCC+	Caa1	CCC+
21	18,650%	99,999%	30,000%	CCC	Caa2	CCC
Defaulted	100,000%	100,000%	100,000%	D	D	D

The grading represents a through-the-cycle view of the distribution of the book.

Default grades 1 – 11

These financial assets have a lower probability of default than other assets. Typically these customers will have a probability of default of less than 0,5%.

Default grades 12 – 19

Financial assets in these grades typically require more detailed management attention where clear evidence of financial deterioration or weakness exists. Assets in this category, although currently protected, are potentially weaker credits. These assets contain some credit deficiencies but not to the point of including the asset in a watch-list.

Default grades 20 – 21

These financial assets' probability of default have deteriorated to such an extent that they are included in a watch-list for regular review. Assets so classified must have well-defined weaknesses that exacerbate the probability of default. They are characterised by the distinct possibility that the obligor will default, and should the collateral pledged be insufficient to cover the asset, the Group will sustain some loss when default occurs.

57. Credit risk *(continued)*

57.3 Credit risk measurement *(continued)*

57.3.3 Financial assets neither past due nor impaired *(continued)*

Financial assets neither past due nor impaired can be analysed according to the internal rating system used in the Group's business. The credit quality of financial assets subject to credit risk, that were neither past due nor impaired, based on the Group's internal ratings, were as follows:

(a) Credit risk exposures relating to on-balance sheet assets

GROUP

	2008			
	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total Rm
Balances with other central banks	1 124	—	—	1 124
Balances with the SARB	12 648	—	—	12 648
Money market assets	6 349	—	—	6 349
Cash, cash balances and balances with central banks	**20 121**	**—**	**—**	**20 121**
Land Bank bills	492	—	—	492
RSA government bonds	19 160	—	—	19 160
Reverse repurchase agreements	4 100	—	—	4 100
SARB debentures	1 814	—	—	1 814
Treasury bills	7 477	—	—	7 477
Statutory liquid asset portfolio	**33 043**	**—**	**—**	**33 043**
Other loans and advances to banks	27 413	2	—	27 415
Reverse repurchase agreements	17 247	—	—	17 247
Loans and advances to banks	**44 660**	**2**	**—**	**44 662**
Debt instruments	5 178	—	—	5 178
Derivative assets	61 188	4 184	35	65 407
Money market assets	1 464	—	—	1 464
Trading portfolio assets	**67 830**	**4 184**	**35**	**72 049**
Derivatives designated as cash flow hedging instruments	2 493	37	—	2 530
Derivatives designated as fair value hedging instruments	602	7	—	609
Hedging portfolio assets	**3 095**	**44**	**—**	**3 139**
Accounts receivable	6 619	22	—	6 641
Settlement accounts and collateral placed	7 421	—	—	7 421
Other assets	**14 040**	**22**	**—**	**14 062**
Retail banking	55 424	239 866	17 689	312 979
Cheque accounts	1 333	5 287	414	7 034
Credit cards	193	9 138	6 894	16 225
Instalment credit agreements	6 070	33 249	2 720	42 039
Loans to associates and joint ventures	652	4 489	300	5 441
Microloans	683	1 822	880	3 385
Mortgages	42 530	178 644	5 410	226 584
Other advances	1 057	279	22	1 358
Personal loans	2 906	6 958	1 049	10 913

57. Credit risk *(continued)*

57.3 Credit risk measurement *(continued)*

57.3.3 Financial assets neither past due nor impaired *(continued)*

(a) Credit risk exposures relating to on-balance sheet assets *(continued)*

GROUP

	2008			
	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total Rm
Absa Corporate and Business Bank	47 150	67 435	2 746	117 331
Corporate	6 283	11 744	243	18 270
Large and Medium	34 266	36 231	2 081	72 578
Other	6 601	19 460	422	26 483
Absa Capital	53 812	10 706	—	64 518
Other	514	—	—	514
Loans and advances to customers	**156 900**	**318 007**	**20 435**	**495 342**
Debt instruments	11 591	—	—	11 591
Investments	**11 591**	**—**	**—**	**11 591**
Total (refer to note 57.3.2)	**351 280**	**322 259**	**20 470**	**694 009**

	2007			
	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total Rm
Balances with other central banks	500	—	—	500
Balances with the SARB	10 396	—	—	10 396
Money market assets	4 642	—	—	4 642
Cash, cash balances and balances with central banks	15 538	—	—	15 538
Land Bank bills	492	—	—	492
RSA government bonds	13 024	—	—	13 024
Treasury bills	9 441	—	—	9 441
Statutory liquid asset portfolio	22 957	—	—	22 957
Other loans and advances to banks	24 718	—	—	24 718
Reverse repurchase agreements	29 307	—	—	29 307
Loans and advances to banks	54 025	—	—	54 025

57. Credit risk *(continued)*

57.3 Credit risk measurement *(continued)*

57.3.3 Financial assets neither past due nor impaired *(continued)*

(a) Credit risk exposures relating to on-balance sheet assets *(continued)*

	GROUP			
	2007			
	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total Rm
Debt instruments	2 168	38	—	2 206
Derivative assets	21 354	350	—	21 704
Money market assets	1 317	23	—	1 340
Trading portfolio assets	24 839	411	—	25 250
Derivatives designated as cash flow hedging instruments	5	—	—	5
Derivatives designated as fair value hedging instruments	720	—	—	720
Hedging portfolio assets	725	—	—	725
Accounts receivable	2 632	1 836	—	4 468
Settlement accounts and collateral placed	18 256	26	—	18 282
Other assets	20 888	1 862	—	22 750
Retail banking	12 846	250 909	27 476	291 231
Cheque accounts	153	6 260	129	6 542
Credit cards	304	10 246	806	11 356
Instalment credit agreements	—	37 895	2 068	39 963
Loans to associates and joint ventures	4 691	1 722	53	6 466
Microloans	—	1 744	547	2 291
Mortgages	6 499	185 016	21 925	213 440
Other advances	1 074	425	6	1 505
Personal loans	125	7 601	1 942	9 668
Absa Corporate and Business Bank	14 235	72 893	1 564	88 692
Corporate	890	9 677	74	10 641
Large and Medium	11 728	42 113	1 393	55 234
Other	1 617	21 103	97	22 817
Absa Capital	21 649	31 279	252	53 180
Other	715	123	—	838
Loans and advances to customers	49 445	355 204	29 292	433 941
Debt instruments	15 235	—	—	15 235
Investments	15 235	—	—	15 235
Total (refer to note 57.3.2)	203 652	357 477	29 292	590 421

57. Credit risk *(continued)*

57.3 Credit risk measurement *(continued)*

57.3.4 Financial assets renegotiated

Certain of the Group's loans and advances to customers would have defaulted if their terms had not been renegotiated.

At the balance sheet date, the carrying amount of assets[1] renegotiated and transferred[2] to the neither past due nor impaired classification in the last 12 months were as follows:

	GROUP	
Loans and advances to customers	**2008 Rm**	2007 Rm
Retail banking	**4 339**	2 244
Cheque accounts	**3**	32
Mortgages	**4 227**	2 142
Personal loans	**109**	70
Absa Corporate and Business Bank	**975**	1 035
	5 314	3 279

Notes

[1]*Assets need to be included in loans and advances at the balance sheet date.*

[2]*Assets are only transferred to the neither past due nor impaired classification once the customer demonstrates the ability to make the contractual payments for a specified period.*

In the event that a customer loan becomes past due, and the customer cannot temporarily afford to pay the arrears or monthly instalments, the customer could qualify for a remediation period to give him/her the opportunity to rectify the situation. On expiry of the remediation period the customer's situation is reassessed and the rectification of the account or the renegotiation of the terms of the agreement are explored. The terms of the agreement can only be permanently altered once in a 12-month period and is subject to affordability assessments and customer risk. The renegotiated term of the contract is limited by the maximum legally allowed financing term for the specific product.

57. Credit risk *(continued)*

57.3 Credit risk measurement *(continued)*

57.3.5 Financial assets that are past due but not impaired

These are assets where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate, based on the level of security collateral available.

The age of loans and advances to customers and other assets that are past due but not impaired is as follows:

GROUP

	2008					
	Past due up to 1 month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm	Total Rm
Accounts receivable	19	2	4	—	40	65
Other assets	19	2	4	—	40	65
Retail banking	494	115	98	110	1 111	1 928
Cheque accounts	1	4	1	4	20	30
Instalment credit agreements	32	3	2	5	40	82
Mortgages	456	106	94	100	1 042	1 798
Personal loans	5	2	1	1	9	18
Absa Corporate and Business Bank	497	61	5	30	190	783
Large and Medium	497	61	5	30	136	729
Other	—	—	—	—	54	54
Loans and advances to customers	991	176	103	140	1 301	2 711
Past due but not impaired (refer to note 57.3.2)	1 010	178	107	140	1 341	2 776

For details of the collateral held against the above loans and advances to customers, refer to note 57.4.1.

57. Credit risk *(continued)*
57.3 Credit risk measurement *(continued)*
56.3.5 Financial assets that are past due but not impaired *(continued)*

	GROUP 2007					
Loans and advances to customers	Past due up to 1 month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm	Total Rm
Retail banking	550	116	115	120	648	1 549
Cheque accounts	—	1	1	2	12	16
Instalment credit agreements	20	1	—	—	45	66
Mortgages	517	113	113	117	587	1 447
Personal loans	13	1	1	1	4	20
Absa Corporate and Business Bank	1 146	5	4	9	84	1 248
Large and Medium	1 098	1	—	5	60	1 164
Other	48	4	4	4	24	84
Other	1	—	—	—	—	1
Past due but not impaired (refer to note 57.3.2)	1 697	121	119	129	732	2 798

57.3.6 Financial assets individually assessed as impaired

The Group's credit policy considers the following to be key indicators (albeit not the only indicators) of default:

- The borrower is unlikely to pay its credit obligation in full, without recourse by the Group to actions such as realising any security held.
- The obligor is overdue.

In the wholesale portfolio, the identified impairment is calculated on accounts that are reflected on management watch-lists (pre-legal environment) and accounts currently going through the legal workout process.

In the retail portfolio, the identified impairment is calculated on both an individual and collective basis. For accounts currently residing in the legal environment, impairment is held against individual exposures. Where retail exposures are identified as delinquent (one or more payments down) but not currently in the legal process, they are impaired collectively, given the level of delinquency. For accounting purposes, these accounts are considered to be specifically impaired.

57. Credit risk *(continued)*

57.3 Credit risk measurement *(continued)*

57.3.6 Financial assets individually assessed as impaired *(continued)*

(a) Analysis of assets individually assessed as impaired

	GROUP					
	2008			2007		
	Original carrying amount Rm	Impairment allowance Rm	Revised carrying amount Rm	Original carrying amount Rm	Impairment allowance Rm	Revised carrying amount Rm
Accounts receivable	20	(4)	16	—	—	—
Other assets	20	(4)	16	—	—	—
Retail banking	38 889	(6 116)	32 773	22 673	(2 394)	20 279
Cheque accounts	359	(161)	198	267	(173)	94
Credit cards	3 297	(1 450)	1 847	2 475	(754)	1 721
Instalment credit agreements	5 676	(1 313)	4 363	5 498	(457)	5 041
Microloans	647	(366)	281	353	(97)	256
Mortgages	27 724	(2 434)	25 290	13 455	(686)	12 769
Other advances	—	—	—	9	(4)	5
Personal loans	1 186	(392)	794	616	(223)	393
Absa Corporate and Business Bank	4 087	(1 312)	2 775	2 183	(1 245)	938
Corporate	563	(228)	335	119	(69)	50
Large and Medium	2 060	(724)	1 336	1 691	(874)	817
Other	1 464	(360)	1 104	373	(302)	71
Absa Capital	—	—	—	24	(16)	8
Other	—	—	—	5	(1)	4
Loans and advances to customers	42 976	(7 428)	35 548	24 885	(3 656)	21 229
Total (refer to note 57.3.2)	42 996	(7 432)	35 564	24 885	(3 656)	21 229

For details of the collateral held against the above loans and advances to customers, refer to note 57.4.1.

(b) Reconciliation of total impairments (identified and unidentified)

	GROUP				
	2008				
Impairment of loans and advances to customers	Opening balance Rm	Net present value unwind on non-performing book Rm	Amounts written off and recoveries Rm	Impairment raised Rm	Closing balance Rm
Retail banking	3 651	(485)	(2 299)	5 845	6 712
Absa Corporate and Business Bank	1 782	(44)	(297)	480	1 921
Absa Capital	194	—	(10)	2	186
Other	39	—	—	—	39
	5 666	(529)	(2 606)	6 327	8 858

57. Credit risk *(continued)*

57.3 Credit risk measurement *(continued)*

57.3.6 Financial assets individually assessed as impaired *(continued)*

(b) Reconciliation of total impairments (identified and unidentified) *(continued)*

	GROUP					
	2007					
Impairment of loans and advances to customers	Opening balance Rm	Net present value unwind on non-performing book Rm	Exchange and other adjustments Rm	Amounts written off and recoveries Rm	Impairment raised Rm	Closing balance Rm
Retail banking	3 000	(241)	4	(1 586)	2 474	3 651
Absa Corporate and Business Bank	1 546	(33)	—	(68)	337	1 782
Absa Capital	193	—	—	—	1	194
Other	—	—	—	—	39	39
	4 739	(274)	4	(1 654)	2 851	5 666

57.4 Credit risk mitigation, collateral and other credit enhancements

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

The Group does however, commonly obtain security for the funds advanced, such as in the case of a retail or commercial mortgage, a reverse repurchase agreement, or a commercial loan with a floating charge over book debts and inventories.

When collateral is deemed appropriate, businesses are required to take specific, agreed classes of collateral and ensure that they are holding a reliable charge. Alternatively, a business may put in place other forms of credit risk mitigation, such as the use of credit derivatives, in accordance with laid-down policies and procedures.

The ratings process also includes the assessment of collateral and security. This information is used in determining the LGD.

The recognition of collateral as a credit risk mitigant is managed in terms of the credit policy that clearly defines the following:

- The definition of what qualifies as collateral.
- The requirements around the valuation of collateral.
- Haircuts that need to be applied to the collateral values.
- Operational requirements that must be met for collateral to be recognised as credit mitigation.

57. Credit risk *(continued)*

57.4 Credit risk mitigation, collateral and other credit enhancements *(continued)*

The following types of collateral are currently held against assets subject to credit risk:

Assets subject to credit risk on balance sheet	Type of collateral
Cash, cash balances and balances with central banks	• Deposits from customers and cession of ring-fenced bank accounts with cash
Loans and advances to banks	• Bonds and guarantees • South African government bonds
Loans and advances to customers	• Bonds over properties • Call options to holding companies • Charge on property • Debentures • Governmental guarantees • Guarantees from shareholders and directors • Insurance policies • Life insurance policies • Listed equities • Parental guarantees • Personal and other company guarantees • Pledged securities • Property and equipment • Put options from holding companies/other group companies • Shares

Valuation of collateral

Valuation of the collateral taken will be within agreed parameters and will be conservative in value. Any collateral taken in respect of over-the-counter (OTC) trading exposures will be subject to a "haircut" which is negotiated at the time of signing the collateral agreement. A haircut is the valuation percentage applicable to each type of collateral and will be largely based on liquidity and price volatility of the underlying security.

Within the corporate sectors, collateral for impaired loans, including guarantees and insurance, is reviewed regularly and at least annually to ensure that it is still enforceable and that the impairment allowance remains appropriate given the current valuation. Where the collateral has decreased in value, an additional impairment allowance may be considered. Conversely, increases in collateral may result in a release of the impairment allowance.

The Group will consider all relevant factors, including local market conditions and practices, before any collateral is released.

For most forms of security, the collateral given is valued only on origination or in the course of enforcement actions. The value of security is not updated based on the specific security except where a loan is individually assessed as impaired. For mortgages, in cases where a loan is not individually assessed as impaired, the house price index is applied to obtain the fair value of security. In the case of corporates, lending security may be in the form of floating charges where the value of collateral varies with the level of assets, such as inventory and receivables held by the customer.

57. Credit risk *(continued)*

57.4 Credit risk mitigation, collateral and other credit enhancements *(continued)*

The Group also uses various forms of specialised legal agreements to reduce risk, including entering into master netting agreements with counterparties, which the Group uses to restrict its exposure to credit losses. The International Swap and Derivative Association (ISDA) master agreement is the Group's preferred agreement for documenting OTC activity. It provides the contractual framework within which dealing activities across a full range of OTC products are conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, should either party default or other predetermined events occur. In the normal course of events, where the ISDA master agreement is used, the collateral document will be the ISDA Credit Support Annex (CSA). The collateral document must give the Group the power to realise any collateral placed with it in the event of the failure of the counterparty, and to obtain further collateral when requested or in the event of insolvency, administration or similar processes, as well as in the case of early termination.

Security structures and legal covenants are subject to regular review, at least annually, to ensure that they remain fit for purpose and remain consistent with accepted local market practice. The Group actively manages its credit exposures. When weaknesses in exposures are detected (either in individual exposures or in groups of exposures) the Group takes action to mitigate the risks. Such actions may include reducing the amounts outstanding (in discussion with the customers, clients or counterparties, if appropriate), using credit derivatives and, sometimes, selling the loan assets.

57.4.1 Fair value of collateral for loans past due but not impaired and loans individually impaired

Financial assets that are past due or individually assessed as impaired (specifically impaired) are for the most part collateralised or subject to other forms of credit enhancements. The effects of such arrangements are taken into account in the calculation of the impairment allowance held against them.

The description and fair value of collateral and other credit enhancements held in respect of loans and advances to customers past due but not impaired and individually assessed as impaired is as follows:

	GROUP	
Loans and advances to customers	**2008 Rm**	**2007 Rm**
Retail banking	**25 759**	17 605
Cheque accounts	**48**	51
Instalment credit agreements	**3 273**	3 665
Microloans	**2**	2
Mortgages	**22 321**	13 798
Personal loans	**115**	89
Absa Corporate and Business Bank	**3 646**	2 088
Corporate	**345**	—
Large and Medium	**2 306**	1 898
Other	**995**	190
Other	**—**	1
Fair value of collateral for loans past due but not impaired and individually impaired	**29 405**	19 694
Carrying values of loans past due but not impaired (refer to note 57.3.5)	**2 711**	2 798
Carrying values of loans individually impaired (refer to note 57.3.6 (a))	**42 976**	24 885

An apparent shortfall exists between the fair value of collateral held and the carrying values of loans and advances past due but not impaired and individually assessed as impaired. This is due to the Group using a probability of default when assessing certain of the individually impaired loans.

57. Credit risk *(continued)*

57.4 Credit risk mitigation, collateral and other credit enhancements *(continued)*

57.4.2 Enforcement of collateral

Carrying value of assets held by the Group at the balance sheet date as a result of the enforcement of collateral, was as follows:

	GROUP	
Loans and advances to customers	**2008 Rm**	2007 Rm
Residential properties		
Opening balance	**172**	142
Acquisitions	**295**	83
Disposals	**(127)**	(53)
Closing balance	**340**	172

Any properties repossessed are made available for sale in an orderly and timely fashion, with any proceeds realised being used to reduce or repay any outstanding loan. The Group does not, as a rule, occupy repossessed properties for its business use.

57.5 Credit risk concentration

The Group manages the diversification of its portfolio to avoid unwanted credit risk concentrations.

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. When managing its portfolio, the Group avoids unwanted credit risk concentrations through diversification, which takes several dimensions:

- Maximum exposure guidelines are in place relating to the exposures to any individual counterparty, which permit higher exposures to higher-rated borrowers than to lower-rated borrowers. They also distinguish between types of counterparty, for example, between sovereign governments, banks and corporations. Excesses are considered individually at the time of credit sanctioning, are reviewed regularly, and are reported to the Group Credit Committee (GCC), CRC and GRCMC. Similarly, the country risk policy specifies risk appetite by country and avoids excessive concentrations of credits in individual countries. Finally, there are policies that limit lending to certain industries, for example, commercial real estate.
- Mandate and scale limits, which can also be set at Group level to reflect overall risk appetite, can relate either to the stock of current exposures in the relevant portfolio or to the flow of new exposures into that portfolio. Typical limits include the caps on high loan to value mortgages, the proportion of new mortgage business that is buy-to-let and restrictions on maximum residual value risk in relation to vehicle lease agreements. These mandate and scale limits are amended and updated as required when weaknesses in exposures are detected – either in individual exposures or in groups of exposures. Actions to ensure that the mandate and scale limits are met include reducing the available facilities and amounts outstanding as well as discussion with the customers, clients or counterparties, if appropriate, in limits to higher risk clients, tightening scorecard credit criteria thereby reducing the accept rates, credit derivatives and, sometimes, the sale of loan assets.

The Group has implemented a process of identifying specific mitigants based on key risk indicators in the current market environment. This process resulted in a number of credit-tightening actions. Evidence of impacts of specific mitigating actions is quicker to manifest in the retail portfolios, while the impacts on the wholesale portfolios will become evident over a longer period. The impact of these mitigants and decisions taken by the business is monitored at the CRC, monthly and reported through to the GRCMC and the board.

