Absa Bank Limited

Annual report

for the year ended 31 December 2009

Member of the BARCLAYS Group

Absa Bank Limited. Authorised financial services and registered credit provider (NCRCP7)
Incorporated in the Republic of South Africa. Registration number: 1986/004794/06

ABSA

Contents

Since its establishment in 1991, Absa Bank has become a well-diversified banking group with in excess of 11 million customers across retail, business and investment banking. 2009 was no doubt a test of the Bank's resilience as an organisation, but despite the impact of the global economic downturn Absa has delivered strong underlying performance, improved its risk management and continued to strengthen the balance sheet. Absa maintains a strong capital base and is well positioned for future growth.

Absa Bank's preference shares are listed on the JSE Limited.

2009 Highlights

Absa Bank managed to deliver a resilient financial performance for the year ended 31 December 2009 in a tough economic environment. Absa's customer base continued to grow, to approximately 11,7 million. The Bank also maintained its strong capital levels.

Absa received a number of awards during the year, the main one being that of the 'Most Innovative Bank in Africa' from the *African Banker* magazine.

Resilient financial performance in a demanding economic environment	- Headline earnings per share declined by **24,6** to **1 653,1** cents - Net asset value per share increased by **3,3%** to **11 606** cents - Net interest income decreased by **3,2%** to **R19 888** million - Cost-to-income ratio improved to **49,7%** - Final dividend of **3 280,3** cents per preference share declared
Maintained strong capital adequacy level	- Total capital adequacy ratio improved to **14,7%**
Number of customers continued to grow	- Banking customer base grew to **11,7** million as at 31 December 2009 - Customer base increased by **9,3%** - Internet banking users increased by **10,6%** - Cellphone banking customers increased by **135,7%** - NotifyMe users increased by **36,2%** - Number of active Mzansi accounts increased by **24,0%** - Number of active Flexi accounts increased by **17,2%**
Awards received during the year included:	- African 'Most Innovative Bank in Africa' *(the African Banker magazine)* - 'Coolest Banking Brand' in South Africa 2009 *(Sunday Times Generation Next survey)* - Number 1 'Employer in the Banking Sector' in South Africa 2009 *(Corporate Research Foundation survey)* - Number 2 'Consumer Banking Brand' in South Africa 2009 *(Sunday Times/Markinor Top Brands survey)*

Salient features

Year ended 31 December

	2009 Rm	2008[1] Rm	Change %
Statement of comprehensive income (Rm)			
Headline earnings[2]	**5 986**	7 770	(23,0)
Profit attributable to ordinary equity holder of the Bank	**5 315**	8 464	(37,2)
Statement of financial position (Rm)			
Total assets	**671 241**	735 378	(8,7)
Loans and advances to customers	**487 672**	512 657	(4,9)
Deposits due to customers	**343 763**	373 176	(7,9)
Financial performance (%)			
Return on average equity	**14,4**	21,8	
Return on average assets	**0,84**	1,15	
Operating performance (%)			
Net interest margin on average assets	**2,81**	3,05	
Net interest margin on average interest-bearing assets	**3,52**	3,71	
Impairment losses on loans and advances as a percentage of average loans and advances to customers	**1,69**	1,19	
Non-interest income as a percentage of total operating income	**44,0**	43,9	
Cost-to-income ratio	**49,7**	50,5	
Effective tax rate, excluding indirect taxation	**20,4**	25,3	
Share statistics (million) (including "A" ordinary shares)			
Number of shares in issue	**367,7**	359,1	
Weighted average number of shares	**362,1**	354,6	
Weighted average diluted number of shares	**362,1**	354,6	
Share statistics (cents)			
Earnings per share	**1 467,8**	2 386,9	(38,5)
Diluted earnings per share	**1 467,8**	2 386,9	(38,5)
Headline earnings per share	**1 653,1**	2 191,2	(24,6)
Diluted headline earnings per share	**1 653,1**	2 191,2	(24,6)
Dividends per ordinary share relating to income for the year	**669,6**	2 073,6	(67,7)
Dividend cover (times)	**2,5**	1,0	
Net asset value per share	**11 606**	11 231	3,3
Tangible net asset value per share	**11 464**	11 149	2,8
Capital adequacy (%)			
Absa Bank	**14,7**	14,0	

Notes

[1]*Refer to the 'Reclassifications and Restatements' section of the consolidated financial statements for the restated and reclassified prior year figures.*

[2]*After allowing for R421 million (December 2008: R457 million) profit attributable to preference equity holders of the Bank.*