57. Credit risk *(continued)*

57.5 Credit risk concentration *(continued)*

57.5.1 Analysis of credit risk concentration by industry

The following table reflects the Group's credit exposures at their carrying amounts, as categorised by the industry sectors of counterparties at the balance sheet date:

	Cash, cash balances and balances with central banks Rm	Statutory liquid asset portfolio Rm	Loans and advances to banks Rm	Trading and hedging portfolio assets Rm	Other assets Rm
Agriculture	—	—	—	1	—
Construction and property	—	—	—	13	104
Consumer (home loans)	—	—	—	—	5
Consumer (other personal lending)	—	—	—	—	961
Electricity	—	—	—	—	—
Finance	20 121	—	44 662	68 088	8 787
Government	—	33 043	—	1 066	1 289
Manufacturing	—	—	—	—	—
Mining	—	—	—	—	—
Other	—	—	—	5 982	2 965
Services	—	—	—	38	2
Transport	—	—	—	—	—
Wholesale	—	—	—	—	30
Subject to credit risk	**20 121**	**33 043**	**44 662**	**75 188**	**14 143**

	Cash, cash balances and balances with central banks Rm	Statutory liquid asset portfolio Rm	Loans and advances to banks Rm	Trading and hedging portfolio assets Rm	Other assets Rm
Agriculture	—	—	—	5	13
Construction and property	—	—	—	3 536	357
Consumer (home loans)	—	—	—	—	1
Consumer (other personal lending)	—	—	—	—	62
Electricity	—	—	—	—	—
Finance	15 538	—	54 025	18 950	20 391
Government	—	22 957	—	1 280	1 711
Manufacturing	—	—	—	558	14
Mining	—	—	—	80	—
Other	—	—	—	796	121
Services	—	—	—	119	80
Transport	—	—	—	356	—
Wholesale	—	—	—	295	—
Subject to credit risk	15 538	22 957	54 025	25 975	22 750

GROUP

2008 Loans and advances to customers Rm	Investments Rm	Financial guarantees Rm	Guarantees Rm	Irrevocable facilities Rm	Letters of credit Rm	Other contin-gencies Rm	Total Rm
17 972	—	—	23	—	—	—	17 996
51 388	3 859	—	430	13	651	—	56 458
190 233	—	—	—	—	—	—	190 238
59 478	—	—	364	9 207	4	—	70 014
2 111	233	94	—	1 143	—	—	3 581
32 716	5 098	539	733	16 186	2 405	—	199 335
5 646	1 249	—	—	—	—	—	42 293
19 088	—	351	521	2 712	1 383	—	24 055
10 508	649	—	617	1 797	8	—	13 579
44 536	—	—	6 116	2 336	1 592	25	63 552
62 867	429	—	298	241	121	—	63 996
18 617	74	—	145	6 252	28	—	25 116
17 011	—	17	237	2 901	237	—	20 433
532 171	11 591	1 001	9 484	42 788	6 429	25	790 646

2007 Loans and advances to customers Rm	Investments Rm	Financial guarantees Rm	Guarantees Rm	Irrevocable facilities Rm	Letters of credit Rm	Other contin-gencies Rm	Total Rm
10 812	—	—	96	5	36	—	10 967
39 661	4 688	—	2 240	90	64	4	50 640
206 354	—	—	—	8 875	—	—	215 230
93 751	—	—	453	—	—	—	94 266
2 731	20	378	433	485	19	—	4 066
41 330	5 670	446	1 978	15 283	1 025	12	174 648
2 722	1 393	—	29	—	941	—	31 033
8 843	180	—	1 745	1 252	865	3	13 460
8 363	1 160	—	572	7 343	139	—	17 657
11 133	2 054	—	114	2	16	2	14 238
14 177	—	—	200	10	—	—	14 586
2 760	70	—	312	4 883	48	—	8 429
13 321	—	—	865	1 812	120	2	16 415
455 958	15 235	824	9 037	40 040	3 273	23	665 635

57. Credit risk *(continued)*

57.5 Credit risk concentration *(continued)*

57.5.2 Analysis of credit risk concentration by geographical sector

The following table reflects the Group's credit exposure at their carrying amounts, as categorised by geographical region as at the balance sheet date. For this table, the Group has allocated exposures to regions based on the country of domicile of the Group's counterparties.

	GROUP 2008				
	South Africa Rm	Rest of Africa Rm	Europe Rm	Asia, Americas and Australia Rm	Total Rm
On-balance sheet exposures					
Cash, cash balances and balances with central banks	18 262	1 811	48	—	20 121
Statutory liquid asset portfolio	33 043	—	—	—	33 043
Loans and advances to banks	19 958	1 028	23 024	652	44 662
Trading and hedging portfolio assets	21 331	313	39 687	13 857	75 188
Other assets	13 792	105	244	2	14 143
Loans and advances to customers	509 340	12 959	4 450	5 422	532 171
Investments	10 279	1 312	—	—	11 591
Subject to credit risk (refer to note 57.3.1(a))	626 005	17 528	67 453	19 933	730 919
Off-balance sheet exposures					
Financial guarantees	574	333	94	—	1 001
Guarantees	9 146	337	1	—	9 484
Irrevocable facilities	36 455	721	272	5 340	42 788
Letters of credit	6 069	360	—	—	6 429
Other contingencies	25	—	—	—	25
Subject to credit risk (refer to note 57.3.1(b))	52 269	1 751	367	5 340	59 727

57. Credit risk *(continued)*

57.5 Credit risk concentration *(continued)*

57.5.2 Analysis of credit risk concentration by geographical sector *(continued)*

	GROUP 2007				
	South Africa Rm	Rest of Africa Rm	Europe Rm	Asia, Americas and Australia Rm	Total Rm
On-balance sheet exposures					
Cash, cash balances and balances with central banks	13 611	1 893	—	34	15 538
Statutory liquid asset portfolio	22 957	—	—	—	22 957
Loans and advances to banks	38 072	271	15 093	589	54 025
Trading and hedging portfolio assets	17 073	—	8 711	191	25 975
Other assets	22 516	71	163	—	22 750
Loans and advances to customers	436 758	4 322	3 881	10 997	455 958
Investments	14 202	974	59	—	15 235
Subject to credit risk (refer to note 57.3.1(a))	565 189	7 531	27 907	11 811	612 438
Off-balance sheet exposures					
Financial guarantees	824	—	—	—	824
Guarantees	8 781	256	—	—	9 037
Irrevocable facilities	40 040	—	—	—	40 040
Letters of credit	3 060	213	—	—	3 273
Other contingencies	23	—	—	—	23
Subject to credit risk (refer to note 57.3.1(b))	52 728	469	—	—	53 197

58. Market risk

Market risk is the risk that the Group's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads. The main market risk arises from trading activities and equity investments. Absa is also exposed to interest rate risk in the banking book.

The Group's market risk management objectives include:

- understanding and controlling market risk by robust measurement, sound controls and strong oversight;
- facilitating business growth within a controlled and transparent risk management framework;
- ensuring traded market risk resides primarily in Absa Capital; and
- ensuring a high degree of interest rate margin stability and lower interest rate risk over the interest rate cycle.

58.1 Management and control responsibilities

Market risk is managed in terms of the market risk control framework, in line with the PRP requirements. Under delegated authority from the GCE, the Group Risk Director has appointed a principal risk owner for market risk who is responsible for the design of the market risk control framework, which is approved by the GRCMC.

The board approves the overall appetite for market risk at Group level, within which the GRCMC approves the market risk appetite for all categories of market risk. Market risk limits are set within the context of the approved market risk appetite. The Market Risk Committee (MRC) governs market risk across the Group and meets monthly to review, approve and make recommendations concerning the market risk profile including risk appetite, limits and utilisation.

The head of each business, assisted by the business risk management team, is accountable for all market risks associated with its activities, which are reported to business risk governance and control committees. Each business is responsible for the identification, measurement, management, control and reporting of market risk as outlined in the market risk control framework. Oversight and support is provided to the business by the central market risk team.

58. Market risk *(continued)*

58.2 Traded market risk

The Group's policy is to concentrate its traded market risk exposure within Absa Capital. This includes transactions where Absa Capital acts as principal with clients or with the market. For maximum efficiency, Absa Capital manages client and market activities together.

In Absa Capital, market risk occurs in both the trading book and the banking book as defined for regulatory purposes. Interest rate risk in Absa Capital's banking book is subjected to the same rigorous measurement and control standards as described later on for its traded market risk, but the associated sensitivities are reported in the interest rate risk in the banking book section further on.

58.2.1 Risk measurement

The measurement techniques used to measure and control traded market risk include daily value at risk and stress testing.

Daily value at risk (DVaR)

DVaR is an estimate of the potential loss that might arise from unfavourable market movements if the current positions were to be held unchanged for one business day, measured to a confidence level of 98%. Daily losses exceeding the DVaR figure are likely to occur, on average, twice in every 100 business days.

Absa Capital uses an internal DVaR model based on the historical simulation method. Two years of unweighted historical price and rate data is applied and updated daily. This internal model is also used for measuring value at risk over both a 1-day and 10-day holding period at a 99% confidence level for regulatory back testing and capital calculation purposes. The value at risk model has been approved by the SARB for regulatory capital calculation purposes and is regularly assessed for continued suitability.

There are a number of considerations that should be taken into account when reviewing the DVaR numbers. These are as follows:

- Historical simulation assumes that the past is a good representation of the future. This may not always be the case.
- The assumed time horizon will not fully capture the market risk of positions that cannot be closed out or hedged within this time horizon.
- DVaR does not indicate the potential loss beyond the selected percentile.
- Prudent valuation practices are used in the DVaR calculation when there is difficulty obtaining rate/price information.

The performance of the DVaR model is regularly assessed. The main approach employed is a technique known as back testing, which counts the number of days when trading losses exceed the corresponding DVaR estimate. Back testing results for Absa Capital's trading book DVaR model were satisfactory for 2007 and 2008.

To complement DVaR, stress testing and other sensitivity measures are used. Stress testing provides an indication of the potential size of losses that could arise in extreme conditions.

58. Market risk *(continued)*

58.2 Traded market risk *(continued)*

58.2.2 Analysis of traded market risk exposure

The table below reflects the 98% DVaR statistics for Absa Capital's trading book activities.

Absa Capital's traded market risk exposure, as measured by average total DVaR, increased by 104% to R25,86 million (2007: R12,69 million), mainly owing to an R8,94 million increase in average foreign exchange DVaR from a low 2007 base. The highest total DVaR for the 2008 year, however, increased by only 45% from 2007, with the highs for equity and commodity risk showing a decline from 2007 due to a cautious trading strategy followed during the year. Diversification across risk types improved to 64% in 2008 (2007: 56%) assisted by, amongst others, more balanced foreign exchange exposure within the portfolio. The growth in average total DVaR and foreign exchange DVaR were largely due to the growth in the underlying client flow business per Absa Capital's business plan and increased market volatility and opportunities in 2008.

Absa Capital trading book DVaR: Summary table

	Year ended 31 December 2008			As at 31 December 2008	Year ended 31 December 2007			As at 31 December 2007
	Average Rm	High[1] Rm	Low[1] Rm	Rm	Average Rm	High[1] Rm	Low[1] Rm	Rm
Interest rate risk[2]	**15,89**	**29,38**	**3,25**	**17,64**	7,92	21,38	1,52	7,73
Foreign exchange risk	**10,69**	**44,79**	**0,37**	**4,38**	1,75	26,46	0,08	0,84
Equity risk	**14,90**	**28,47**	**7,72**	**25,76**	9,41	31,60	3,23	15,97
Commodity risk	**1,05**	**4,33**	**0,02**	**0,04**	0,76	10,16	0,03	1,12
Diversification effect	**(16,67)**	**n/a**	**n/a**	**(17,60)**	(7,14)	n/a	n/a	(9,47)
Total DVaR[3]	**25,86**	**46,24**	**10,01**	**30,22**	12,69	31,81	3,81	16,19

Notes

[1] *The high (and low) DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) total DVaR. Consequently, a diversification effect number for the high (and low) DVaR figures would not be meaningful and is therefore omitted from the above table.*

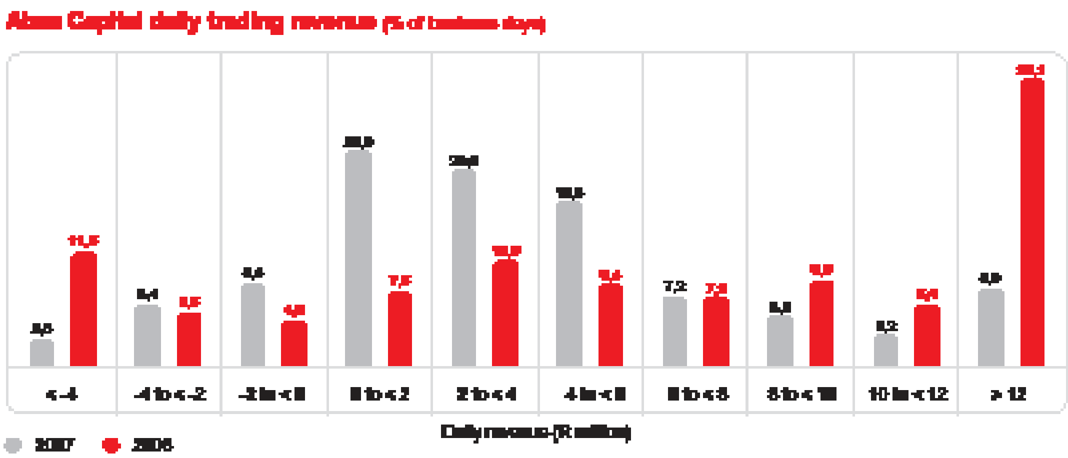
[2] *Credit spread risk is reported together with interest rate risk.*

[3] *The total value at risk over a 10-day holding period at a 99% confidence level as at the balance sheet date was R114,66 million (2007: R55,04 million).*

58.2.3 Analysis of trading revenue

The histograms below show the distribution of daily trading revenue for the Absa Capital trading book. Revenue includes net trading book income, excluding net fees and commissions.

The distributions are skewed to the profit side. The average daily trading revenue in 2008 was R7,7 million (a 126% increase from 2007: R3,4 million) and there were 196 positive revenue days out of 251 (2007: 206 positive revenue days out of 250). The growth in trading revenues was mainly driven by client flow business.



58. Market risk *(continued)*

58.3 Interest rate risk in the banking book

Interest rate risk is the risk that the Group's financial position may be adversely affected as a result of changes in interest rate levels, yield curves and spreads. Interest rate risk in the banking book arises from the provision of retail and wholesale (non-traded) banking products and services, as well as certain structural exposures within the Group's balance sheet, mainly due to repricing timing differences between assets, liabilities and equity. These risks impact both the earnings and the economic value of the Group.

Absa's objective for management of interest rate risk in the banking book is to ensure a higher degree of interest rate margin stability and lower interest rate risk over an interest rate cycle. This is achieved by hedging material exposures and by not allowing any propriety trades, through the use of DVaR and other risk limits.

Banking book interest rate risk management strategies considered include:

- strategies regarding changes in the volume, composition, pricing and interest rate risk characteristics of assets and liabilities; and
- the execution of applicable derivative contracts to maintain the Group's interest rate risk exposure within limits. Where possible hedge accounting is applied to derivatives that are used to hedge interest rate risk in the banking book. In cases where hedge relationships do not qualify for hedge accounting, mismatches may arise due to different bases used in fair valuing the hedges and the underlying banking book exposure. Applicable accounting rules as stipulated in the Group's accounting policies are followed.

As part of Absa Group Treasury's balance sheet management role, interest rate exposures arising from the repricing mismatches of assets and liabilities in the domestic banking book are transferred from the businesses to Absa Group Treasury through matched funds transfer pricing. These positions are aggregated and the net exposure is hedged with the market via Absa Capital. Mainly owing to timing considerations, market risk can arise when some of the net position stays with Absa Group Treasury.

Structural interest rate risk arises from the variability of income from non-interest-bearing products, managed variable rate products and the Group's equity, and is managed by Absa Group Treasury.

Interest rate risk in the banking book also arises in each of the Africa subsidiary treasuries in the course of balance sheet management and facilitating customer activity. The risk is managed by local treasury functions subject to modest risk limits and other controls.

58.3.1 Risk measurement

Annual earnings at risk (AEaR) measures the sensitivity of net interest income over the next 12 months to a specified shock in interest rates. Where appropriate, AEaR is assessed across a range of interest rate scenarios, including parallel shocks, yield curve twists, inversions and other relevant scenarios.

Structural balances are typically hedged using a portfolio of swaps where the maturity is based on the assumed stability of the underlying balance. The AEaR calculation takes into account both the underlying structural balance and the hedges.

Other supplementary techniques used to measure and control interest rate risk in the banking book include repricing gaps, daily value at risk, economic value of equity sensitivity and stress testing.

58.3.2 Repricing profile

The repricing profile of the Group's domestic and Africa subsidiary bank books is depicted in the table to follow. Instruments are allocated to time periods with reference to the earlier of the next contractual interest rate repricing date and the maturity date. Instruments which have no explicit contractual repricing or maturity dates are placed in time buckets according to management's judgement and analysis, based on the most likely repricing behaviour. For example, retail deposits are repayable on demand or at short notice, but form a stable base for the Group's operations and liquidity needs because of the broad customer base (numerically and by depositor type).

The repricing profile shows that the consolidated banking book remains asset-sensitive, or positively gapped, as interest-earning assets reprice sooner than interest-paying liabilities, before and after derivative hedging activities. Thus, future net interest income remains vulnerable to a decrease in market interest rates. Hedging activities undertaken during 2008 resulted in a less asset-sensitive profile, compared to 2007, contributing to greater future interest margin stability.

During 2008, the Group completed the hedging build phase for its structural products and equity by increasing its receive fixed/pay floating swaps. This is evident from the absolute increases from 2007 to 2008 in the "Derivatives" line in the repricing profile.

58. Market risk *(continued)*

58.3 Interest rate risk in the banking book *(continued)*

58.3.2 Repricing profile *(continued)*

Expected repricing profile

	31 December 2008 On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	131 453	(32 568)	(36 442)	(35 859)
Derivatives[2]	(114 007)	19 646	40 522	53 839
Net interest rate sensitivity gap	17 446	(12 922)	4 080	17 980
Cumulative interest rate gap	17 446	4 524	8 604	26 584
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	2,4	0,6	1,2	3,6
Foreign subsidiary bank books[3]				
Cumulative interest rate gap	515	285	(127)	166
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	4,6	2,6	(1,1)	1,5
Total				
Cumulative interest rate gap	17 961	4 809	8 477	26 750
Cumulative gap as a percentage of the Group's total assets (%)	2,3	0,6	1,1	3,5

	31 December 2007 On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	104 629	(25 904)	(38 779)	(27 734)
Derivatives[2]	(77 307)	19 375	27 591	30 342
Net interest rate sensitivity gap	27 322	(6 529)	(11 188)	2 608
Cumulative interest rate gap	27 322	20 793	9 605	12 213
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	4,6	3,5	1,6	2,1
Foreign subsidiary bank books[3]				
Cumulative interest rate gap	(233)	(113)	(130)	(37)
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	(3,0)	(1,5)	(1,7)	(0,5)
Total				
Cumulative interest rate gap	27 089	20 680	9 475	12 176
Cumulative gap as a percentage of the Group's total assets (%)	4,2	3,2	1,5	1,9

Notes

[1] *Includes exposures held in the Absa Capital banking book.*

[2] *Derivatives for interest rate risk management purposes (net nominal value).*

[3] *Includes National Bank of Commerce (Tanzania) and Barclays Bank Mozambique S.A.*

58. Market risk *(continued)*

58.3 Interest rate risk in the banking book *(continued)*

58.3.3 Impact on net interest income

The table below shows the annual earnings at risk in the Group's domestic and Africa subsidiaries' bank books for a 100 basis point up and down movement in interest rates. Assuming no management action in response to interest rate movements, a hypothetical immediate and sustained parallel decrease of 100 basis points in all interest rates would result in a reduction in projected 12-month net interest income of R395 million.

A similar increase would result in an increase in projected 12-month net interest income of R357 million. The decrease in total net interest income sensitivity from 2007 to 2008 is due to the completion of the Group's structural hedging programme build phase during 2008, as is also evident in the repricing gap report.

Annual earnings at risk for a 100 basis point change in interest rates

	– 100 basis points			+ 100 basis points		
	Domestic[1] bank book	Foreign[2] subsidiary bank books	Total	Domestic[1] bank book	Foreign[2] subsidiary bank books	Total
As at 31 December 2008						
Change in projected 12-month net interest income (Rm)	**(393)**	**(2)**	**(395)**	**355**	**2**	**357**
Percentage of 2008 net interest income (%)	**(1,9)**	**(0,3)**	**(1,8)**	**1,8**	**0,3**	**1,6**
Percentage of the Group's equity (%)	**—**	**—**	**(0,7)**	**—**	**—**	**0,7**
As at 31 December 2007[3]						
Change in projected 12-month net interest income (Rm)	(572)	1	(571)	590	(1)	589
Percentage of 2007 net interest income (%)	(3,2)	0,2	(3,0)	3,3	(0,2)	3,1
Percentage of the Group's equity (%)	—	—	(1,3)	—	—	1,4

Notes

[1]*Includes exposures held in the Absa Capital banking book.*

[2]*Includes National Bank of Commerce (Tanzania) and Barclays Bank Mozambique S.A.*

[3]*The 2007 net interest income sensitivity numbers for the domestic bank book were restated to more closely reflect the sensitivity of stable deposits, given the completion of the Group's hedging programmes during 2008. This concurs with the Group's approved policies and regulatory reporting under Basel II.*

Interest rate risk in the banking book as managed by each of Absa Capital, Absa Group Treasury and the Absa African subsidiary treasuries are also measured in terms of DVaR and subject to DVaR limits.

The Group's exposure to non-ZAR interest rates remained small for both 2007 and 2008.

58.3.4 Impact on equity

Interest rate changes affect equity (capital) in the following three ways:

- Higher or lower profit after tax resulting from higher or lower net interest income.
- Higher or lower available-for-sale reserves reflecting higher or lower fair values of available-for-sale financial instruments.
- Higher or lower values of derivatives held in the cash flow hedging reserve.

The pre-tax effect from net interest income sensitivity is reported in note 58.3.3. The effect of taxation can be estimated using the Group's effective tax rate of 28% (2007: 29%).

The equity sensitivities that follow are illustrative, based on simplified scenarios and consider the impact on the cash flow hedges and available-for-sale portfolios which are marked-to-market through reserves. The impact on equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges, and derivatives designated as cash flow hedges, for an assumed change in interest rates.

58. Market risk *(continued)*

58.3 Interest rate risk in the banking book *(continued)*

58.3.4 Impact on equity *(continued)*

The increased sensitivity of cash flow hedge reserves from 2007 to 2008 is due to additional interest rate derivatives used for interest rate risk hedging, on which cash flow hedge accounting is applied.

The increased sensitivity of available-for-sale reserves from 2007 to 2008 is due to additional statutory liquid assets purchased during the year, classified as available-for-sale.

Sensitivity of reserves to interest rate movements

	2008			2007		
	Impact on equity as at 31 December Rm	**Maximum impact[1] Rm**	**Minimum impact[1] Rm**	Impact on equity as at 31 December Rm	Maximum impact[1] Rm	Minimum impact[1] Rm
+ 100 basis point parallel move in all yield curves						
Available-for-sale reserve	**(100)**	**(168)**	**(64)**	(57)	(70)	(45)
Cash flow hedging reserve	**(1 596)**	**(1 598)**	**(899)**	(833)	(970)	(649)
Total	**(1 696)**	**(1 696)**	**(1 002)**	(890)	(1 025)	(695)
As a percentage of equity at 31 December (%)	**(3,20)**	**(3,20)**	**(1,89)**	(2,09)	(2,41)	(1,63)
– 100 basis point parallel move in all yield curves						
Available-for-sale reserve	**100**	**168**	**64**	57	70	45
Cash flow hedging reserve	**1 596**	**1 598**	**899**	833	970	649
Total	**1 696**	**1 696**	**1 002**	890	1 025	695
As a percentage of equity at 31 December (%)	**3,20**	**3,20**	**1,89**	2,09	2,41	1,63

Note

[1] *The maximum and minimum impacts reported for each reserve category did not necessarily occur for the same month as the maximum and minimum impact reported for the total.*

58. Market risk *(continued)*

58.4 Interest return on average balances

Average balances and weighted average effective interest rates were as follows:

	GROUP					
	2008			2007		
	Average balance Rm	Average rate %	Interest income/ (expense) Rm	Average balance Rm	Average rate %	Interest income/ (expense) Rm
Assets						
Cash, cash balances and balances with central banks	21 978	2,98	654	17 297	3,54	613
Statutory liquid asset portfolio	27 144	14,98	4 067	21 681	7,64	1 656
Loans and advances to customers and banks	543 900	13,30	72 337	452 065	11,53	52 106
Trading and hedging portfolio assets[1]	60 587	(3,67)	(2 221)	18 293	(2,99)	(547)
Other assets	33 103	1,31	432	22 103	—	—
Reinsurance assets	737	—	—	422	—	—
Current tax assets	107	—		39	—	—
Deferred tax assets	136	—	—	141	—	—
Investments	27 237	2,50	680	23 665	5,47	1 295
Investments in associates and joint ventures	1 571	—	—	903	—	—
Investment property, property, equipment and intangible assets	5 745	—	—	4 182	—	—
Total assets	722 245	10,52	75 949	560 791	9,83	55 123
Liabilities						
Deposits from customers and banks	407 404	(8,24)	(33 588)	321 938	(7,04)	(22 669)
Trading and hedging portfolio liabilities[1]	66 380	1,25	829	30 284	(1,85)	(560)
Debt securities in issue	158 278	(11,94)	(18 905)	132 540	(9,02)	(11 960)
Other liabilities and sundry provisions	12 877	(5,43)	(699)	17 139	(1,49)	(255)
Borrowed funds	11 064	(16,19)	(1 791)	9 690	(8,14)	(789)
Liabilities under investment and insurance contracts	12 029	—	—	10 084	—	—
Current tax liabilities	323	—	—	1 098	—	—
Deferred tax liabilities	2 390	—	—	2 399	—	—
Total liabilities	670 745	(8,07)	(54 154)	525 172	(6,90)	(36 233)
Equity						
Capital and reserves						
Attributable to ordinary equity holders of the Group:						
Share capital	1 381	—	—	1 311	—	—
Share premium	2 338	—	—	2 126	—	—
Other reserves	279	—	—	570	—	—
Retained earnings	42 324	—	—	27 174	—	—
	46 322	—	—	31 181	—	—
Minority interest – ordinary shares	539	—	—	270	—	—
Minority interest – preference shares	4 639	—	—	4 168	—	—
Total equity	51 500	—	—	35 619	—	—
Total equity and liabilities	722 245	(7,50)	(54 154)	560 791	(6,46)	(36 233)
Net interest margin		3,02			3,37	

Daily averages have been used to calculate the average balances.

Note

[1]*Interest on trading and hedging portfolio assets and liabilities relates to the fair value adjustments on hedging instruments.*

58. Market risk *(continued)*

58.5 Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

58.5.1 Currency concentration

The tables to follow summarise the Group's assets and liabilities at carrying amounts, categorised by currency, as at the balance sheet date.

	GROUP					
	2008					
	ZAR Rm	USD Rm	GBP Rm	Euro Rm	Other Rm	Total Rm
Assets						
Cash, cash balances and balances with central banks	22 323	78	1	6	2 439	24 847
Statutory liquid asset portfolio	33 043	—	—	—	—	33 043
Loans and advances to banks	33 024	5 511	3 957	1 705	465	44 662
Trading portfolio assets	43 946	32 297	340	1 657	639	78 879
Hedging portfolio assets	(3 218)	(1 815)	—	8 172	—	3 139
Other financial assets	17 281	9	10	—	105	17 405
Current tax assets	23	—	—	—	—	23
Loans and advances to customers	515 587	11 864	581	19	4 120	532 171
Reinsurance assets	664	134	105	—	—	903
Investments	24 990	582	171	46	1 191	26 980
Financial assets	687 663	48 660	5 165	11 605	8 959	762 052
Non-financial assets						11 706
Total assets						773 758
Liabilities						
Deposits from banks	34 815	7 033	4 299	8 032	454	54 633
Trading portfolio liabilities	49 123	19 635	2 165	1 302	512	72 737
Hedging portfolio liabilities	1 080	—	—	—	—	1 080
Other financial liabilities	10 712	200	13	8	1 247	12 180
Current tax liabilities	385	—	—	—	—	385
Deposits due to customers	371 527	3 690	28	668	6 368	382 281
Debt securities in issue	157 941	—	—	7 959	—	165 900
Liabilities under investment contracts	9 628	644	105	—	—	10 377
Policyholder liabilities under insurance contracts	3 076	—	—	—	—	3 076
Borrowed funds	12 296	—	—	—	—	12 296
Financial liabilities	650 583	31 202	6 610	17 969	8 581	714 945
Non-financial liabilities						5 847
Total liabilities						720 792
Equity						52 966
Total equity and liabilities						773 758
Gross currency position of financial assets and liabilities	n/a	17 458	(1 445)	(6 364)	378	10 027
Foreign currency derivative						(10 704)
Net currency position of financial assets and liabilities						(677)
Credit commitments						
Financial guarantee contracts	1 001	—	—	—	—	1 001
Capital commitments	703	—	—	—	—	703
Contingencies	58 726	—	—	—	—	58 726

Note

All non-monetary items are classified based on the location of the asset, or where it will most reasonably be realised.

58. Market risk *(continued)*

58.5 Foreign exchange risk *(continued)*

58.5.1 Currency concentration *(continued)*

	GROUP 2007					
	ZAR Rm	USD Rm	GBP Rm	Euro Rm	Other Rm	Total Rm
Assets						
Cash, cash balances and balances with central banks	18 706	68	34	2	1 819	20 629
Statutory liquid asset portfolio	22 957	—	—	—	—	22 957
Loans and advances to banks	44 611	5 950	1 987	1 196	281	54 025
Trading portfolio assets	18 094	4 773	212	2 280	465	25 824
Hedging portfolio assets	545	—	—	180	—	725
Other financial assets	22 594	64	8	—	84	22 750
Current tax assets	185	—	—	—	—	185
Loans and advances to customers	444 186	7 657	62	1 422	2 631	455 958
Reinsurance assets	485	—	—	—	—	485
Investments	28 325	201	256	—	1 010	29 792
Financial assets	600 688	18 713	2 559	5 080	6 290	633 330
Non-financial assets						7 579
Total assets						640 909
Liabilities						
Deposits from banks	43 312	13 677	635	296	113	58 033
Trading portfolio liabilities	26 860	5 034	146	2 813	66	34 919
Hedging portfolio liabilities	2 226	—	—	—	—	2 226
Other financial liabilities	7 978	33	—	9	806	8 826
Current tax liabilities	146	—	24	—	13	183
Deposits due to customers	298 310	7 578	177	20	4 427	310 512
Debt securities in issue	150 348	—	—	6 076	—	156 424
Liabilities under investment contracts	7 908	—	—	—	—	7 908
Policyholder liabilities under insurance contracts	3 318	—	—	—	—	3 318
Borrowed funds	9 949	—	—	—	—	9 949
Financial liabilities	550 355	26 322	982	9 214	5 425	592 298
Non-financial liabilities						6 051
Total liabilities						598 349
Equity						42 560
Total equity and liabilities						640 909
Gross currency position of financial assets and liabilities	n/a	(7 609)	1 577	(4 134)	865	(9 301)
Foreign currency derivative						10 309
Net currency position of financial assets and liabilities	—	—	—	—	—	1 008
Credit commitments						
Financial guarantee contracts	824	—	—	—	—	824
Capital commitments	83	—	—	—	52	135
Contingencies	51 255	57	78	1	982	52 373

Note

All non-monetary items are classified based on the location of the asset, or where it will most reasonably be realised.

58. Market risk *(continued)*

58.5 Foreign exchange risk *(continued)*

58.5.2 Transactional and translational foreign exchange risk

The Group is exposed to two sources of foreign exchange risk:

- Transactional foreign exchange risk: Transactional foreign exchange exposures arise as a result of banking assets and liabilities which are not denominated in the functional currency of the transacting entity. The Group's foreign exchange risk management policy does not allow material open positions to be taken outside the Absa Capital trading book. Foreign exchange risk in the trading book is managed by Absa Capital and monitored primarily via open position and DVaR limits. In accordance with this policy, there were no material net currency exposures outside the Absa Capital trading book at either 31 December 2008 or 2007 that would give rise to material foreign exchange gains and losses being recognised in the income statement.
- Translational foreign exchange risk: The Group has various investments in foreign subsidiaries or associate undertakings which have functional currencies other than the South African rand (ZAR). Translational foreign exchange risk is the risk that exchange rate fluctuations will create volatility in the rand value of these net investments. This may in turn impact the income statement, equity or capital ratios.

  The impact of a change in the exchange rate between ZAR and any of the relevant currencies would be:
  - a higher or lower profit after tax, arising from changes in the exchange rates used to translate items in the consolidated income statement;
  - a higher or lower currency translation reserve within equity, representing the retranslation of the net assets of non-ZAR entities, arising from changes in the exchange rates used to translate the net assets at the balance sheet date, net of the effects of any hedges of net investments; and
  - changes in the value of available-for-sale investments denominated in foreign currencies, impacting the available-for-sale reserve.

The main functional currencies in which the Group's business is transacted are ZAR and, on a lesser scale, US dollar, sterling, euro, Tanzanian shilling and Mozambican metical. Translational foreign currency risk can be mitigated through hedging using for example forward foreign exchange contracts, or by financing with borrowings in the same currency as the functional currency involved.

The Group's policy is to economically hedge foreign currency net investments, where practical, after taking consideration of market liquidity, cost of hedging and the materiality of the exposure. Based on these considerations, the Group does not currently actively hedge foreign currency net investments, but the risk is monitored regularly to consider the need for mitigating actions towards minimising material fluctuations.

58.6 Market risk sensitivity of equity investments

Equity risk in the banking book refers to the risk of adverse changes in the value of listed and unlisted equity investments. These investments are longer-term investments held in the banking book, and are managed in terms of the new ventures and asset framework in accordance with the purpose and strategic benefits of such investments, rather than marked-to-market considerations only. The Group Investment Committee (GIC) considers, approves and monitors all investments or divestments of the Group in accordance with its terms of reference, the new ventures and asset framework, the directives of the GCE and the directives of the board. The MRC regularly reviews the market risk of these investments, using value-at-risk and regulatory risk metrics, along with their performance and capital requirements.

As at the balance sheet date, the Group's listed and unlisted equity investments amounted to R7 491 million (2007: R5 857 million), refer to note 11 for more detail. This amount excludes investments held in Absa's insurance entities (refer to note 60 for more detail). The accounting treatment of listed and unlisted equity investments are stipulated in the accounting policies (refer to note 1.7).

The table below presents the pre-tax impact on profit and loss and equity of a reasonably possible 5% variance in equity prices based on the accounting treatment of these investments:

The increase in both investment fair value and sensitivity from 2007 to 2008 is due to:

- an increase in listed investments of R589 million from R1 134 million as at 31 December 2007 to R1 723 million as at 31 December 2008; and
- an increase in unlisted investments of R1 045 million from R4 723 million as at 31 December 2007 to R5 768 million as at 31 December 2008.

Sensitivity analysis – impact on profit and loss and equity

	5% reduction in fair value Rm	Fair value Rm	5% increase in fair value Rm
As at 31 December 2008			
Equity securities – listed and unlisted	**7 116**	**7 491**	**7 866**
Impact on profit and loss	**(332)**		**332**
Impact on equity	**(43)**		**43**
As at 31 December 2007			
Equity securities – listed and unlisted	5 564	5 857	6 150
Impact on profit and loss	(271)		271
Impact on equity	(22)		22

59. Liquidity risk

59.1 Introduction

Liquidity risk is the risk that the Group is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, the consequence of which may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

Liquidity risk is inherent in all banking operations and can be impacted by a range of institution specific and market-wide events including, but not limited to, market rumours, credit events, payment system disruptions, systemic shocks, terrorist attacks and even natural disasters.

The efficient management of liquidity risk is essential to the Group in order to ensure that:

- normal banking operations continue uninterrupted;
- all stakeholders in the Group are protected;
- financial market confidence is maintained at all times; and
- liquidity risk is managed in line with regulatory liquidity requirements.

In conclusion, liquidity management can be defined as the ability to meet commitments as they fall due, at an appropriate cost, whilst maintaining market confidence in the institution.

59.2 Liquidity risk management

Group Treasury is responsible for the management of liquidity risk on behalf of the Group.

Liquidity risk is managed in terms of the Liquidity Risk Control Framework and Policy which sets out the framework for responsibilities, processes, reporting and assurance that supports the management of liquidity risk. This framework and policy document, which is reviewed annually by the MRC and approved by the GRCMC incorporates the Group's Contingency Funding and Liquidity Plan designed to manage and mitigate the effects of stress liquidity events.

With the establishment of a dedicated funding and liquidity function within Group Treasury, liquidity risk management has been elevated to a level of strategic importance within the Group.

An overall balance sheet approach, which consolidates all sources and uses of liquidity and aims to maintain a balance between liquidity and profitability (cost of funding), is applied in managing liquidity risk. In order to effectively manage liquidity risk, the Group is required to measure, monitor and manage on-balance sheet and off-balance sheet liquidity mismatch risk taking, cognisance of business-as-usual liquidity conditions, stress liquidity scenarios, guidelines and limits as set by the GRCMC, regulatory requirements and requirements in terms of best practice liquidity contingency planning.

Business-as-usual liquidity risk management

Business-as-usual liquidity management refers to the management of a bank's "normal" ebb and flow of cash experienced in the course of conducting business. These operational needs include, for example, meeting unexpected surges in loan demand or deposit withdraws.

The business-as-usual environment tends to result in fairly high probability, low severity liquidity events and requires the balancing of the Group's day-to-day cash needs.

The Group's approach to managing business-as-usual liquidity needs focuses on a number of key areas including:

- the continuous management of net anticipated cash flows (between assets and liabilities) within approved cash outflow limits set for periods of one day, one week and monthly out to one year;
- the active daily management of the funding and liquidity profile taking cognisance of the board-approved Liquidity Risk Metrics designed to achieve the Group's business-as-usual liquidity risk tolerance and position the bank to deal with stress liquidity events;
- the maintenance of a portfolio of highly liquid assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- the active participation in local money and capital markets required to support day-to-day funding needed to refinance maturities, meet customer withdraws and support growth in advances;
- the monitoring and managing of liquidity costs; and
- the ongoing assessment and evaluation of various funding sources designed to grow and diversify the Group's funding base in order to achieve an optimal funding profile and sound liquidity risk management.

59. Liquidity risk *(continued)*

59.2 Liquidity risk management *(continued)*

The key liquidity risk metrics used to manage the Group's business-as-usual liquidity risk profile within the board-approved risk tolerance include the short-, medium- and long-term funding ratios, short-term maturity mismatches (at a contractual and behavioural level), cash outflow limits and concentration of deposits.

Stress liquidity risk management

Group Treasury performs liquidity scenario analysis and stress testing on a regular basis in order to assess the adequacy of the Group's stress funding sources, liquidity buffers and contingency funding strategies to meet unexpected outflows arising from Group specific, systemic and market stress events. Scenario analysis and stress testing encompasses a range of simulated, but realistic adverse events that, whilst remote, could have a material impact on the liquidity of the Group's banking operations. Through these simulations the Group aims to manage and mitigate liquidity risk by:

- determining, evaluating and testing the impact of adverse liquidity scenarios;
- identifying opportunities for rapid and effective responses to crisis situations;
- aiding management in planning for crisis avoidance or reducing the severity of a crisis; and
- setting liquidity limits, liquidity buffers and formulating a funding strategy designed to minimise liquidity risk.

The Group's overall objective is to ensure that its stress funding sources and liquidity buffers exceed the estimated stress funding requirements which could emanate from a moderate to high stress liquidity event.

The Group has formulated a detailed Contingency Funding and Liquidity Plan designed to protect depositors, creditors and shareholders under adverse liquidity situations. The contingency plan focuses on early warning indicators which highlight the threat of increased liquidity risk, and the need for a prudential reduction in liquidity risk exposure. In addition, the plan sets out the crisis response strategy addressing sources of stress funding, strategies for crisis avoidance or minimisation and the internal/external communication strategy to be rolled out with key stakeholders.

59.3 Liquidity risk measurement

Monitoring and reporting take the form of cash flow measurement and projections for the next day, next week and each month out to one year as these are key periods of liquidity management.

In addition to cash flow management, Absa Group Treasury also monitors its money market shortage participation, short- and long-term funding ratios, short-term maturity mismatches, as well as its off-balance sheet liquidity risk. Sources of liquidity are regularly reviewed to maintain a wide diversification by provider, product and term.

On the basis of stress testing and scenario analysis, sources of funding along a continuum of risk scenarios are applied in the process of formulating and evaluating liquidity contingency plans. Business resumption plans encompass decision-making authorities, internal and external communication and, in the event of a system failure, the restoration of liquidity management and payment systems.

A summary of the Group's discounted and undiscounted liquidity profile is reflected in the tables that follow.