Absa Bank structure

As at 31 December 2009

Absa Group Limited

100%

Absa Bank Limited

100%

Wholly owned subsidiaries

Retail banking

- Retail Bank
- Absa Home Loans (AHL)
- Absa Card and Unsecured Lending
- Absa Vehicle and Asset Finance (AVAF)

Corporate and commercial banking

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

Investment banking

- Absa Capital
- Absa Wealth
- Absa Bank London-Corporate

Significant associates and other interests

Banking

- FFS Finance South Africa (Proprietary) Limited (50%)
- Integrated Processing Solutions (Proprietary) Limited (50%)
- MAN Financial Services (S.A.) (Proprietary) Limited (50%)
- Sanlam Home Loans (Proprietary) Limited (50%)

Chairman's statement

Introduction

2009 was a testing time for financial services companies. A substantial decline in levels of investment and consumer spending led to a dramatic decrease in business activity across industries and countries.

To stabilise the financial system and to minimise damage to the real economy, governments and regulators injected liquidity into the system. With an unprecedented coordinated effort, governments, financial regulators and the private sector worked together to put in place measures to reduce the current and potential impact of financial crises.

The monetary and fiscal measures have been mostly successful. However, there remain concerns about medium- and long-term sustainability, even predictions of another recession.

"Our success and sustainability in the future is largely dependent on our ability to transform and remain relevant within the context of South Africa's economy."

There are certainly risk factors:

Some banks, especially in industrialised countries, have yet to fully clear their balance sheets of bad loans. When they do, there is a risk of further turmoil in the financial markets.

Another concern is whether central banks will succeed in normalising the financial system after the inflow of liquidity, without causing more problems in the global economy.

There are also risks posed by governments becoming increasingly involved in the banking system. According to a survey of 450 bankers, regulators and financial services industry observers in 49 countries, political interference is the number one risk facing the banking industry. The support that governments provided to the banking system prevented its collapse, but left the sector highly politicised. ('Banking Banana Skins' survey, Centre for the Study of Financial Innovation (CSFI) in association with PricewaterhouseCoopers, 2010)

The fiscal stresses of Eurozone countries, especially Greece but also Ireland, Spain and Portugal, have added to the uncertainty. How these stresses are resolved may affect interest rates and investor confidence.

There are mitigating factors. The level of global coordination by regulators, governments and the private sector has been impressive. However, there are signs that this coordination is beginning to fragment. Some countries, most notably the United States, embarked on reforms that are out of step with the proposals agreed last year by the Group of 20 nations, the Financial Stability Forum and the Bank of International Settlements.

Another mitigating factor, no less important, is China's industrialisation. It has proven to be a driving force for the world economy, especially for commodity-producing countries such as Australia, Brazil and South Africa.

South Africa

Last year, South Africa was spared the worst of the economic recession. Increased government spending, especially on infrastructure, and the easing of monetary policy, helped keep the economy stable. In addition, the financial crisis had less of an effect on South Africa's financial sector as it did on its peers in the industrialised nations. This was at least in part due to the quality of management and the world-class regulatory system in South African banking.

The business rescue provisions of the new Companies Act pose a threat to the banking sector. The intention is to create a mechanism to rescue financially distressed companies. However, the framing of these provisions may lead to interference in the bank's security for loans.

Business Leadership South Africa has a vision of South Africa being a developed country by 2040. The vision underlines the importance of creating jobs, especially for the poorest people in South Africa. It is a vision that deserves the support of government, business, labour and civil society.

Barclays

Absa Group Limited's relationship with its majority shareholder, Barclays, is healthy and constructive. Our Chief Executive, Maria Ramos, sits on the Executive Committee of Barclays, which gives us insight into the majority shareholder's strategy.

We also draw on the experience and expertise that Barclays holds: three representatives sit on the Absa board, namely, Robert Le Blanc, Head of Risk, Barclays (one of the top risk experts globally); Antony Jenkins, Head of Retail, Barclays; and Benoît de Vitry d'Avaucourt, Head of Global Markets Europe and Head of Commodities and Emerging Markets, Barclays Capital. The contribution of Barclays Capital is crucial to the success of Absa Capital.

Sustainability

For Absa, sustainability means identifying and managing economic, social and environmental issues across all our operations.

Environment: As signatories to the Copenhagen communiqué on climate change, we actively seek opportunities to reduce our carbon footprint. We have adopted the Equator Principles that ensure the projects we finance are developed in a socially responsible way and reflect sound environmental management practices.