59. Liquidity risk *(continued)*

59.3 Liquidity risk measurement *(continued)*

59.3.1 Liquidity risk measurement – discounted

	GROUP				
	2008				
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Assets					
Cash, cash balances and balances with central banks	18 556	3 170	3 121	—	24 847
Statutory liquid asset portfolio	21	14 481	1 665	16 876	33 043
Loans and advances to banks	7 098	11 949	22 448	3 167	44 662
Trading portfolio assets	78 879	—	—	—	78 879
Hedging portfolio assets	—	281	2 729	129	3 139
Other financial assets	15 965	1 322	—	118	17 405
Current tax assets	23	—	—	—	23
Loans and advances to customers	115 522	54 656	90 610	271 383	532 171
Reinsurance assets	176	172	462	93	903
Investments	443	6 604	14 758	5 175	26 980
Financial assets	236 683	92 635	135 793	296 941	762 052
Non-financial assets					11 706
Total assets					773 758
Liabilities					
Deposits from banks	7 910	46 484	189	50	54 633
Trading portfolio liabilities	72 737	—	—	—	72 737
Hedging portfolio liabilities	35	250	281	514	1 080
Other financial liabilities	10 357	837	740	246	12 180
Current tax liabilities	385	—	—	—	385
Deposits due to customers	222 653	136 459	17 856	5 313	382 281
Debt securities in issue	104	127 547	32 681	5 568	165 900
Liabilities under investment contracts	—	1 633	7 875	869	10 377
Policyholder liabilities under insurance contracts	—	1 288	(847)	2 635	3 076
Borrowed funds	—	3 645	4 946	3 705	12 296
Financial liabilities	314 181	318 143	63 721	18 900	714 945
Non-financial liabilities					5 847
Total liabilities					720 792
Equity					52 966
Total equity and liabilities					773 758
Net liquidity position of financial assets and liabilities	(77 498)	(225 508)	72 072	278 041	47 107

59. Liquidity risk *(continued)*
59.3 Liquidity risk measurement *(continued)*
59.3.1 Liquidity risk measurement – discounted *(continued)*

	GROUP 2007 On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Assets					
Cash, cash balances and balances with central banks	5 137	12 903	2 589	—	20 629
Statutory liquid asset portfolio	—	13 748	5 280	3 929	22 957
Loans and advances to banks	4 295	28 369	17 079	4 282	54 025
Trading portfolio assets	25 824	—	—	—	25 824
Hedging portfolio assets	—	12	464	249	725
Other financial assets	21 978	—	676	96	22 750
Current tax assets	169	—	16	—	185
Loans and advances to customers	96 528	56 905	81 879	220 646	455 958
Reinsurance assets	—	373	—	112	485
Investments	1 054	8 228	14 502	6 008	29 792
Financial assets	154 985	120 538	122 485	235 322	633 330
Non-financial assets					7 579
Total assets					640 909
Liabilities					
Deposits from banks	12 025	44 037	1 802	169	58 033
Trading portfolio liabilities	34 919	—	—	—	34 919
Hedging portfolio liabilities	1	1 410	824	(9)	2 226
Other financial liabilities	7 336	680	604	206	8 826
Current tax liabilities	183	—	—	—	183
Deposits due to customers	178 138	116 747	4 388	11 239	310 512
Debt securities in issue	791	127 244	25 038	3 351	156 424
Liabilities under investment contracts	—	1 781	5 823	304	7 908
Policyholder liabilities under insurance contracts	—	818	—	2 500	3 318
Borrowed funds	—	450	6 041	3 458	9 949
Financial liabilities	233 393	293 167	44 520	21 218	592 298
Non-financial liabilities					6 051
Total liabilities					598 349
Equity					42 560
Total equity and liabilities					640 909
Net liquidity position of financial assets and liabilities	(78 408)	(172 629)	77 965	214 104	41 032

59. Liquidity risk *(continued)*

59.4 Contractual maturity of financial liabilities – undiscounted basis

The table below reflects the cash flows payable by the Group under financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

GROUP

	2008					
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-balance sheet						
Deposits from banks	7 914	46 746	256	50	(333)	54 633
Trading portfolio liabilities	72 737	—	—	—	—	72 737
Hedging portfolio liabilities	35	252	340	1 455	(1 002)	1 080
Other financial liabilities	9 524	1 105	1 664	293	(406)	12 180
Current tax liabilities	385	—	—	—	—	385
Deposits due to customers	222 951	143 422	26 352	20 449	(30 893)	382 281
Debt securities in issue	104	136 253	39 716	16 987	(27 160)	165 900
Borrowed funds	—	4 349	6 149	4 060	(2 262)	12 296
Total liabilities	313 650	332 127	74 477	43 294	(62 056)	701 492
Off-balance sheet						
Loan commitments	42 788	—	—	—	—	42 788

	2007					
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-balance sheet						
Deposits from banks	12 032	44 202	1 816	169	(186)	58 033
Trading portfolio liabilities	34 919	—	—	—	—	34 919
Hedging portfolio liabilities	—	1 544	902	(10)	(210)	2 226
Other financial liabilities	7 715	721	755	185	(550)	8 826
Current tax liabilities	183	—	—	—	—	183
Deposits due to customers	178 195	121 651	9 579	24 699	(23 612)	310 512
Debt securities in issue	836	136 816	33 716	5 584	(20 528)	156 424
Borrowed funds	—	1 509	8 324	4 986	(4 870)	9 949
Total liabilities	233 880	306 443	55 092	35 613	(49 956)	581 072
Off-balance sheet						
Loan commitments	40 040	—	—	—	—	40 040

Financial liabilities designated at fair value in respect of linked liabilities under investment contracts have been excluded from this analysis as the Group is not exposed to liquidity risk arising from them. Any request for funds from investors would be met simultaneously from the linked assets.

60. Underwriting risk

Underwriting risk, originating from insurance activities, refers to the risk that Absa Life and Absa Insurance (which includes Absa Insurance Company, Absa iDirect and Absa Insurance Risk Management Services) do not charge premiums appropriate for the insurance cover provided to customers.

Underwriting risk is influenced by the type and nature of insurance activities undertaken and includes:

- the risk appetite of Absa Life and Absa Insurance;
- the nature of underwriting exposures involved in the products and services;
- portfolio characteristics; and
- the nature and extent of reinsurance cover.

Underwriting risk consists of life insurance underwriting risk and short-term insurance underwriting risk.

60.1 Market risk related to underwriting risk

Since most insurance liabilities are fixed in monetary terms, interest rate increases should not have a material negative impact, provided that the term of the fixed interest investments are fairly matched to the term of the liabilities. It is policy where possible to follow a matched investment strategy in terms of assets backing non-linked policyholder liabilities.

The shareholders' investments are susceptible to market fluctuations. To manage this risk, a hedge structure has been implemented for the equity portfolio. In terms of these structures, protection is obtained to ensure that the possibility of negative returns is reduced for the financial year.

The table below presents a summary of the estimated sensitivity of investment balances (debt securities, listed equities, unlisted equities and money market) for movement in interest rates, market values and foreign exchange rates:

	2008 Rm	2007 Rm
1% movement in interest rates	**104**	26
Market values 5% movement	**249**	233
5% movement in foreign exchange rates	**20**	19

Note

The insurance subsidiaries invest in various hedges, which reduces the companies' downside market risk. The hedges will result in limiting the downside risk if the market values decrease with more than 10% and will result in counterparties sharing in positive returns if the market values increase with between 16,3% and 25,0%.

60.2 Credit risk relating to underwriting activities

Credit risk arises from the inability or unwillingness of a counterparty to a financial instrument to fulfil its contractual obligations. Absa Life and Absa Insurance monitor exposure to individual counterparties on a monthly basis via an Investment Committee and the Audit and Risk Forum (which reports into the Absa Financial Services' Risk Governance and Control Committee) to ensure that no single concentration exceeds predetermined limits. Credit risk might arise in the following ways:

- Reinsurers may fail to honour contractual obligations. Reinsurers settle insurance contract liabilities on a monthly basis and therefore Absa Life and Absa Insurance are not exposed to significant accrual of credit risk from a reinsurance perspective. Concentration at reinsurers is not a concern; risk is spread across companies with strong credit ratings.
- Credit risk could also arise on-balance sheet hedging activities. Minimum spreads across different counterparties and minimum credit ratings for counterparties are maintained. Derivative financial instruments are not used to hedge credit risks.
- Credit risk on trade and other receivables is minimal.

60.3 Liquidity risk relating to underwriting activities

Liquidity risk is the risk that Absa Life and Absa Insurance will encounter difficulty in raising funds to meet commitments associated with financial instruments.

Cash generated from operations was positive throughout the year, which implies minimal liquidity risk.

Liquidity risk is mainly addressed by ensuring that appropriate assets back insurance liabilities and that it has significant and sufficient liquid resources.

60. Underwriting risk *(continued)*

60.3 Liquidity risk relating to underwriting activities *(continued)*

Liquidity risk is managed by maintaining sufficient liquid assets or assets that can be translated into liquid assets at short notice and without capital loss to meet cash flow requirements.

60.4 Cell captive risk

Absa Life and Absa Insurance are registered to conduct cell captive business. Preference shares are issued to each cell owner according to the preference shareholder's agreement with the respective cell owner. Each cell captive owner is responsible for the solvency of each cell, and the Group therefore does not carry any risk.

60.5 Short-term insurance underwriting risk

Short-term insurance underwriting risk is the risk associated with the short-term underwriting of fixed and/or moveable assets, accidents, guarantees and liabilities, and can be seen as the risk that the actual results of an insurer are impacted and differ from expected results relating to assumptions with respect to the frequency and severity of claims.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. Absa Insurance has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

60.5.1 Personal property

For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events (ie flooding, storms, hail) and their consequences (ie subsidence claims).

These contracts are underwritten by reference to the replacement value of the properties and contents insured. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. The Group does not wish to be exposed to any loss from a single risk that would increase the monthly loss ratio by more than a certain percentage, and retentions are set accordingly with reinsurance in place to cover the balance of the risk. A very effective catastrophe reinsurance programme is in place to limit total liability regarding all losses emanating from a single loss event (ie major storm and flooding).

60.5.2 Personal lines

There is particular emphasis to grow these lines of business. The main cause of losses are motor vehicle accidents (aggravated by poor driving standards), theft and hijackings, while the relatively high crime levels are resulting in substantial total losses caused by events such as theft and burglary relating to contents and all risks insurance. Results are mostly affected by frequency.

60.5.3 Commercial and industrial

The portfolio comprises primarily of motor and non-motor sections. A large part of the book is represented by the agricultural crop section.

The main cause of motor losses are motor vehicle accidents (aggravated by poor driving standards), theft and hijackings.

The results of the agriculture portfolio may be affected by weather patterns such as drought, excessive rains and other major weather conditions. The overall results may further be affected by commodity prices, the exchange rate and overall conditions affecting agriculture. The book on both assets and crop insurance is growing, which has a positive effect on the spread of risk.

60. Underwriting risk *(continued)*

60.5 Short-term insurance underwriting risk *(continued)*

60.5.4 Niche contracts underwritten by underwriting management agents

Niche contracts include mainly heavy commercial vehicles and warranty contracts. Heavy commercial vehicles are similar in nature to commercial vehicles. Warranties are greatly influenced by the number of direct imports (especially at the lower end of the motor vehicle market), which have a higher cost of repairs as most of the spares need to be imported.

60.5.5 Accident and health

For accident and health-related contracts, an increase in accident behaviour (such as an increase in crime rate or worsening of driver behaviour) can give rise to an increase in frequency. An increase in terrorism may increase the frequency of claims on travel insurance. For the most part, all accident and health premiums are collected on a monthly basis and Absa Insurance has the right to increase premiums, provided notification is given to the customer.

60.5.6 Assumptions, change in assumptions and sensitivities

Process used to decide on assumptions

The risks associated with these insurance contracts are subject to a number of variables.

Absa Insurance uses a case-by-case method to measure its claim liabilities. Individual estimates are reviewed as and when information regarding the claim becomes available. For each class of business, the cost of the future claims includes estimates of the cost for the indemnity and the associated handling costs.

For each contract, estimated losses are compared to the maximum loss payable under the terms of the policy and reduced to such amount if lower than the estimated loss.

Change in assumptions

A stochastic claims reserving model is used to calculate the incurred but not yet reported (IBNR) claims liability for all products, except motor warranty and legal products, where no IBNR is provided because of the nature of the product. A statistical distribution is used to calculate an 85% (2007: 95%) confidence level for the IBNR at the balance sheet date. Increased amounts of available data allows for a lower confidence interval.

Over the past 12 years Absa Insurance has experienced on average higher amounts of claims reported after December month-end. This is mainly owing to the rainy conditions experienced in the summer months, and as many policyholders are away over December.

60.6 Life insurance underwriting risk

Insurance risk for any one insurance contract is the possibility that the insured event occurs. For a portfolio of insurance contracts probability is applied to pricing and provisioning and the principal risk that Absa Life faces is that the actual exposure to mortality, disability and medical payments in respect of policyholder benefits will exceed prudent expectation of the exposure (ie the carrying amount of the insurance liabilities). Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

The Statutory Actuary reports annually on the actuarial soundness of the premium rates in use taking into consideration the reasonable benefit expectations of policyholders. All new rate tables are approved and authorised by the Statutory Actuary prior to being issued. Annual investigations into the actual mortality and morbidity experience are conducted to support the pricing and risk estimation processes.

60.6.1 Expense risk

Absa Life is exposed to the risk that the per policy expense assumptions or assumed future inflation are too low. This risk is managed in various ways. In setting the per policy expense assumptions, annual expense investigations are conducted based on the most recent operating expenditure incurred in respect of the book of business. The assumed future inflation rate is based on observable, actual economic indicators.

60. Underwriting risk *(continued)*
60.6 Life insurance underwriting risk *(continued)*

60.6.2 Lapse risk

If a policy lapses before the acquisition costs have been recouped it will lead to a loss in respect of that policy. In some cases Absa Life is able to manage this risk by entering into "claw-back" arrangements with brokers whereby some of the initial commission is paid back should the policy lapse within a certain period. Absa Life conducts annual investigations into its lapse experience to ensure that pricing and valuation assumptions are appropriate, relevant and in line with experience.

60.6.3 Model and data risk

Modelling techniques or methodologies might be incorrect or inappropriate for certain classes of business, leading to incorrect projected cash flows and insufficient reserves. Absa Life manages this risk by putting the models through rigorous checking procedures to ensure that the cash flows projected by the models are reasonable. External consultants are used to assist with these checks.

There is a risk that the policy data used to model the liabilities is incorrect or incomplete. This risk is managed by performing various reasonability checks on the data (such as illogical ages or dates of entry) and by reconciling the data with both the previous valuation data download (ie a movement analysis) and with the financial statements.

The valuation assumptions might deviate from actual experience in future. Best estimate assumptions are derived by using annual investigations into the demographic experience of the business. Economic assumptions are based on observable, actual economic indicators and are internally consistent.

60.6.4 Assumption risk

(a) Change and effect of assumptions since previous valuation

The valuation assumptions might deviate from actual experience in future. Best estimate assumptions are derived by using annual investigations into the demographic experience of the business. Economic assumptions are based on observable, actual economic indicators and are internally consistent. The effect of changes in assumptions from the previous reporting period is shown below:

	Increase/(decrease) on insurance liabilities	
Change in assumptions	**2008 Rm**	2007 Rm
Economic basis[1]	**10**	(53)
Expense assumptions[2]	**43**	35
Mortality and Aids assumptions[3]	**(1)**	(19)
Morbidity assumptions[4]	**(44)**	(45)
Lapse assumptions	**(2)**	(1)

Notes

[1] *The economic basis was changed in line with market movements. The assumptions about the future investment return on assets and future inflation were adjusted to reflect the change in gilt yields, resulting in a 1,0% per annum lower investment return assumption compared to the previous year.*

[2] *The expense assumptions were changed to reflect the result of the most recent expense investigation, increasing the liability by R43,9 million (2007: R35,2 million increase).*

[3] *The 2008 Aids mortality investigation lead to the strengthening of the Aids mortality basis, resulting in an increase in reserves of R51,9 million. This impact was offset by a reduction in reserves of R53,1 million due to a weakening of the non-Aids mortality basis.*

[4] *Disability and dreaded disease assumptions were decreased in line with the results of experience investigations conducted over recent years, leading to a reduction in liabilities of R45 million.*

(b) Assumptions

The value of the in-force and new life business is determined using assumptions regarding future mortality, morbidity, discontinuance rates and expenses which all equal the best estimate assumptions used in determining the liabilities. These assumptions were based on recent experience investigations. The risk discount rate used to discount future profits includes a margin over assumed investment returns to allow for the risk that experience in future years may differ from that assumed. The economic assumptions used were as follows (gross of tax where applicable):

	2008 %	2007 %
Risk-free rate return	**7,50**	8,50
Equity return	**11,00**	10,50
Cash return	**5,50**	6,50
Overall investment return	**7,40**	8,40
Risk discount rate	**10,50**	11,50
Expense inflation	**4,00**	5,00

60. Underwriting risk *(continued)*

60.6.4 Assumption risk *(continued)*

Margins are incorporated into the liabilities in order to mitigate assumption risk. The compulsory margins prescribed by ASSA in PGN 104 and which have been applied in the valuation of liabilities are summarised in the table below:

Assumption	Margin
Mortality	**7,5% (increase for assurance, decrease for annuities) (2007: 7,5%)**
Morbidity	**10% (2007: 10%)**
Lapse	**25% (eg if the best estimate is 10%, the margin is 2,5%) (2007: 25%)**
Surrenders	**10% (increase or decrease, depending on which alternative increases liabilities) (2007: 10%)**
Expenses	**10% (2007: 10%)**
Expense inflation	**10% (of estimated escalation rate) (2007:10%)**
Charge against investment return	**25 basis points in the management fee or an equivalent asset-based or investment performance-based margin**

60.6.5 Sensitivity analysis

The results of the sensitivities in the table below show that the assumptions regarding future mortality and morbidity experience have a major impact on the size of the actuarial liability. This is to be expected given the nature of the business (risk insurance). This implies that future developments in mortality and morbidity experience, whether positive or negative, will impact on profits in future years. These are of course the areas that are influenced by Aids. Next in importance is the impact of investment returns. Although a significant portion of the book, such as credit life, is short term, the mortgage protection business increases the duration of the business and hence the importance of future investment returns. The business is relatively well protected from changes in other assumptions.

	2008		2007	
	Insurance liability Rm	Change %	Insurance liability Rm	Change %
Central value (as published)	**1 428**	**—**	1 788	—
Mortality and morbidity +10%	**1 640**	**14,8**	1 992	11,4
Lapse rate +10%	**1 371**	**(4,0)**	1 735	(3,0)
Renewal and termination expense +10%	**1 451**	**1,6**	1 815	1,5
Expense inflation +1%	**1 446**	**1,3**	1 811	1,3
Investment return -1%	**1 514**	**6,0**	1 875	4,9

60.7 Reinsurance risk

Absa Life uses reinsurance to manage risk and to utilise the experience of reinsurance partners where it is deemed necessary, in accordance with a formal reinsurance policy. In terms of this policy reinsurance is used for large individual risks to protect the income statement, for risks where Absa Life needs to build knowledge and experience and to obtain technical assistance.

The table below presents the credit rating of reinsurance assets recognised in the balance sheet, this excludes credit life reinsurance.

Reinsurer	Standard & Poor's rating	Description	Parental guarantee
Treaty and facultative reinsurer, 53,5% (2007: 72%) of business ceded	**AA-**	**Very strong**	**No**
Treaty and facultative reinsurer, 13,9% (2007: 1,5%) of business ceded	**AAA**	**Extremely strong**	**Yes**
Treaty and facultative reinsurer, 2,2% (2007: 1,5%) of business ceded	**A+**	**Strong**	**No**
Treaty and facultative reinsurer, 16,7% (2007: 25%) of business ceded	**AA-**	**Very strong**	**No**

60. Underwriting risk *(continued)*

60.8 Mortality and morbidity risk

Applications for risk cover in excess of specified limits are reviewed by experienced underwriters and evaluated against established standards. Testing for HIV is carried out in all cases where the applications for risk cover exceed specified limits. Cover in excess of specified monetary or impairment limits is reinsured.

Since the nature of most product lines is large volumes with small sums assured per policy, with a wide geographical spread of business, very little concentration of insurance risk occurs. Possible concentration might arise for credit life in travel disasters (aircraft), but sums assured are generally low and investigations have concluded that it is not appropriate to reinsure such risks.

61. Capital management

61.1 Introduction

Capital management strategy

In a time of extreme economic distress, such as currently prevailing, both domestically and globally, maintaining and preserving capital becomes priority.

The Group's capital management strategy is focused on maximising shareholder value by optimising the level and mix of capital resources. Decisions on the allocation of capital resources, conducted as part of the strategic planning review, are based on a number of factors including return on economic and regulatory capital. This is conducted as part of the ICAAP and strategic planning review.

Capital management objectives of the Group

The Group has a number of capital management objectives, which are to:

- meet the individual capital ratios required by our regulators and the board;
- maintain an adequate level of available capital resources as cover for the EC requirements calculated at a 99,95% confidence level;
- generate sufficient capital to support asset growth; and
- achieve an international (A) credit rating.

Importance of capital management

Capital is managed as a board-level priority in the Group, which reflects the importance of capital planning. The board is responsible for assessing and approving the Group's capital management policy, capital target levels, capital strategy and risk-based allocation. The capital ratios, together with the short- and medium-term capital plans, are set annually and reviewed monthly at the Capital Management Committee (CMC) and are reported at least quarterly to the board.

Cost of equity

The Group's average cost of equity for the year ended 31 December 2008 was 15,5%. The cost of equity is based on the Capital Asset Pricing Model (CAPM). The Group has achieved its objective of attaining a return on equity of 6% above the cost of equity.

61.2 Regulatory capital requirements

Minimum banking requirements

Capital adequacy and the use of regulatory capital are monitored by employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision (the Basel Committee) and implemented by the SARB or other host regulators for supervisory purposes. These techniques include the capital adequacy ratio calculation, which the SARB and other host regulators regard as a key supervisory tool.

Risk-weighted assets are determined by applying risk weights to balance sheet assets and off-balance sheet financial instruments according to the relative credit risk of the counterparty. The risk weighting for each balance sheet asset and off-balance sheet financial instrument is regulated by the Banks Act, No 94 of 1990 (as amended), or by regulations in the respective countries where the other banking licences are held. Included in the overall risk-weighted assets is a notional risk weighting for the trading book, calculated based on the market, counterparty and large exposure risks.

Minimum regulated entities' requirements

The capital requirements for regulated entities, other than banks, are determined in accordance with the stipulations of their respective regulators.

Minimum unregulated entities' requirements

The capital requirements are determined in accordance with the SARB capital requirements, which entail the application of a 9,75% capital requirement to the total on-balance sheet and off-balance sheet exposures, net of intragroup exposures.

61. Capital management *(continued)*

61.2 Regulatory capital requirements *(continued)*

Minimum insurance requirements

Insurance businesses are subject to separate regulations under the auspices of the Financial Services Board (FSB).

61.3 Qualifying capital

Banking entities

Regulatory guidelines define three tiers of capital resources:

- Primary (Tier I) capital comprises mainly shareholders' funds, including certain accounting reserves, hybrid debt instruments (in terms of Basel II) and non-redeemable, non-cumulative preference shares. Primary capital is the highest tier and can be used to meet trading and banking activity requirements.
- Secondary (Tier II) capital includes cumulative preference shares, subordinated debt (prescribed debt instruments), general provisions for bad and doubtful debts and the general credit risk reserve. Tier II capital can also be used to support both trading and banking activities.
- Tertiary (Tier III) capital comprises prescribed unsecured subordinated debt with a minimum original maturity of two years and uncapitalised net profits derived from trading activities. The use of Tier III capital is restricted to trading activities only. It is not eligible to support counterparty or settlement risk.

In addition, the Group makes provision for a prudence buffer in excess of the minimum capital requirements to ensure that banking entities are more than adequately capitalised.

Other regulated entities

The qualifying capital is determined in terms of the rules and regulations of the regulator responsible for the supervision of the entity.

Unregulated entities

Only primary capital as defined in the section titled "Banking entities" above is regarded as qualifying capital.

Insurance entities

Capital resource requirements are assessed at company level in accordance with the relevant regulations. Provision is also made for a prudence buffer in excess of the minimum capital requirements to ensure that insurance businesses are more than adequately capitalised.

Absa Life Limited

The statutory capital requirement of Absa Life Limited is based on the requirements of the Long-term Insurance Act, which is overseen by the FSB. Capital adequacy requirements are based on actuarial calculations that consider the risks to which the insurer is exposed.

Absa Insurance Company Limited

The statutory capital requirement of Absa Short Term Insurance is based on the requirements of the Short-term Insurance Act, which is overseen by the FSB. This requires an insurer to maintain a capital level equal to 25% of net written premiums (NWP).

61.4 Target capital levels (unaudited)

One of the measurements used to ensure that the objectives for managing capital are met is the ability to meet the board target levels. Target capital levels have been set for the following regulated entities: Absa Group Limited, Absa Bank Limited, Absa Life Limited and Absa Short Term Insurance. Target capital levels for all other entities are equal to the minimum regulatory requirements set by the respective regulators. The target capital adequacy threshold for the Group is as follows:

	2008			
	Absa Group Limited %	Absa Bank Limited %	Absa Life Limited %	Absa Insurance Company Limited %
Total regulatory requirement	8,75	8,75	1,0 X CAR[1]	25% X NWP[2]
Buffer	3,25	3,25	1,5 X CAR[1]	35% X NWP[2]
Total capital	**12,00**	**12,00**	**2,5 X CAR[1]**	**60% X NWP[2]**

Notes

[1]*Capital adequacy requirement (CAR): Actuarial calculation of value at risk on insurance liabilities. 2,5 times (2007: 2,8) being the required capital level determined by the board.*

[2]*60% (2007: 70%) of net written premiums (NWP), being the required capital level determined by the board.*

61. Capital management *(continued)*

61.4 Target capital levels (unaudited) *(continued)*

Absa Bank Limited – Capital adequacy – statutory capital and risk-weighted assets

	2008[1] Basel II Risk-weighted assets Rm
Absa Bank Limited	
Risk-weighted assets	
Credit risk	252 839
Operational risk	39 098
Market risk	5 088
Equity investment risk	41 079
Other risk	14 767
	352 871

	Qualifying capital Rm	%[2]
Primary capital		
Ordinary share capital	303	0,1
Ordinary share premium	9 415	2,7
Preference share capital and premium	4 644	1,3
Reserves[3]	26 003	7,4
Deductions	(1 511)	(0,5)
50% of amount by which expected loss exceeds eligible provisions	(1 472)	(0,5)
50% of first loss credit enhancement provided in respect of a securitisation scheme	(39)	—
	38 854	11,0
Secondary capital		
Subordinated redeemable debt	12 210	3,5
Deductions	(1 521)	(0,5)
50% of amount by which expected loss exceeds eligible provisions	(1 472)	(0,5)
50% of first loss credit enhancement provided in respect of a securitisation scheme	(39)	—
Other deductions	(10)	—
	10 689	3,0
Total qualifying capital	49 543	14,0

Notes

[1]*Comparatives have not been disclosed as a result of the difference between Basel I and Basel II.*
[2]*Percentage of capital to risk-weighted assets.*
[3]*Reserves include unappropriated banking profits.*

61. Capital management *(continued)*

61.4 Target capital levels (unaudited) *(continued)*

Absa Group Limited – Capital adequacy – statutory capital and risk-weighted assets

	2008[1] Basel II Risk-weighted assets Rm
Absa Group Limited	
Risk-weighted assets	
Credit risk	276 706
Operational risk	44 689
Market risk	5 088
Equity investment risk	37 266
Other risk	17 248
	380 997

	Qualifying capital Rm	%[2]
Primary capital		
Ordinary share capital	1 180	0,4
Ordinary share premium	2 250	0,6
Preference share capital and premium	4 644	1,2
Reserves[3]	37 747	9,9
Minority interest	1 042	0,3
Deductions	(2 715)	(0,8)
Goodwill	(577)	(0,2)
Financial and insurance entities not consolidated	(446)	(0,1)
50% of amount by which expected loss exceeds eligible provisions	(1 624)	(0,4)
50% of first loss credit enhancement provided in respect of a securitisation scheme	(68)	(0,1)
	44 148	11,6
Secondary capital		
Subordinated redeemable debt	11 711	3,1
General allowance for credit impairment, after deferred tax – standardised approach	37	0,0
Deductions	(2 148)	(0,6)
Financial and insurance entities not consolidated	(446)	(0,1)
50% of amount by which expected loss exceeds eligible provisions	(1 624)	(0,4)
50% of first loss credit enhancement provided in respect of a securitisation scheme	(68)	(0,1)
Other deductions	(10)	—
	9 600	2,5
Total qualifying capital	53 748	14,1

Notes

[1] *Comparatives have not been disclosed as a result of the difference between Basel I and Basel II.*
[2] *Percentage of capital to risk-weighted assets.*
[3] *Reserves include unappropriated banking profits.*

61. Capital management *(continued)*
61.4 Target capital levels (unaudited) *(continued)*
Capital adequacy ratios and targets

Absa Bank Limited	Target %	Regulatory constraint %	2008 %	2007 %
Total capital adequacy ratio	12,00	≥9,75	**14,0**	12,5
Tier I capital adequacy ratio	8,75	≥7,00	**11,0**	9,2
Non-redeemable non-cumulative preference shares and hybrid debt instruments as a percentage of Tier I capital	n/a	≤25	**12,0**	14,0
Tier II and Tier III as a percentage of Tier I	n/a	≤100	**27,6**	36,1
Lower Tier II as a percentage of Tier I (subordinated debt) capital	n/a	≤50	**27,6**	31,2
Ordinary equity and reserves as a percentage of capital	n/a	n/a	**69,0**	63,2
Preference shares as a percentage of capital	n/a	n/a	**9,4**	10,3
Tier II and Tier III as a percentage of capital	n/a	n/a	**21,6**	26,5

Foreign entities	Regulator	2008 Tier 1 ratio %	2008 Total capital adequacy ratio	2007 Tier 1 ratio %	2007 Total capital adequacy ratio %	2007 Host regulatory requirement[1]
Non-South African operations						
Barclays Bank Mozambique S.A.	Banco de Mozambique	**17,7**	**17,7**	14,7	16,5	8,0
National Bank of Commerce Limited (Tanzania)	Bank of Tanzania	**14,3**	**14,3**	12,5	13,2	12,0

Note

[1] *The minimum regulatory requirements are the higher of the home/host regulatory requirements.*

Other financial services	Regulator	Capital adequacy ratio 2008	Capital adequacy ratio 2007
Absa Life Limited	FSB	**3,6**	4,72 x CAR
Absa Insurance Company Limited	FSB	**79,6**	83,9% x NWP

61.5 Basel II
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. Under Basel II, banks are expected to hold capital commensurate with the risks assumed. Basel II places emphasis on 3 pillars:

- Pillar 1 – minimum capital requirement
- Pillar 2 – supervisory review
- Pillar 3 – market discipline

Pillar 1
The Group has received approval from the SARB to use the following approaches in order to calculate the regulatory capital requirement under Basel II:

- Retail credit risk – Advanced IRB
- Wholesale credit risk – Foundation IRB
- Operational risk – Advanced Measurement Approach
- Market risk – Internal model
- Equity investment risk – Simple Risk Weight Approach
- Africa – Standardised Approach

Pillar 2
The Group submitted its inaugural ICAAP submission to the SARB in October 2008 after approval by the GRCMC and the board. The submission articulates the risk and capital management processes of the Group. Going forward, the ICAAP process will be subject to further development and an annual review.

62. Fair value of financial instruments

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not designated on the Group's balance sheet at their fair value.

	GROUP			
	2008		2007	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Financial assets				
Balances with other central banks	1 124	1 124	500	500
Balances with the SARB	12 648	12 648	10 396	10 396
Coins and bank notes	4 726	4 726	5 091	5 091
Money market assets	56	56	261	261
Cash, cash balances and balances with central banks (refer to note 2)	18 554	18 554	16 248	16 248
Statutory liquid asset portfolio (refer to note 3)	25	25	—	—
Loans and advances to banks (refer to note 4)	37 493	37 499	43 033	43 061
Other assets (refer to note 6)	14 910	14 910	22 750	22 750
Retail banking	346 066	346 766	311 804	311 568
Cheque accounts	7 070	7 070	6 560	6 560
Credit cards	18 047	18 047	12 945	12 945
Instalment credit agreements	46 293	46 501	45 012	44 852
Loans to associates and joint ventures	4 424	4 424	6 466	6 466
Microloans	3 688	3 826	2 460	2 460
Mortgages	253 011	253 365	227 141	227 087
Other	1 693	1 693	1 506	1 506
Personal loans	11 840	11 840	9 714	9 692
Absa Capital	58 511	57 203	45 406	43 213
Absa Corporate and Business Bank	116 309	116 461	83 634	83 713
Corporate	27 556	27 556	10 640	10 643
Large and Medium	61 152	61 304	50 121	50 197
Other	27 601	27 601	22 873	22 873
Other	312	312	803	803
Loans and advances to customers – net of impairment (refer to note 8)	521 198	520 742	441 647	439 297
Investments (refer to note 11)	1 168	1 168	1 018	1 018
Total	593 348	592 898	524 696	522 374

62. Fair value of financial instruments *(continued)*

	GROUP			
	2008		2007	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Financial liabilities				
Deposits from banks (refer to note 17)	**45 631**	**45 636**	47 370	47 370
Other liabilities and sundry provisions (refer to note 19)	**10 817**	**10 817**	8 592	8 592
Call deposits	**62 303**	**62 299**	45 754	45 754
Cheque account deposits	**99 694**	**99 694**	96 961	96 961
Credit card deposits	**2 051**	**2 051**	2 173	2 173
Fixed deposits	**115 558**	**116 059**	92 056	113 738
Foreign currency deposits	**12 297**	**12 297**	10 114	10 114
Liabilities to clients under acceptances	**121**	**121**	108	108
Notice deposits	**7 297**	**7 297**	6 863	6 857
Other deposits	**12 098**	**12 098**	8 155	8 155
Saving and transmission deposits	**59 443**	**59 443**	36 863	36 863
Deposits due to customers (refer to note 20)	**370 862**	**371 359**	299 047	320 723
Debt securities in issue (refer to note 21)	**149 287**	**149 615**	144 339	180 732
Borrowed funds (refer to note 24)	**5 069**	**5 057**	5 104	5 271
Total	**581 666**	**582 484**	504 452	562 688

63. Segment report

63.1 Segment report per geographical segment

GROUP

	2008			
	South Africa Rm	Rest of Africa Rm	Other foreign countries Rm	Total Rm
Net interest income – external	**20 880**	**759**	**156**	**21 795**
Non-interest income – external	**20 354**	**454**	**307**	**21 115**
Total assets	**744 412**	**11 168**	**18 178**	**773 758**

	2007			
	South Africa Rm	Rest of Africa Rm	Other foreign countries Rm	Total Rm
Net interest income – external	18 270	536	84	18 890
Non-interest income – external	16 339	259	158	16 756
Total assets	627 185	7 768	5 956	640 909

63. Segment report *(continued)*
63.2 Segment report per market segment

	Retail banking		Absa Corporate and Business Bank	
	2008 Rm	2007[1] Rm	**2008 Rm**	2007[1] Rm
Income statement				
Net interest income	**14 647**	12 547	**5 937**	4 725
Net interest income – external	**39 652**	31 541	**7 210**	4 856
Net interest income – internal	**(25 005)**	(18 994)	**(1 273)**	(131)
Impairment losses on loans and advances	**(5 551)**	(2 144)	**(287)**	(288)
Non-interest income	**10 262**	9 023	**2 763**	2 500
Non-interest income – external	**9 851**	8 460	**2 464**	2 298
Non-interest income – internal	**411**	563	**299**	202
Depreciation and amortisation	**(356)**	(288)	**(30)**	(21)
Operating expenses	**(13 182)**	(11 510)	**(4 306)**	(3 723)
Other impairments	**—**	—	**—**	—
Indirect taxation	**(362)**	(341)	**(107)**	(57)
Share of retained earnings from associates and joint ventures	**18**	20	**41**	49
Operating profit before income tax	**5 476**	7 307	**4 011**	3 185
Taxation expense	**(1 652)**	(2 289)	**(1 168)**	(975)
Profit for the year	**3 824**	5 018	**2 843**	2 210
Attributable to:				
Ordinary equity holders of the Group	**3 706**	4 943	**2 806**	2 167
Minority interest – ordinary shares	**118**	75	**36**	42
Minority interest – preference shares	**—**	—	**1**	1
	3 824	5 018	**2 843**	2 210
Balance sheet				
Loans and advances to customers	**347 084**	311 803	**120 280**	90 340
Investments in associates and joint ventures	**318**	297	**801**	643
Other assets	**128 984**	106 804	**18 169**	22 586
Other assets – external	**9 982**	7 342	**7 023**	4 973
Other assets – internal[2]	**119 002**	99 462	**11 146**	17 613
Total assets	**476 386**	418 904	**139 250**	113 569
Deposits due to customers	**134 985**	101 944	**100 046**	77 554
Other liabilities	**337 410**	297 166	**36 731**	27 140
Other liabilities – external	**10 574**	16 193	**6 063**	4 562
Other liabilities – internal[2]	**326 836**	280 973	**30 668**	22 578
Total liabilities	**472 395**	399 110	**136 777**	104 694

Notes

[1] *December 2007 comparatives have been restated for structure changes as well as the reclassification of the CPF's unlisted investments to "Investments", refer to note 1.26. December 2006 comparatives have not been restated.*

[2] *Internal assets and liabilities include all interdivisional and intragroup asset and liability balances. December 2007 comparatives have been restated accordingly. Internal assets and liabilities for the Group are eliminated in "Head office and intersegment eliminations".*

Absa Capital		Bancassurance		Other		Head office and intersegment eliminations		Absa Group	
2008 Rm	2007[1] Rm	2008 Rm	2007[1] Rm	2008 Rm	2007[1] Rm	2008 Rm	2007[1] Rm	2008 Rm	2007[1] Rm
2 098	1 638	10	(49)	(918)	(38)	21	67	21 795	18 890
(24 835)	(18 561)	8	(49)	(158)	2 070	(82)	(967)	21 795	18 890
26 933	20 199	2	—	(760)	(2 108)	103	1 034	—	—
(2)	(1)	1	1	—	(1)	—	—	(5 839)	(2 433)
3 250	2 231	3 566	3 251	631	(263)	643	14	21 115	16 756
3 657	2 555	3 860	3 709	533	(259)	750	(7)	21 115	16 756
(407)	(324)	(294)	(458)	98	(4)	(107)	21	—	—
(24)	(6)	(24)	(22)	(88)	(78)	(484)	(450)	(1 006)	(865)
(2 169)	(1 362)	(1 354)	(1 128)	73	275	751	(129)	(20 187)	(17 577)
(1)	—	(29)	—	25	(37)	(13)	(21)	(18)	(58)
(60)	(78)	(57)	(47)	(62)	32	(76)	(218)	(724)	(709)
—	—	—	—	—	1	14	3	73	73
3 092	2 422	2 113	2 006	(339)	(109)	856	(734)	15 209	14 077
(843)	(689)	(516)	(504)	198	247	15	158	(3 966)	(4 052)
2 249	1 733	1 597	1 502	(141)	138	871	(576)	11 243	10 025
2 249	1 733	1 597	1 502	(599)	(175)	833	(575)	10 592	9 595
—	—	—	—	1	—	39	—	194	117
—	—	—	—	457	313	(1)	(1)	457	313
2 249	1 733	1 597	1 502	(141)	138	871	(576)	11 243	10 025
64 332	53 011	—	—	428	641	47	163	532 171	455 958
970	—	—	—	—	—	55	64	2 144	1 004
370 083	373 217	33 015	37 526	21 906	152 172	(332 714)	(508 358)	239 443	183 947
150 424	102 671	29 805	34 651	37 496	29 582	4 713	4 728	239 443	183 947
219 659	270 546	3 210	2 875	(15 590)	122 590	(337 427)	(513 086)	—	—
435 385	426 228	33 015	37 526	22 334	152 813	(332 612)	(508 131)	773 758	640 909
146 670	130 683	—	—	11	9	569	322	382 281	310 512
284 405	289 334	29 106	33 618	(13 493)	147 224	(335 648)	(506 645)	338 511	287 837
275 342	230 968	21 747	25 360	30 412	4 524	(5 627)	6 230	338 511	287 837
9 063	58 366	7 359	8 258	(43 905)	142 700	(330 021)	(512 875)	—	—
431 075	420 017	29 106	33 618	(13 482)	147 233	(335 079)	(506 323)	720 792	598 349

63. Segment report *(continued)*

63.2 Segment report per market segment *(continued)*

	Retail banking		Absa Corporate and Business Bank	
	2008 Rm	2007[1] Rm	**2008 Rm**	2007[1] Rm
Financial performance (%) (audited)				
Return on average assets	**0,84**	1,35	**2,04**	2,07
Return on average equity[2]	**n/a**	28,3	**n/a**	29,5
Operating performance (%)				
Net interest margin on average assets	**3,33**	3,30	**4,42**	4,70
Impairment losses on loans and advances as a percentage of average loans and advances to customers	**1,68**	0,74	**0,28**	0,37
Non-interest income as a percentage of total operating income	**41,2**	41,8	**31,8**	34,6
Top-line growth[1]	**15,5**	18,0	**20,4**	39,8
Cost growth[1]	**14,7**	11,7	**15,8**	31,8
Cost-to-income ratio	**54,3**	54,7	**49,8**	51,8
Cost-to-assets ratio	**3,1**	3,3	**3,2**	3,7
Other (unaudited)				
Return on average economic capital[2] (%)	**19,5**	n/a	**24,8**	n/a
Banking customer base per segment (including African operations)	**10 402 735**	9 328 008	**271 304**	239 460
Attributable income from the rest of Africa	**54**	81	**20**	7

	Absa Wealth		Retail Bank	
Retail banking segment	**2008**	2007[1]	**2008**	2007[1]
Total revenue – external (Rm)	**593**	544	**8 404**	8 764
Net interest income – external (Rm)	**509**	466	**537**	2 144
Non-interest income – external (Rm)	**84**	78	**7 867**	6 620
Total revenue – internal (Rm)	**(284)**	(298)	**6 382**	3 843
Net interest income – internal (Rm)	**(298)**	(306)	**6 165**	3 472
Non-interest income – internal (Rm)	**14**	8	**217**	371
Attributable earnings (Rm)	**27**	46	**2 635**	2 350
Impairment losses on loans and advances as a percentage of average loans and advances to customers (%)	**0,33**	0,38	**2,47**	1,87
Cost-to-income ratio (%)	**76,6**	61,6	**65,2**	65,7
Loans and advances (Rm)	**9 566**	7 567	**44 413**	38 246
Total assets (Rm)	**10 357**	8 206	**142 698**	118 172
Deposits due to customers (Rm)	**7 032**	5 021	**126 049**	94 844
Total liabilities (Rm)	**10 341**	7 763	**140 346**	114 249
Return on average equity[2] (%)	**n/a**	11,4	**n/a**	90,4
Other (unaudited)				
Return on average economic capital[2] (%)	**3,8**	n/a	**48,5**	n/a

Notes

[1]*December 2007 comparatives have been restated for structure changes as well as the reclassification of the CPF's unlisted investments to "Investments", refer to note 1.26. December 2006 comparatives have not been restated.*

[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.*

	Absa Capital		Bancassurance		Other		Head office and intersegment eliminations		Absa Group	
	2008 Rm	2007[1] Rm	2008 Rm	2007[1] Rm	2008 Rm	2007[1] Rm	2008 Rm	2007[1] Rm	2008 Rm	2007[1] Rm
	0,52	0,45	**4,57**	4,88	**n/a**	n/a	**n/a**	n/a	**1,37**	1,68
	n/a	33,3	**39,5**	37,8	**n/a**	n/a	**n/a**	n/a	**23,4**	27,2
	n/a	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**3,02**	3,37
	0,00	0,00	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**1,19**	0,58
	60,8	57,7	**99,7**	101,5	**n/a**	n/a	**n/a**	n/a	**49,2**	47,0
	38,2	53,6	**11,7**	2,9	**n/a**	n/a	**n/a**	n/a	**20,4**	19,2
	60,4	44,7	**19,8**	15,5	**n/a**	n/a	**n/a**	n/a	**14,9**	14,6
	41,0	35,4	**38,5**	35,9	**n/a**	n/a	**n/a**	n/a	**49,4**	51,7
	0,5	0,4	**4,0**	3,7	**n/a**	n/a	**n/a**	n/a	**3,0**	3,2
	21,3	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**23,9**	n/a
	2 655	2 503	**—**	—	**—**	—	**—**	—	**10 676 694**	9 569 971
	219	59	**—**	—	**(42)**	1	**—**	—	**251**	148

	Absa Home Loans		Absa Card		Absa Vehicle and Asset Finance		Total	
	2008	2007[1]	2008	2007[1]	2008	2007[1]	2008	2007[1]
	28 395	21 127	**4 429**	3 353	**7 682**	6 213	**49 503**	40 001
	28 321	21 029	**2 856**	1 898	**7 429**	6 004	**39 652**	31 541
	74	98	**1 573**	1 455	**253**	209	**9 851**	8 460
	(24 216)	(17 236)	**(1 372)**	(877)	**(5 104)**	(3 863)	**(24 594)**	(18 431)
	(24 396)	(17 428)	**(1 373)**	(835)	**(5 103)**	(3 897)	**(25 005)**	(18 994)
	180	192	**1**	(42)	**(1)**	34	**411**	563
	191	1 296	**554**	706	**299**	545	**3 706**	4 943
	1,19	0,26	**5,65**	3,50	**2,31**	1,14	**1,68**	0,74
	30,6	33,8	**46,4**	40,8	**37,6**	43,8	**54,3**	54,7
	223 870	202 497	**18 069**	11 817	**51 166**	51 676	**347 084**	311 803
	240 617	219 813	**24 812**	13 995	**57 902**	58 718	**476 386**	418 904
	—	—	**1 888**	2 065	**16**	14	**134 985**	101 944
	240 577	210 000	**23 933**	12 807	**57 198**	54 291	**472 395**	399 110
	n/a	15,2	**n/a**	70,7	**n/a**	11,4	**n/a**	28,3
	2,7	n/a	**25,1**	n/a	**8,6**	n/a	**19,5**	n/a

63. Segment report *(continued)*

63.2 Segment report per market segment *(continued)*

Absa Corporate and Business Bank segment	2008 Rm	Excluding listed equities 2008 Rm	2007 Rm	Excluding listed equities 2007 Rm
Income statement				
Net interest income	**5 937**	**5 937**	4 725	4 725
Impairment losses on loans and advances	**(287)**	**(287)**	(288)	(288)
Non-interest income	**2 763**	**2 861**	2 500	2 305
Operating expenses	**(4 336)**	**(4 336)**	(3 744)	(3 744)
Other	**(66)**	**(66)**	(8)	(8)
Operating profit before income tax	**4 011**	**4 109**	3 185	2 990
Taxation expense	**(1 168)**	**(1 195)**	(975)	(919)
Profit for the year	**2 843**	**2 914**	2 210	2 071
Attributable to:				
Ordinary equity holders of the Group	**2 806**	**2 877**	2 167	2 028
Minority interest – ordinary shares	**36**	**36**	42	42
Minority interest – preference shares	**1**	**1**	1	1
	2 843	**2 914**	2 210	2 071

Operating profit before income tax by business area	2008 Rm	2007 Rm
Large	**2 008**	1 515
Medium	**1 477**	1 205
Corporate	**317**	204
Africa	**76**	66
CPF equity portfolio[1]	**133**	195
Listed	**(98)**	195
Unlisted	**231**	—
	4 011	3 185

63.3 Bancassurance

Balance sheet	Note	2008 Rm	2007 Rm
Assets			
Cash balances and money market assets		**8 295**	6 638
Insurance operations	63.3.1	**5 544**	3 666
Other insurance subsidiaries		**1 045**	977
Other subsidiaries		**1 706**	1 995
Other assets[2]		**13 737**	19 281
Financial assets backing investment and insurance liabilities		**10 912**	11 570
Investments			
Insurance operations	63.3.1	**10 289**	10 640
Other insurance subsidiaries		**44**	722
Other assets backing policyholder investment liabilities			
Insurance operations	63.3.1	**481**	231
Derivatives backing shareholder investments			
Insurance operations	63.3.1	**98**	(23)
Property and equipment		**71**	37
Total assets		**33 015**	37 526

Notes

[1] *Includes realised and unrealised profits.*

[2] *Other assets and liabilities include settlement account balances in Absa Stockbrokers (Proprietary) Limited.*

63. Segment report *(continued)*
63.3 Bancassurance *(continued)*

	2008 Rm	2007 Rm
Liabilities		
Other liabilities and sundry provisions[1]	**15 533**	22 089
Current tax liabilities	**59**	129
Deferred tax liabilities	**61**	242
Liabilities under investment contracts	**10 377**	7 908
Policyholder liabilities under insurance contracts	**3 076**	3 250
Total liabilities	**29 106**	33 618
Total equity	**3 909**	3 908
Total equity and liabilities	**33 015**	37 526

63.3.1 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**	**1 323**	**98**	**454**	**2 886**
Life	**472**	**77**	**246**	**40**	**126**	**961**
Non-life	**360**	**102**	**1 077**	**58**	**328**	**1 925**
Policyholder investments	**1 476**	**5 453**	**1 026**	**481**	**5 090**	**13 526**
Investment contracts[2]	**1 476**	**4 755**	**285**	**481**	**3 450**	**10 447**
Insurance contracts[2]	**—**	**698**	**741**	**—**	**1 640**	**3 079**
	2 308	**5 632**	**2 349**	**579**	**5 544**	**16 412**

2007	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	3 090
Life	789	113	65	(4)	21	984
Non-life	1 796	68	71	(19)	190	2 106
Policyholder investments	1 692	3 651	2 395	231	3 455	11 424
Investment contracts[2]	1 692	2 834	363	231	2 808	7 928
Insurance contracts[2]	—	817	2 032	—	647	3 496
	4 277	3 832	2 531	208	3 666	14 514

Notes

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

[2]*Includes R607 million (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.

63. Segment report *(continued)*
63.4 Bancassurance *(continued)*

Income statement

	Note	Life 2008 Rm	Life 2007 Rm	Insurance 2008 Rm	Insurance 2007 Rm	Other 2008 Rm	Other 2007 Rm	Total bancassurance 2008 Rm	Total bancassurance 2007 Rm
Net earned premium		**1 155**	1 142	**2 318**	2 012	**38**	38	**3 511**	3 192
Net insurance claims		**(390)**	(401)	**(1 531)**	(1 244)	**31**	42	**(1 890)**	(1 603)
Investment income	63.4.1								
Policyholder investment contracts		**653**	495	**—**	—	**(161)**	84	**492**	579
Policyholder insurance contracts		**(14)**	170	**127**	73	**—**	—	**113**	243
Changes in investment and insurance liabilities									
Policyholder investment contracts		**(620)**	(482)	**—**	—	**182**	(52)	**(438)**	(534)
Policyholder insurance contracts		**368**	45	**—**	—	**—**	—	**368**	45
Other income		**37**	24	**3**	12	**1 510**	1 203	**1 550**	1 239
Gross operating income		**1 189**	993	**917**	853	**1 600**	1 315	**3 706**	3 161
Net commission paid by insurance companies[1]		**(230)**	(196)	**(342)**	(333)	**—**	—	**(572)**	(529)
Operating expenses		**(171)**	(150)	**(210)**	(203)	**(997)**	(797)	**(1 378)**	(1 150)
Other		**(42)**	(37)	**(1)**	(1)	**(42)**	(9)	**(85)**	(47)
Net operating income		**746**	610	**364**	316	**561**	509	**1 671**	1 435
Investment income on shareholder funds[2]		**102**	167	**211**	292	**97**	112	**410**	571
Net profit on disposal of subsidiary[2]		**—**	—	**—**	—	**32**	—	**32**	—
Taxation expense		**(217)**	(253)	**(78)**	(71)	**(221)**	(180)	**(516)**	(504)
Profit attributable to ordinary equity holder		**631**	524	**497**	537	**469**	441	**1 597**	1 502

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 a R5 million loss is accounted for as part of "Investment income on shareholder funds" in "Gains and losses from investment activities".*

In managing the 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.

63. Segment report *(continued)*

63.4 Bancassurance *(continued)*

63.4.1 Investment income

	Life		Insurance		Other		Total bancassurance	
	2008 Rm	2007 Rm	**2008 Rm**	2007 Rm	**2008 Rm**	2007 Rm	**2008 Rm**	2007 Rm
Policyholder investment contracts	**653**	495	**—**	—	**(161)**	84	**492**	579
Net interest income	**257**	44	**—**	—	**4**	4	**261**	48
Dividend income	**20**	13	**—**	—	**78**	44	**98**	57
Fair value gains	**376**	438	**—**	—	**(243)**	36	**133**	474
Policyholder insurance contracts	**(14)**	170	**127**	73	**—**	—	**113**	243
Net interest income	**105**	93	**127**	73	**—**	—	**232**	166
Dividend income	**15**	23	**—**	—	**—**	—	**15**	23
Fair value gains	**(134)**	54	**—**	—	**—**	—	**(134)**	54
Shareholder funds	**102**	167	**211**	292	**97**	112	**410**	571
Net interest income	**12**	9	**61**	13	**96**	51	**169**	73
Dividend income	**27**	15	**84**	69	**7**	17	**118**	101
Fair value gains	**63**	143	**66**	210	**(6)**	44	**123**	397
Total	**741**	832	**338**	365	**(64)**	196	**1 015**	1 393
Net interest income	**374**	146	**188**	86	**100**	55	**662**	287
Dividend income	**62**	51	**84**	69	**85**	61	**231**	181
Fair value gains	**305**	635	**66**	210	**(249)**	80	**122**	925

64. Derivatives

Derivative financial instruments are entered into in the normal course of business to manage various financial risks. Derivative financial instruments entered into in terms of asset and liability management strategies are defined as hedging transactions and such instruments are accounted for in terms of the Group's accounting policies.

At the balance sheet date, the Group did not have any compound financial instruments with multiple embedded derivatives in issue.

64.1 Derivatives held for trading

The Group trades derivative instruments mainly on behalf of customers while the Group's own positions are insignificant. The Group transacts derivative contracts to address customer demands both as a market maker in the wholesale markets and in structuring tailored derivatives for customers.

64. Derivatives *(continued)*

64.2 Derivatives held for hedging

The Group enters into derivative transactions, which are designated and qualify as either fair value or cash flow hedges for recognised assets or liabilities or forecasted transactions.

Derivatives designated as fair value hedges

Fair value hedges are used by the Group to protect against changes in fair value of financial assets and liabilities owing to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, available-for-sale assets, debt securities and borrowed funds.

The Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in market interest rates.

The Group recognised the following gains and losses on hedging instruments and hedging items:

	GROUP	
	2008 Rm	2007 Rm
Gains/(losses) on hedged items (assets) (refer to note 28)	**1 157**	(343)
Gains/(losses) on hedging instruments (assets) (refer to note 28)	**(920)**	457
Gains/(losses) on hedged items (liabilities) (refer to note 29)	**(818)**	417
Gains/(losses) on hedging instruments (liabilities) (refer to note 29)	**829**	(560)

Hedge effectiveness is measured using a statistical method and results would have to be within the 80% to 125% range in order for hedge accounting to be applied.

The amount of movement in fair value that has been recognised in the income statement in relation to ineffectiveness is:

	GROUP	
	2008 Rm	2007 Rm
Ineffectiveness (outside range) (refer to note 34)	**(42)**	139
Ineffectiveness (inside range)	**(12)**	(14)

64. Derivatives *(continued)*

64.2 Derivatives held for hedging *(continued)*

Derivatives designated as cash flow hedges

The objective of cash flow hedges is to protect against changes in future interest cash flows resulting from the impact of changes in market interest risk rates and reinvestment or reborrowing of current balances.

The Group uses interest rate swaps to protect against changes in cash flows of certain variable rate debt issues. The Group applies hedge accounting for its non-trading interest rate risk in major currencies by analysing the expected cash flows on a group basis.

The Group is exposed to variability in future interest cash flows on non-trading portfolio assets and liabilities which bear interest at a variable rate. The Group designates interest rate swaps as hedging instruments in a cash flow hedging relationship to hedge the variability in cash flows owing to changes in interest rates.

A schedule indicating the periods when the hedged cash flows are expected to occur and when they are expected to affect the income statement as at the balance sheet date is as follows:

GROUP

	2008						
	Less than 1 year Rm	**1 – 2 years Rm**	**2 – 3 years Rm**	**3 – 4 years Rm**	**4 – 5 years Rm**	**More than 5 years Rm**	**Total Rm**
Forecast receivable cash flow[1]	**1 167**	**695**	**454**	**310**	**112**	**25**	**2 763**
Forecast payable cash flow[1]	**(99)**	**(39)**	**(9)**	**(4)**	**(4)**	**(50)**	**(205)**
Net cash outflow	**1 068**	**656**	**445**	**306**	**108**	**(25)**	**2 558**

	2007						
	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	Total Rm
Forecast receivable cash flow[1]	3	—	—	—	—	—	3
Forecast payable cash flow[1]	(629)	(352)	(174)	(73)	(19)	(8)	(1 255)
Net cash outflow	(626)	(352)	(174)	(73)	(19)	(8)	(1 252)

Note

[1]*These balances are shown before taxation.*

64. Derivatives *(continued)*

64.2 Derivatives held for hedging *(continued)*

The following net gain/(loss) on cash flow hedges was recycled from equity to the income statement:

	GROUP 2008 Rm	GROUP 2007 Rm
Interest and similar income (refer to note 28)	**(1 301)**	(1 004)
Gains and losses from banking and trading activities (refer to note 34)	**76**	(60)
	(1 225)	(1 064)
Taxation	**343**	309
	(882)	(755)

The amount of movement in fair value that has been recognised in the income statement in relation to ineffectiveness is:

	GROUP 2008 Rm	GROUP 2007 Rm
Ineffectiveness (outside range) (refer to note 34)	**76**	(60)
Ineffectiveness (inside range)	**(88)**	(46)

64.3 Detailed breakdown of derivatives

The Group uses the following derivative instruments for both hedging and non-hedging purposes:

- **Foreign exchange contracts** represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.
- **Foreign currency and interest rate futures** are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the exchange.
- **Forward rate agreements** are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.
- **Currency and interest rate swaps** are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (ie fixed rate for floating rate) or a combination of all these (ie cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.
- **Options** are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange traded or negotiated between the Group and a customer.

64. Derivatives *(continued)*
64.3 Detailed breakdown of derivatives *(continued)*

	GROUP					
	2008				2007	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
Trading						
Foreign exchange derivatives						
Foreign exchange forward	**433 497**	**(1 469)**	**22 585**	**(24 054)**	314 329	356
Currency swaps	**97 606**	**1 561**	**7 758**	**(6 197)**	93 746	(869)
Cross-currency swaps	**20 569**	**(78)**	**571**	**(649)**	17 404	10
OTC foreign exchange options	**32 976**	**(96)**	**1 076**	**(1 172)**	5 991	9
OTC foreign exchange options purchased	**15 883**	**1 076**	**1 076**	**—**	3 000	92
OTC foreign exchange options written	**17 093**	**(1 172)**	**—**	**(1 172)**	2 991	(83)
Other OTC foreign exchange derivatives	**43 230**	**(10)**	**60**	**(70)**	25 587	(7)
Total foreign exchange derivatives	**627 878**	**(92)**	**32 050**	**(32 142)**	457 057	(501)
Interest rate derivatives						
Forward rate agreements (FRAs)	**1 416 653**	**200**	**3 525**	**(3 325)**	862 847	30
Swaps	**44 112**	**(127)**	**61**	**(188)**	31 904	(86)
Interest rate swaps	**1 128 595**	**(706)**	**21 495**	**(22 201)**	771 075	(730)
OTC options on FRAs and swaps	**185 412**	**89**	**664**	**(575)**	15 781	(145)
OTC options on FRAs and swaps purchased	**94 843**	**664**	**664**	**—**	10 411	52
OTC options on FRAs and swaps written	**90 569**	**(575)**	**—**	**(575)**	5 370	(197)
OTC bond option contracts	**7 106**	**(125)**	**225**	**(350)**	4 446	6
OTC bond options purchased	**4 065**	**225**	**225**	**—**	2 945	15
Other bond options written	**3 041**	**(350)**	**—**	**(350)**	1 501	(9)
Non-qualifying hedges						
Interest rate swaps	**—**	**—**	**—**	**—**	49 689	224
Total interest rate derivatives	**2 781 878**	**(669)**	**25 970**	**(26 639)**	1 735 742	(701)
Balance carried forward	**3 409 756**	**(761)**	**58 020**	**(58 781)**	2 192 799	(1 202)

64. Derivatives *(continued)*

64.3 Detailed breakdown of derivatives *(continued)*

	GROUP					
	2008				2007	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
Balance brought forward	**3 409 756**	**(761)**	**58 020**	**(58 781)**	2 192 799	(1 202)
Equity derivatives						
OTC options purchased	**47 873**	**2 018**	**2 018**	**—**	13 468	1 011
OTC options written	**40 715**	**(4 026)**	**—**	**(4 026)**	11 357	(1 384)
Equity futures	**1 059**	**194**	**210**	**(16)**	1 529	1 304
Other OTC equity derivatives	**2 278**	**(78)**	**(4)**	**(74)**	83 857	6
OTC equity derivatives	**91 925**	**(1 892)**	**2 224**	**(4 116)**	110 211	937
Exchange traded derivatives	**178 150**	**—**	**—**	**—**	99 578	(16)
Exchange traded options purchased	**60 957**	**—**	**—**	**—**	38 340	—
Exchange traded options written	**60 343**	**—**	**—**	**—**	39 213	(16)
Exchange traded futures	**56 850**	**—**	**—**	**—**	22 025	—
Non-qualifying hedges equity option	**860**	**98**	**98**	**—**	—	—
Total equity derivatives	**270 935**	**(1 794)**	**2 322**	**(4 116)**	209 789	921
Commodity derivatives						
Agricultural forwards	**—**	**—**	**—**	**—**	42	3
OTC agricultural options	**18**	**(2)**	**—**	**(2)**	81	—
OTC agricultural options purchased	**—**	**—**	**—**	**—**	21	2
OTC agricultural options written	**18**	**(2)**	**—**	**(2)**	60	(2)
OTC options on gold	**11 144**	**173**	**2 903**	**(2 730)**	8 275	80
OTC gold options purchased	**5 572**	**2 903**	**2 903**	**—**	4 138	1 663
OTC gold options written	**5 572**	**(2 730)**	**—**	**(2 730)**	4 137	(1 583)
Other OTC commodity derivatives	**8 819**	**(68)**	**1 819**	**(1 887)**	3 308	(93)
OTC commodity derivatives	**19 981**	**103**	**4 722**	**(4 619)**	11 706	(10)
Exchange traded agricultural derivatives	**4 159**				466	—
Exchange traded agricultural options purchased	**309**	**—**	**—**	**—**	32	—
Exchange traded agricultural options written	**84**	**—**	**—**	**—**	85	—
Exchange traded agricultural futures	**3 766**	**—**	**—**	**—**	349	—
Total commodity derivatives	**24 140**	**103**	**4 722**	**(4 619)**	12 172	(10)
Balance carried forward	**3 704 831**	**(2 452)**	**65 064**	**(67 516)**	2 414 760	(291)

64. Derivatives *(continued)*
64.3 Detailed breakdown of derivatives *(continued)*

	GROUP					
	2008				2007	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
Balance brought forward	**3 704 831**	**(2 452)**	**65 064**	**(67 516)**	2 414 760	(291)
Credit derivatives						
Swaps	**6 717**	**(178)**	**54**	**(232)**	3 328	39
Embedded derivatives	**7 367**	**199**	**289**	**(90)**	(3 514)	(12)
Total credit derivatives	**14 084**	**21**	**343**	**(322)**	(186)	27
Total trading	**3 718 915**	**(2 431)**	**65 407**	**(67 838)**	2 414 574	(264)
Hedging						
Cash flow hedges						
Interest rate swaps	**130 354**	**2 282**	**2 530**	**(248)**	87 159	(1 608)
Forward foreign exchange	**376**	**(35)**	**—**	**(35)**	304	(13)
Equity options	**24**	**(2)**	**—**	**(2)**	—	—
Total cash flow hedges	**130 754**	**2 245**	**2 530**	**(285)**	87 463	(1 621)
Fair value hedges						
Interest rate swaps	**24 943**	**(315)**	**480**	**(795)**	1 969	(60)
Currency swaps	**6 005**	**129**	**129**	**—**	—	180
Total fair value hedges	**30 948**	**(186)**	**609**	**(795)**	1 969	120
Total hedges	**161 702**	**2 059**	**3 139**	**(1 080)**	89 432	(1 501)
Total derivative instruments	**3 880 617**	**(372)**	**68 546**	**(68 918)**	2 504 006	(1 765)

64. Derivatives *(continued)*

64.3 Detailed breakdown of derivatives *(continued)*

To the extent that the Group has ISDA agreements with the same counterparty, the Group's net exposure was R33 329 million (2007: R11 127 million).

Notional amount

The gross notional amount is the sum of the absolute value of all bought and sold contracts. The notional amount will not generally reflect the amount receivable or payable under a derivative contract. The notional amount should be viewed only as a means of assessing the Group's participation in derivative contracts and not the market risk position or the credit exposure arising on such contracts.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet, but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates on hand, the extent to which instruments are favourable or unfavourable and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

Fair value

The amounts disclosed represent the fair value as at the balance sheet date of all derivative financial instruments held. Positive amounts reflect positive fair values, while amounts indicated in brackets reflect negative fair values.

Annexure A: Embedded value report of Absa Life Limited

Scope of the embedded value report

This report deals with the embedded value of Absa Life Limited and the value of new business written during the financial year.

Embedded value

The embedded value of the life business is the discounted present value of the projected stream of future after-tax shareholder profits from business in-force at the valuation date, as well as the shareholders' net assets. No allowance has been made for STC on future dividends as full credit is obtained by the shareholder.

Shareholders' net assets are the excess of the assets of the life business, less current liabilities, over the actuarial value of policy liabilities, as determined using the statutory valuation method adjusted to add back inadmissible assets.[1]

Note

[1]*A life insurance company can only take into account a specified maximum amount of certain assets for the purpose of demonstrating statutory solvency. The maximum amount is in terms of percentages of the value of non-linked liabilities. The assets to which a value can be allocated are defined as admissible assets. Assets that are not admissible are called inadmissible.*

The development of the embedded value can be analysed as follows:

	2008 Rm	2007 Rm
Embedded value at the end of the year	**2 092**	2 091
Less: Embedded value at the beginning of the year	**(2 091)**	(2 486)
Plus: Dividends declared and paid (including STC)	**746**	938
Embedded value earnings	**747**	543
Return on embedded value (%)	**35,7**	21,8

Value of new business

This is a measure of the value added to a company as a result of writing new business. This is calculated as the discounted value, at the date of sale, of projected after-tax shareholder profit from new business written during the 12-month period – net of the opportunity cost of the solvency capital requirements for new business.

	2008 Rm	2007 Rm
Shareholders' net assets	**1 006**	1 082
Cost of solvency capital	**(45)**	(20)
Value of business in-force	**1 131**	1 029
Total embedded value	**2 092**	2 091
Value of new business	**331**	213

The shareholders' net assets of R1 006 million (2007: R1 082 million) represent the excess of assets over liabilities with assets at market value and liabilities on the statutory soundness valuation method adjusted to add back the inadmissible assets.

The embedded value of new business acquired in 2008 was R331 million, up from R213 million in 2007.

Annexure A: Embedded value report of Absa Life Limited

Assumptions

The embedded value and value of new business was determined using the same “best estimate” assumptions regarding future mortality, discontinuance rate and expenses used in the financial soundness valuation.

The discount rate used to discount future profits includes a margin over assumed investment returns to allow for the risk that the actual experience in future years may differ from that assumed.

The main economic assumptions that were used for the embedded value calculations are set out in the table below.

It is worth noting that the equity risk premium has been increased to 3,5% at 31 December 2008, up from 2% at 31 December 2007.

	2008 %	2007 %
Risk-free rate of return	**7,5**	8,5
Equity return	**11,0**	10,5
Cash return	**5,5**	6,5
Overall investment return	**7,4**	8,4
Risk discount rate	**10,5**	11,5
Unit cost inflation	**4,0**	5,0

Review by the independent actuaries

The embedded value of Absa Life Limited and the value of new business written during the year have been reviewed and agreed by the independent consulting actuaries, Deloitte.

Company balance sheet

As at 31 December

	Note	COMPANY 2008 Rm	2007 Rm
Assets			
Loans and advances to banks	2	**634**	99
Other assets	3	**4**	637
Current tax assets	4	**36**	3
Investments	5	**128**	124
Investments in associates and joint ventures	6	**45**	58
Subsidiaries	7	**13 144**	8 400
Deferred tax assets	8	**—**	2
Total assets		**13 991**	9 323
Liabilities			
Derivative liability	9	**2**	—
Other liabilities and sundry provisions	10	**101**	61
Borrowed funds	11	**156**	158
Total liabilities		**259**	219
Equity			
Capital and reserves			
Attributable to ordinary equity holders of the Company:			
Share capital	12	**1 361**	1 357
Share premium	12	**2 750**	2 636
Other reserves	13	**322**	170
Retained earnings		**9 299**	4 941
Total equity		**13 732**	9 104
Total equity and liabilities		**13 991**	9 323

Company income statement

For the year ended 31 December

	Note	COMPANY 2008 Rm	COMPANY 2007 Rm
Net interest income		**50**	56
Interest and similar income	14	**68**	71
Interest expense and similar charges	15	**(18)**	(15)
Net interest income after impairment losses on loans and advances		**50**	56
Gains and losses from investment activities	16	**8 425**	4 118
Other operating income	17	**35**	8
Operating income before operating expenses		**8 510**	4 182
Operating expenditure	18	**(5)**	(6)
Operating profit before income tax		**8 505**	4 176
Taxation expense	19	**(173)**	(119)
Profit for the year		**8 332**	4 057
Attributable to:			
Ordinary equity holders of the Company		**8 332**	4 057

Company statement of changes in equity

For the year ended 31 December

COMPANY

2008	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Foreign currency translation reserve Rm	Share-based payment reserve Rm	Retained earnings Rm	Total Rm
Balance at 1 January 2008	**678 573**	**1 357**	**2 636**	**—**	**170**	**4 941**	**9 104**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**8 332**	**8 332**
Shares issued	**1 705**	**4**	**73**	**—**	**—**	**—**	**77**
Movement in share-based payment reserve	**—**	**—**	**41**	**—**	**152**	**—**	**193**
Transfer from share-based payments reserve	**—**	**—**	**41**	**—**	**(41)**	**—**	**—**
Value of employee services	**—**	**—**	**—**	**—**	**193**	**—**	**193**
Dividends declared	**—**	**—**	**—**	**—**	**—**	**(3 974)**	**(3 974)**
Balance at 31 December 2008	**680 278**	**1 361**	**2 750**	**—**	**322**	**9 299**	**13 732**

2007	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Foreign currency translation reserve Rm	Share-based payment reserve Rm	Retained earnings Rm	Total Rm
Balance at 1 January 2007	671 955	1 344	2 198	(11)	182	4 285	7 998
Profit for the year	—	—	—	—	—	4 057	4 057
Shares issued	6 618	13	345	—	—	—	358
Foreign currency translation effects	—	—	—	11	—	—	11
Movement in share-based payment reserve	—	—	—	—	81	—	81
Transfer from share-based payments reserve	—	—	93	—	(93)	—	—
Dividends declared	—	—	—	—	—	(3 401)	(3 401)
Balance at 31 December 2007	678 573	1 357	2 636	—	170	4 941	9 104
Note	12	12	12	13	13		

All movements are reflected net of taxation.

Company cash flow statement

For the year ended 31 December

	Note	COMPANY 2008 Rm	2007 Rm
Cash flow from operating activities			
Interest income		**68**	71
Interest expense		**(18)**	(15)
Net trading and other income		**8 460**	4 137
Cash payments to employees and suppliers		**(5)**	(6)
Income taxes paid		**(204)**	(123)
Cash flow from operating profit before changes in operating assets and liabilities		**8 301**	4 064
Net increase in derivative liability		**2**	—
Net decrease/(increase) in other assets		**633**	(510)
Net increase in other liabilities		**40**	10
Net cash generated from operating activities		**8 976**	3 564
Cash flow from investing activities			
Investment in shares		**(5 594)**	(2)
Increase/(decrease) in net loans from/to subsidiaries		**1 055**	(416)
Net increase in securities		**(4)**	(41)
Net cash utilised from investing activities		**(4 543)**	(459)
Cash flow from financing activities			
Issue of ordinary shares		**77**	358
Proceeds from borrowed funds		**—**	7
Redemption of borrowed funds		**(1)**	—
Dividends paid	21	**(3 974)**	(3 401)
Net cash utilised from financing activities		**(3 898)**	(3 036)
Net increase in cash and cash equivalents		**535**	69
Cash and cash equivalents at the beginning of the year		**99**	30
Cash and cash equivalents at the end of the year	2	**634**	99

		COMPANY 2008 Rm	COMPANY 2007 Rm
1.	**Accounting policies**		
	The financial statements of Absa Group Limited (Company) are prepared according to the same accounting principles used in preparing the consolidated financial statements of Absa Group Limited and its subsidiaries (Group). For detailed accounting policies refer to the Group's financial statements.		
2.	**Loans and advances to banks**		
	Other loans and advances to banks	**634**	99
	Portfolio analysis		
	Loans and receivables	**634**	99
	Loans with variable rates are R625 million (2007: R3 million) and fixed rates are R9 million (2007: R96 million).		
3.	**Other assets**		
	Accounts receivable and prepayments	**4**	—
	Accrued dividends	**—**	637
		4	637
	Portfolio analysis		
	Loans and receivables	**4**	637
4.	**Current tax assets**		
	Amount due from revenue authorities	**36**	3
5.	**Investments**		
	Debt instruments	**128**	124
	Market value of debt in instruments	**128**	124
	Portfolio analysis		
	Available-for-sale		
	Debt instruments	**128**	124
6.	**Investments in associates and joint ventures**		
	Unlisted investments	**45**	58
6.1	**Movement in carrying amount**		
	Balance at the beginning of the year	**58**	56
	Net movement in the cost of investments in associates and joint ventures (refer to note 6.2)	**(13)**	2
	Balance at the end of the year	**45**	58
	Directors' valuation of unlisted investments	**63**	78
6.2	**Net movement in the cost of investments in associates and joint ventures**		
	The following acquisitions were concluded during the year, at cost:		
	Maravedi Group (Proprietary) Limited	**43**	n/a
	During the year, the Company made an additional contribution in Maravedi Group (Proprietary) Limited.		
	The following acquisitions were concluded during the previous year, at cost:		
	Batho Bonke Investments (Proprietary) Limited	**n/a**	2
	During March 2007, the Company acquired a 49,8% interest in Batho Bonke Investments (Proprietary) Limited.		
	Balance carried forward	**43**	2

		COMPANY 2008 Rm	2007 Rm
6.	**Investments in associates and joint ventures** *(continued)*		
6.2	**Net movement in the cost of investments in associates and joint ventures** *(continued)*		
	Balance brought forward	**43**	2
	The following disposals were concluded during the current year:		
	Batho Bonke Investments (Proprietary) Limited	**(2)**	n/a
	On 18 September 2008, the Company sold its share in Batho Bonke Investments (Proprietary) Limited.		
	Maravedi Group (Proprietary) Limited	**(43)**	n/a
	On 31 August 2008, the Company sold its share in Maravedi Group (Proprietary) Limited.		
	The following disposals were concluded during the previous year:		
	CBZ Holdings Limited	**n/a**	0
	On 4 September 2007, the Company sold its share in CBZ Holdings Limited to a third party. The Company's investment had been fully impaired.		
	The following associate has been recognised as a subsidiary during the current year:		
	Meeg Bank Limited	**(11)**	n/a
	Net movement in the cost of investments in associates and joint ventures (refer to note 6.1)	**(13)**	2
7.	**Subsidiaries**		
	Net loans from subsidiary companies	**(1 962)**	(871)
	Shares at cost	**15 106**	9 271
		13 144	8 400
8.	**Deferred tax**		
8.1	**Reconciliation of net deferred tax asset**		
	Balance at the beginning of the year	**(2)**	2
	Income statement charge (refer to note 19)	**2**	(4)
	Balance at the end of the year	**—**	(2)
8.2	**Deferred tax asset**		
	Deferred tax asset – STC	**—**	(2)
8.3	**Secondary taxation on companies (STC)**		
	Accumulated STC credits	**—**	21
	Deferred tax asset raised (refer to note 8.2)	**—**	2
	Movement in deferred tax asset for the year (refer to note 8.1)	**2**	(2)
	If the total reserves of R9 621 million as at the balance sheet date (2007: R5 111 million) were to be declared as dividends, the secondary tax impact at a rate of 10% (2007: 10%) would be R962 million (2007: R511 million).		
9.	**Derivative liability**		
	Foreign exchange derivative	**2**	—
	Portfolio analysis		
	Held for trading	**2**	—
10.	**Other liabilities and sundry provisions**		
	Creditors, other accruals and sundry provisions	**101**	61
	Portfolio analysis		
	Financial liabilities at amortised cost	**101**	61

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

10.1 Detailed breakdown of the derivative

The Company uses the foreign exchange derivative for hedging purposes:

	COMPANY					
	2008				2007	
	Notional amount Rm	Net fair value Rm	Fair value assets Rm	Fair value liabilities Rm	Notional amount Rm	Net fair value Rm
Foreign exchange contract	**24**	**2**	**—**	**2**	—	—

Notional amount

The gross notional amount is the sum of the absolute value of the contract bought. The notional amount will not generally reflect the amount receivable or payable under a derivative contract.

Fair value

The amounts disclosed represent the fair value as at the balance sheet date of the derivative financial instrument held.

	COMPANY	
	2008 Rm	2007 Rm

11. Borrowed funds

11.1 Redeemable cumulative option-holding preference shares

Preference dividend rate	Option exercise dates	Number	2008 Rm	2007 Rm
72% of the prime overdraft rate	1 July 2007 to 1 July 2009 1 March, 1 June, 1 September or 1 December of each year	79 237 500	**158**	158
Redemption of preference shares for Absa Group Limited Employee Share Ownership Administrative Trust		(3 977 500)	**(8)**	(7)
Accrued dividend			**6**	7
			156	158
Portfolio analysis				
Financial liabilities at amortised cost				
Redeemable cumulative option-holding preference shares			**156**	158

The dividends are compounded and payable semi-annually in arrear on 30 September and 31 March of each year. The shares were issued by Absa Group Limited on 1 July 2004 and the redemption dates commence on the first business day after the third anniversary of the date of issue of the redeemable preference shares and ending on the fifth anniversary of the date of issue. Such exercise and notice will be deemed to be effective only on the option exercise dates, being 1 March, 1 June, 1 September or 1 December of each year. The shares are convertible into ordinary shares at the option of the preference shareholders on the redemption dates in lots of 100.

12. Share capital and premium

12.1 Ordinary share capital

	2008 Rm	2007 Rm
Authorised		
800 000 000 (2007: 800 000 000) ordinary shares of R2,00 each	**1 600**	1 600
Issued		
680 278 301 (2007: 678 573 074) ordinary shares of R2,00 each	**1 361**	1 357
Total issued capital		
Share capital	**1 361**	1 357
Share premium	**2 750**	2 636
	4 111	3 993

Unissued shares

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

	COMPANY	
	2008 Rm	2007 Rm

12. Share capital and premium *(continued)*

12.1 Ordinary share capital *(continued)*

Shares issued during the year

The following ordinary shares were issued during the year to meet the obligations of the Absa Share Incentive Trust:

- On 13 March 2008, 118 900 shares at R69,00 per share, being R2,00 par value and R67,00 share premium.
- On 11 June 2008, 91 000 shares at R63,40 per share, being R2,00 par value and R61,40 share premium.
- On 30 June 2008, 1 345 727 shares at R38,43 per share, being R2,00 par value and R36,43 share premium.
- On 12 September 2008, 86 300 shares at R69,00 per share, being R2,00 par value and R67,00 share premium.
- On 15 December 2008, 63 300 shares at R64,10 per share, being R2,00 par value and R62,10 share premium.

Shares issued during the previous year

The following ordinary shares were issued during the previous year to meet the obligations of the Absa Share Incentive Trust:

- On 1 June 2007, 3 000 000 shares at R36,21 per share, being R2,00 par value and R34,21 share premium.
- On 3 September 2007, 3 241 000 shares at R69,00 per share, being R2,00 par value and R67,00 share premium.
- On 13 December 2007, 377 000 shares at R69,00 per share, being R2,00 par value and R67,00 share premium.

All shares issued by the Company were paid in full.

12.2 Preference share capital – unlisted

	2008 Rm	2007 Rm
Authorised		
80 467 500 (2007: 80 467 500) redeemable cumulative option-holding preference shares of R2,00 each	**161**	161
Issued		
75 260 000 (2007: 75 619 500) redeemable cumulative option-holding preference shares of R2,00 each	**151**	151

These shares meet the definition of debt under IAS 32 – *Financial instruments: Presentation* and have therefore been included under "Borrowed funds" (refer to note 11).

The 73 152 300 (2007: 73 152 300) preference shares held by Batho Bonke Capital (Proprietary) Limited are entitled to voting rights equivalent to those of the listed ordinary shares. The remaining shares held by the Absa Group Limited Employee Share Ownership Administrative Trust are not entitled to voting rights.

Shares redeemed during the year

The following options held in the Absa Group Limited Share Ownership Administrative Trust were exercised by employees:

- On 13 March 2008, 118 900 preference shares were redeemed and converted into ordinary share capital at R69,00 per share being R2,00 par value and R67,00 share premium.
- On 11 June 2008, 91 000 preference shares were redeemed and converted into ordinary share capital at R63,40 per share, being R2,00 par value and R61,40 share premium.
- On 12 September 2008, 86 300 preference shares were redeemed and converted into ordinary share capital at R69,00 per share, being R2,00 par value and R67,00 share premium.
- On 15 December 2008, 63 300 preference shares were redeemed and converted into ordinary share capital at R64,10 per share, being R2,00 par value and R62,10 share premium.

Shares redeemed during the previous year

The following options held by the Absa Group Limited Employee Share Ownership Administrative Trust were exercised by employees:

- On 3 September 2007, 3 241 000 preference shares were redeemed and converted into ordinary share capital at R69,00 per share, being R2,00 par value and R67,00 share premium.
- On 13 December 2007, 377 000 preference shares were redeemed and converted into ordinary share capital at R69,00 per share, being R2,00 par value and R67,00 share premium.

13. Other reserves

Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Share-based payment reserve

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

If the options lapse after vesting, the related reserve is transferred to retained earnings. If the options lapse before vesting, the related reserve is reversed through the income statement.

	COMPANY	
	2008 Rm	2007 Rm
14. Interest and similar income		
Interest and similar income is earned from:		
Loans and advances to banks	**68**	12
Loans to subsidiary companies	**—**	59
	68	71
Portfolio analysis		
Interest on financial assets held at amortised cost	**68**	71
15. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	**18**	15
Portfolio analysis		
Interest on financial liabilities held at amortised cost	**18**	15
16. Gains and losses from investment activities		
Associates and joint ventures	**(21)**	24
Loss on exchange differences	**—**	(13)
(Loss)/profit realised on disposal	**(21)**	37
Financial instruments designated at fair value through profit or loss		
Equity instruments	**—**	9
Subsidiaries		
Dividends received	**8 446**	4 085
	8 425	4 118
17. Other operating income		
Sundry income	**35**	8
18. Operating expenditure		
Administrative expenses	**5**	6

	COMPANY 2008 Rm	2007 Rm
19. Taxation expense		
Current		
Secondary taxation on companies	**140**	92
South African current taxation	**31**	31
	171	123
Deferred tax		
Deferred taxation (refer to note 5.1)	**2**	(4)
	173	119
Reconciliation between accounting profit and the tax expense		
Operating profit before income tax	**8 505**	4 176
Tax calculated at a tax rate of 28% (2007: 29%)	**2 381**	1 211
Expenses not deductible for tax purposes	**17**	33
Income not subject to tax	**(2 357)**	(1 217)
Other	**(8)**	—
Secondary tax on companies	**140**	92
	173	119

	COMPANY 2008 Gross Rm	2008 Net[1] Rm	2007 Gross Rm	2007 Net[1] Rm
20. Headline earnings				
Headline earnings is determined as follows:				
Net profit attributable to ordinary equity holder of the Company		**8 332**		4 057
Adjustments for:				
IAS 21 – Recycled foreign currency translation reserve, disposal of investments in foreign operations	**—**	**—**	13	9
IAS 28 and 31 – Net (profit)/loss on disposal of associates and joint ventures (refer to note 15)	**21**	**21**	(37)	(37)
Headline earnings		**8 353**		4 029

Note

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

	COMPANY 2008 Rm	2007 Rm
21. Dividends per share		
Dividends paid to ordinary equity holders during the year		
On 19 February 2008 final dividend number 43 of 320,00 cents per ordinary share (20 February 2007: 265,00 cents)	**2 171**	1 781
On 7 August 2008 interim dividend number 44 of 265,00 cents per ordinary share (2 August 2007: 240,00 cents)	**1 803**	1 620
	3 974	3 401
Dividends paid to ordinary equity holders relating to income for the year		
On 7 August 2008 interim dividend number 44 of 265,00 cents per ordinary share (2 August 2007: 240,00 cents)	**1 803**	1 620
On 9 February 2009 final dividend number 45 of 330,00 cents per ordinary share (19 February 2008: 320,00 cents)	**2 245**	2 171
	4 048	3 791

The STC payable by the Company in respect of the dividend approved and declared subsequent to the balance sheet date, amounts to R225 million. No provision has been made for this dividend and the related STC in the financial statements at the balance sheet date.

22. Related parties

Refer to note 47 of Absa Group Limited and its subsidiaries' financial statements for the full disclosure of related party transactions.

Contents

Shareholder and administrative information

Shareholder and administrative information

Shareholders' information

Ordinary shareholders

As at 31 December

	2008 Number of shares held	2008 %	2007 Number of shares held	2007 %
Major ordinary shareholders				
Barclays Bank PLC	**398 774 945**	**58,62**	398 774 945	58,77
Public Investment Corporation	**57 494 104**	**8,45**	41 579 911	6,13
Allan Gray Limited	**27 826 291**	**4,09**	46 402 078	6,84
Old Mutual Asset Managers	**17 622 718**	**2,59**	29 105 038	4,29
Stanlib Asset Management	**13 467 694**	**1,98**	12 035 179	1,77
Investec Asset Management	**10 826 615**	**1,59**	866 347	0,13
Sanlam Investment Management	**7 687 288**	**1,13**	13 774 011	2,03
Absa Stockbrokers (Proprietary) Limited	**7 472 071**	**1,10**	6 638 438	0,98
Foord Asset Management	**7 345 578**	**1,08**	5 741 000	0,85
AXA Financial SA (Bernstein and Alliance)	**6 091 349**	**0,90**	7 457 681	1,10
Other	**125 669 648**	**18,47**	116 198 446	17,11
Total	**680 278 301**	**100,00**	678 573 074	100,00
Shareholder type				
Principle shareholder (Barclays Bank PLC)	**398 774 945**	**58,62**	398 774 945	58,77
Private investors	**28 909 854**	**4,25**	28 468 889	4,20
Other	**252 593 502**	**37,13**	251 329 240	37,03
Total	**680 278 301**	**100,00**	678 573 074	100,00

Public and non-public shareholders

As at 31 December

	2008 Number of shareholders	2008 Number of shares held	2008 %	2007 Number of shareholders	2007 Number of shares held	2007 %
Public shareholders	**41 639**	**277 065 563**	**40,73**	40 780	275 060 214	40,54
Non-public shareholders						
• Barclays Bank PLC	**2**	**398 774 945**	**58,62**	2	398 774 945	58,77
• Trustees of the Absa Share Incentive Trust	**1**	**2 397 354**	**0,35**	1	2 677 326	0,39
• Related holdings	**17**	**1 293 001**	**0,19**	16	1 494 455	0,22
• Directors' and associates' beneficial holdings	**19**	**747 438**	**0,11**	24	566 134	0,08
– Direct		**696 538**			510 314	
– Indirect		**26 000**			25 000	
• Directors' and associates' non-beneficial holdings						
– Direct		**—**			—	
– Indirect		**24 900**			30 820	
Total	**41 678**	**680 278 301**	**100,00**	40 823	678 573 074	100,00

Preference shareholders

Batho Bonke Capital (Proprietary) Limited and the Absa Group Limited Employee Share Ownership Administrative Trust hold 75 260 000 (2007: 75 619 500) redeemable cumulative option-holding preference shares.

	Shares held – 31 December	
	2008	2007
Batho Bonke Capital (Proprietary) Limited	**73 152 300**	73 152 300
Employee Share Ownership Administrative Trust	**2 107 700**	2 467 200
Total	**75 260 000**	75 619 500

Total number of Absa Group shares

	Ordinary shares	Preference shares	Total shares
Shares in issue at 31 December 2008	**680 278 301**	**75 260 000**	**755 538 301**
Shares in issue at 31 December 2007	678 573 074	75 619,500	754 192 574

Shareholders' diary

Financial year-end	**31 December 2008**
Annual general meeting	**21 April 2009**
Announcements	
Announcement of final results	**9 February 2009**
Announcement of interim results[1]	**6 August 2009**

Dividends

	Declaration date	Last day to trade	Ex dividend rate	Record date	Payment date
Final December 2008	**9 February 2009**	**27 February 2009**	**2 March 2009**	**6 March 2009**	**9 March 2009**
Interim June 2009[1]	6 August 2009	21 August 2009	24 August 2009	28 August 2009	31 August 2009

Note

[1]*Subject to change.*

Administration[1]

Controlling company

Absa Group Limited

Reg No 1986/003934/06

Registered office

3rd Floor, Absa Towers East
170 Main Street
Johannesburg, 2001
Postal address: PO Box 7735
Johannesburg, 2000
Telephone: 011 350 4000
Telefax: 011 350 4009
e-mail: groupsec@absa.co.za

Board of directors

G Marcus (Chairperson)
D C Brink (Deputy Chairperson)
D C Arnold
B P Connellan
Y Z Cuba
B de Vitry (French)[3]
S A Fakie
G Griffin
M W Hlahla
M J Husain
A Jenkins (British)[3]
R Le Blanc (British)
N P Mageza[2]
T Mokgosi-Mwantembe
E C Mondlane, Jr (Mozambican)
T S Munday
S G Pretorius
M Ramos[2] (Group Chief Executive)
J H Schindehütte[2]
F A Sonn
L L von Zeuner[2]
B J Willemse

Transfer secretaries

Computershare Investor Services (Proprietary) Limited
70 Marshall Street
Johannesburg, 2001
Postal address: PO Box 61051
Marshalltown, 2107
Telephone: 011 370 5000
Telefax: 011 370 5271/2

Notes
[1]*As at March 2009.*
[2]*Executive in the Absa Group.*
[3]*Subject to South African Reserve Bank approval.*

ADR depositary

The Bank of New York Mellon
101 Barclay Street, 22W
New York, NY, 10286
Telephone: 001 212 815 2248

Auditors

PricewaterhouseCoopers Inc.
Ernst & Young Inc.

Group Secretary

S Martin
e-mail: sarita.martin@absa.co.za

Sponsor

Merrill Lynch South Africa (Proprietary) Limited
(Member of the Bank of America Group)
138 West Street, Sandown
Sandton, 2196
Postal address: PO Box 651987
Benmore, 2010
Telephone: 011 305 5555
Telefax: 011 305 5610

Banking

Absa Bank Limited and its operating divisions

Absa Bank Limited

Reg No 1986/004794/06

Registered office

3rd Floor, Absa Towers East
170 Main Street
Johannesburg, 2001
Postal address: PO Box 7735
Johannesburg, 2000
Telephone: 011 350 4000
Telefax: 011 350 4009
e-mail: groupsec@absa.co.za

Board of directors

G Marcus (Chairperson)
D C Brink (Deputy Chairperson)
D C Arnold
B P Connellan
Y Z Cuba
B de Vitry (French)[3]
S A Fakie
G Griffin
M W Hlahla
M J Husain
A Jenkins (British)[3]
R Le Blanc (British)
N P Mageza[2]
T Mokgosi-Mwantembe
E C Mondlane, Jr (Mozambican)
T S Munday
S G Pretorius
M Ramos[2] (Group Chief Executive)
J H Schindehütte[2]
F A Sonn
L L von Zeuner[2]
B J Willemse

Absa Capital

Absa Building
15 Alice Lane
Sandown
Sandton, 2196
Postal address: Private Bag X10056
Sandton, 2196
Telephone: 011 895 6000
Telefax: 011 895 7500
e-mail: abcap@absa.co.za

Absa Card

Volkskas Centre, 230 Van der Walt Street, Pretoria, 0002
Postal address: PO Box 3915
Pretoria, 0001
Telephone: 012 317 0000
Telefax: 012 317 0127
e-mail: contactcard@absa.co.za

Absa Corporate and Business Bank

Absa Towers, 160 Main Street
Johannesburg, 2001
Postal address: PO Box 7735
Johannesburg, 2000
Telephone: 011 350 4000
Telefax: 011 350 5247
e-mail: jamessl@absa.co.za

Absa Home Loans
9 Lothbury Street
Auckland Park, 2092
Telephone: 0860 111 007
Telefax: 011 276 5111
e-mail: home@absa.co.za

Absa Islamic Banking
61 Empire Road, Absa Investment Campus, Block E, Parktown
Johannesburg, 2193
Telephone: 011 551 4530
Telefax: 011 551 4521
e-mail: islamicbanking@absa.co.za

Absa Personal Loans
2nd Floor, Absa Building
278 Thirteenth Road
Erand Gardens, Midrand, 1685
Postal address: PO Box 7735
Johannesburg, 2000
Telephone: 011 697 8000
Telefax: 011 697 8023
e-mail: lawrence.twigg@absa.co.za

Absa Wealth
First Floor, East Block
187 Rivonia Road, Morningside
Sandton, 2196
Postal address: PO Box 786000
Sandton, 2146
Telephone: 011 676 7000
Telefax: 011 884 6972

Absa Vehicle and Asset Finance
Absa Towers, 160 Main Street
Johannesburg, 2001
Postal address: PO Box 8842
Johannesburg, 2000
Telephone: 011 350 4000
Telefax: 011 350 5373
e-mail: vehiclefinance@absa.co.za

Retail Bank
Absa Towers, 160 Main Street
Johannesburg, 2001
Postal address: PO Box 7735
Johannesburg, 2000
Telephone: 011 350 4000
Telefax: 011 350 4411
e-mail: louisvz@absa.co.za

Financial services and insurance
Absa Financial Services Limited and its major subsidiaries

Absa Financial Services Limited
Reg No 1969/009007/06

Registered office
Absa Towers East, 170 Main Street
Johannesburg, 2001
Postal address: PO Box 7735
Johannesburg, 2000
Telephone: 011 350 4227
Telefax: 011 350 3946
e-mail: williel@absa.co.za

Board of directors
G Griffin
D W P Hodnett[1]
W T Lategan[1]
N P Mageza[1]
L L von Zeuner[1]

Absa Insurance and Financial Advisers (Proprietary) Limited
(formerly Absa Brokers (Proprietary) Limited)
Reg No 1970/002732/07

Life broking
267 Kent Avenue, Randburg, 2194
Postal address: PO Box 3540
Randburg, 2125
Telephone: 011 289 0600
Telefax: 011 289 0740
e-mail: peter.todd@absa-ib.co.za

Short-term broking
267 Kent Avenue, Randburg, 2194
Postal address: PO Box 3992
Randburg, 2125
Telephone: 011 289 0600
Telefax: 011 289 0740
e-mail: peter.todd@absa-ib.co.za

Absa Consultants and Actuaries (Proprietary) Limited
Reg No 1961/001434/07
Fourways Golf Park, Mowbray Building, Roos Street, Fourways
Postal address: PO Box 4167
Fourways, 2055
Telephone: 011 224 9000
Telefax: 011 467 8442
e-mail: jgrobler@absa.co.za

Absa Fund Managers Limited
Reg No 1991/000881/06
65 Empire Road, Parktown, 2193
Postal address: PO Box 6115
Johannesburg, 2000
Telephone: 011 480 5000
Telefax: 011 480 5440
e-mail: alan.miller@absa.co.za

Note
[1]*Executive in the Absa Group.*

Administration

Absa Health Care Consultants (Proprietary) Limited
Reg No 1983/008344/07
2nd Floor, Absa Building
1263 Heuwel Avenue
Centurion, Pretoria, 0157
Postal address: PO Box 10285
Centurion, 0046
Telephone: 012 674 8800
Telefax: 012 663 8673
e-mail: louisjb@absa.co.za

Absa Insurance Company Limited
Reg No 1992/001737/06
21 Kruis Street
Johannesburg, 2001
Postal address: PO Box 421
Johannesburg, 2000
Telephone: 011 330 2111
Telefax: 011 331 7414
e-mail: coenraad@absa.co.za

Absa Investment Management Services (Proprietary) Limited
Reg No 1980/002425/07
1 Woodmead Drive, Block 6
Woodmead Estate, 2128
Postal address: PO Box 974
Johannesburg, 2000
Telephone: 011 259 0111
Telefax: 011 259 0051/2
e-mail: aims@absa.co.za

Absa Life Limited
Reg No 1992/001738/06
21 Kruis Street
Johannesburg, 2001
Postal address: PO Box 421
Johannesburg, 2000
Telephone: 011 330 2265
Telefax: 011 331 1312
e-mail: izaks@absa.co.za

Absa Mortgage Fund Managers (Proprietary) Limited
Reg No 1988/003537/07
3rd Floor, Absa Towers East
170 Main Street
Johannesburg, 2001
Postal address: PO Box 7735
Johannesburg, 2000
Telephone: 011 350 4000
e-mail: groupsec@absa.co.za

Absa Trust Limited
Reg No 1915/004665/06
65 Empire Road, Parktown, 2193
Postal address: PO Box 223
Auckland Park, 2006
Telephone: 011 480 5000
Telefax: 011 480 5193
e-mail: hughg@absa.co.za

Other Group subsidiaries, associated undertakings and other interests

Absa Asset Management (Proprietary) Limited
Reg No 1997/017903/07
Park Ridge Office Park, Block A
65 Empire Road, Parktown, 2193
Postal address: PO Box 61320
Marshalltown, 2107
Telephone: 011 480 5335
Telefax: 011 480 5351
e-mail: errol.shear@absa.co.za

Absa Development Company Holdings (Proprietary) Limited
Reg No 1968/001326/07
Block E, Flora Park Office Park
cnr Ontdekkers and Conrad Roads, Florida, 1710
Postal address: PO Box 1132
Johannesburg, 2000
Telephone: 011 671 7300
Telefax: 011 674 1217
e-mail: siphomas@absa.co.za

Absa Manx Insurance Company Limited (Isle of Man)
Reg No 077950C
3rd Floor, St George's Court
Upper Church Street, Douglas
Isle of Man IMI 1EE
Telephone: 0044 1624 692 411/425

Absa Portfolio Managers (Proprietary) Limited
Reg No 1954/001116/07
Park Ridge Office Park, Block C
65 Empire Road, Parktown, 2193
Postal address: PO Box 5438
Johannesburg, 2000
Telephone: 011 350 4000
e-mail: craig.pheiffer@absa.co.za

Absa Stockbrokers (Proprietary) Limited (member of the JSE Limited)
Reg No 1973/010798/07
Park Ridge Office Park, Block A
65 Empire Road, Parktown, 2193
Postal address: PO Box 61320
Marshalltown, 2107

Absa Stockbrokers (Proprietary) Limited
Dealing department
Telephone: 011 647 0892
Telefax: 011 647 0877

Settlement department
Telephone: 011 647 0819
Telefax: 011 647 0828
e-mail: equitiesadmin@absa.co.za

Absa Trading and Investment Solutions Holdings Limited
Reg No 1998/017358/06
Absa Building, 15 Alice Lane
Sandown, Sandton, 2196
Postal address: PO Box 7735
Johannesburg, 2000
Telephone: 011 350 4000
e-mail: groupsec@absa.co.za

AllPay Consolidated Investment Holdings (Proprietary) Limited
Reg No 1993/003751/07
Level 1, Entrance 2
Isle of Houghton Office Park
Wilds View
Cnr Carse O'Gowrie and
Boundary Roads, Houghton
Postal address: PO Box 5438
Johannesburg, 2000
Telephone: 011 532 2185
Telefax: 011 543 6501
e-mail: mmolokil@absa.co.za

Banco Comercial Angolano (Angola)
83 A Avenida Comandante Valódia,
Luanda
Postal address: Caixa Postal 6900
Luanda, Angola
Telephone: 00 244 222 448842/8/9
Telefax: 00 244 222 449516
e-mail:
hernani.cambinda@bca.co.aot

Barclays Bank Mozambique S.A. (Mozambique)
Avenida 25 de Setembro No 1184
Maputo, Mozambique
Telephone: 00 258 21 427685/
351700
Telefax: 00 258 21 323470
e-mail: pauln@barclays.co.mz

Meeg Bank Limited
Reg No 1976/060115/06
5th Floor, Absa Building, Cnr Oxford
and Gladstone Streets
85 Oxford Street, East London 201
Postal address: PO Box 429
East London, 5200
Telephone: 043 702 9600
Telefax: 043 702 9700
e-mail: brlevendal@meegbank.co.za

National Bank of Commerce Limited (Tanzania)
Mezzanine Floor, NBC House
Sokoine Drive, Dar es Salaam
Postal address: PO Box 1863
Dar es Salaam, Tanzania
Telephone: 00 255 222 110959
Telefax: 00 255 222 112887
e-mail: nbcltd@nbctz.com

Glossary

Abbreviations and acronyms used in the Absa shareholder report for the year ended 31 December 2008

A

Abacas	Asset Backed Collateralised Securities (Proprietary) Limited
ACBB	Absa Corporate and Business Bank
ACCA	Association of Chartered Certified Accountants
ACSA	Airports Company South Africa
AEaR	annual earnings at risk
AFS	Absa Financial Services
AG	attorney general
AGM	annual general meeting
Aids	acquired immune deficiency syndrome
AIRB	Advanced Internal Rating Based
AMA	Advanced Measurement Approach
AML	anti-money laundering
AMP	Advanced Management Programme
ASSA	Actuarial Society of South Africa
ATM	automated teller machine
AVAF	Absa Vehicle and Asset Finance

B

Basel II	Basel II Capital Accord
BBBEE	broad-based black economic empowerment
BEE	black economic empowerment
bps	basis points

C

CAF	Commercial Asset Finance
Cars	Collateralised Auto Receivables Securitisation (Proprietary) Limited
CLA	Corporate Laws Amendment Act, No 24 of 2006
CLGD	country loss-given default
CODM	chief operating decision maker
CoGP	Codes of Good Practice
COO	Chief Operating Officer
CPF	Commercial Property Finance
CPI	consumer price index
CPIX	consumer price index excluding interest rates on mortgage bonds
CRC	Credit Risk Committee
CSA	Credit Support Annex
CSI	corporate social investment

D

DAC	Directors' Affairs Committee
DG	default grade
DRL	deferred revenue liability
DVaR	daily value at risk

E

EAD	exposure at default
ECCG	Employee Compliance Conduct Guide
ECSAFA	Eastern, Central and Southern African Federation of Accountants
EL	expected loss
EPS	earnings per share
ESAS	Executive Share Award Scheme
ESOP	Employee Share Ownership Programme
Exco	Executive Committee

F

FAIS	Financial Advisory and Intermediary Services Act, No 37 of 2002
FASSA	Fellow of the Actuarial Society of South Africa
FCMA	Fellow of Chartered Institute of Management Accountants
FFA	Fellow of the Faculty of Actuaries
FIA	Financial Intermediaries Association
FIAC	Fellow of the Institute of Administration and Commerce
FICA	Financial Intelligence Centre Act, No 38 of 2001
FIRB	Foundation Internal Ratings Based
FRA	forward rate agreement
FSB	Financial Services Board
FSC	Financial Sector Charter
FSCC	Financial Sector Charter Council
FSV	financial soundness valuation

G

GACC	Group Audit and Compliance Committee
GBP	sterling/Great British pounds
GCC	Group Credit Committee
GCE	Group Chief Executive
GDP	gross domestic product
GIBS	Gordon Institute of Business Science
GIC	Group Investment Committee
GRCMC	Group Risk and Capital Management Committee
GRHRC	Group Remuneration and Human Resource Committee
GRI	Global Reporting Initiative
GRZ	Government of Zambia

H

HDSA	Historically Disadvantaged South African
HEPS	headline earnings per share
HIV	human immunodeficiency virus
Homes	Homes Obligors Mortgage Enhance Securities (Proprietary) Limited
HR	human resources

I

IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBNR	incurred but not (yet) reported
ICAAP	internal capital adequacy assessment process
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMD	International Institute for Management Development
IRB	internal ratings-based
ISDA	International Swaps and Derivatives Association
IT	information technology

J

JIBAR	Johannesburg Interbank Agreed Rate
JSAP	Joiners Share Award Plan

K

King II	King Report on Corporate Governance for South Africa, 2002

L

LGD	loss-given default
LSM	living standards measure
LTV	loan to value

Glossary

M

MRC	Market Risk Committee

N

NBC	National Bank of Commerce Limited
NCA	National Credit Act, No 34 of 2005
NWP	net written premium

O

OTC	over the counter

P

p.a.	per annum
PAT	profit after tax
PBT	profit before tax
PD	probability of default
PEP	Politically Exposed Person
PGN	Professional Guidance Note
PIT	point-in-time
PRO	principal risk owner
PRP	principal risks policy
PSP	Performance Share Plan

R

RoA	return on average assets
RoE	return on equity
RoEC	return on economic capital
RSA	Republic of South Africa
RT	risk tendency
RWA	risk-weighted asset

S

SAICA	South African Institute of Chartered Accountants
SARB	South African Reserve Bank
SARS	South African Revenue Service
SENS	Securities Exchange News Service
SIC	Standard Industry Classification
SRI	Socially Responsible Investment
SPE	special purpose entity
STC	secondary taxation on companies

T

TST	Trans Sahara Trading (IOM) Limited
TTC	through-the-cycle

U

USD/US$	United States dollar

V

VESAS	Voluntary Executive Share Award Scheme
VAT	value added tax

W

WFS	Woolworths Financial Services (Proprietary) Limited

Z

ZAR	South African rand

Other contact information

Shareholder contact information

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

Absa Group Investor Relations

Ms Nerina Bodasing

Telephone: +27 11 350 2598

Telefax: +27 11 350 5924

e-mail: ir@absa.co.za

Absa Group Secretariat

Ms Sarita Martin

Telephone: +27 11 350 4828

Telefax: +27 11 350 4009

e-mail: groupsec@absa.co.za

Other contacts

Group Media Relations

Mr Patrick Wadula

Telephone: +27 11 350 5768

Group Legal Services

Mr Marthinus van Rensburg

Telephone: +27 11 350 4313

Head office switchboard

Telephone: +27 11 350 4000

Customer support

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

Actionline: 0800 414 141

Absa call centre: 0860 008 600 or (+27) 011 276 4000

Customer relationship e-mail: actionline@absa.co.za

General e-mail enquiries: absa@absa.co.za

Customers are encouraged to first approach the specific branch, area or line manager if a dispute arises.

Reporting fraud or corruption

Absa has a dedicated telephone line to facilitate reporting possible fraud and corruption in the Absa Group. This line is available 24 hours a day, seven days a week and is open to the general public and Absa employees.

Calls may be made anonymously. They will not be recorded and no attempt will be made to determine the telephone number of the caller. The fraud and corruption hotline is 0860 557 557.

BASTION GRAPHICS