Diversity: The more diverse the backgrounds, skills and experiences of our employees, the better we can satisfy the needs of all our customers. Our success and sustainability depend on our ability to transform and remain relevant. As a company we consider transformation to be both a business and moral imperative and we remain committed to transformation at all levels. Our executive and other appointments, for example, bear out our commitment to attract and retain top talent, while implementing our transformation agenda.

Responsible citizenship: Being a good corporate citizen helps to make business more sustainable. Our approach to Corporate Social Investment (CSI) is not only about the money we donate to society but also about the spirit of giving. Our *Give As You Earn* initiative encourages all employees to contribute a percentage of their earnings to community projects that Absa supports. Employees (including the Executive Committee) are also encouraged to give their time to community projects of their choices.

Remuneration

Remuneration plays an important role in how companies manage business and promote efficiency and excellence. How much bankers are compensated is a controversial issue, especially in the aftermath of the financial crisis. Certainly, in comparison to engineers and scientists (skills essential to the real economy), in general, bankers receive higher remuneration.

Bonuses are a legitimate and positive way to reward employees for contributing to the growth of a business, but only if responsibly implemented. At Absa, we give our employees incentives to perform – but only for real value creation. We also defer portions of incentives so that measuring the performance to be rewarded is validated over time.

Board changes

Our Chairperson, Gill Marcus, left to become the governor of the South African Reserve Bank. We were very sorry to see her go, as Gill made an outstanding contribution to the Group. We wish her well in her current and future roles.

We are working hard to find a new chairperson. The board is considering various candidates and we will update shareholders as soon as we can.

Jacques Schindehütte stepped down as Finance Director after many years of committed service. We welcome David Hodnett as replacement for Finance Director. David retains responsibility for Group Risk until we find a suitable candidate for the position of Risk Officer.

Franklin Sonn and Peter Mageza retired during 2009. We thank them for their contribution and wish them well in the future.

Conclusion

The board of any major enterprise must satisfy itself that three objectives are met: that the enterprise has a valid strategy; that it has a chief executive who can deliver on that strategy; and that internal controls are in place to avoid undue risk. As the Absa board, we are satisfied that all three are met.

We are pleased that we have a Chief Executive of Maria Ramos's calibre. Since taking over as Chief Executive on 1 March 2009, she has improved the coherence of our strategy. We thank her for a positive start to her very pivotal role.

We are fortunate to have visionary board members who show commitment to our long-term success. The quality of their contribution has been excellent. It took much time and focus to deliver on all the duties of the various committees, and we have been successful in these tasks.

Absa employees and management have shown remarkable determination, perseverance and teamwork over the past year. Without their contribution, we would not be where we are today in our effort to be a people- and customer-centred organisation.

Thank you, also, to our loyal customers. We are committed to understanding and delivering on customers' needs, and it is our objective to improve our ability to do so.

Finally, thank you to our shareholders. You have believed in our strategy, even during difficult economic times. Your support is invaluable. We believe that Absa remains on a stable path, and we look forward to a positive future.

Dave Brink

Chairman

Chief executive's review

Introduction

The worldwide financial crisis posed challenges to the financial services sector and highlighted the complexity and interconnectedness of the global financial system. What began with the collapse of the subprime mortgage market in the United States in mid-2007 evolved into the deepest global recession since the 1930s.

The economic downturn was steepest in industrialised economies with several already showing signs of contraction in the first half of 2008.World trade fell sharply in 2009, partly because of the drop in demand for goods and services but also because the credit crunch reduced the availability of trade finance and pushed up its cost. Less output led to more job losses. The first half of 2009 was difficult for many people around the world as they had to cope not only with losing their jobs, but also with reduced values of properties and investments.

"Our association with Barclays provides us with a global platform and brand to differentiate our offerings in the South African and African markets. It is a platform that we have yet to exploit and an area which we intend to focus closely on in future."

Faced with these conditions and in response to the crisis, we witnessed a significant and coordinated fiscal and monetary policy response that sought to improve access to liquidity in the short term as efforts were made to stabilise the system, and avert a collapse of the banking system and an even deeper recession in the medium term. With most countries showing signs of emerging from the recession in the third quarter of 2009 and with the global economy also showing early signs that it is also recovering, the focus has now shifted on the sustainability of the recovery.

The severity and reach of the crisis has drawn the attention of regulatory authorities and policymakers to the financial sector. New regulatory proposals have been introduced to strengthen the global financial system and lessen the impact of future crises on the real economy, including companies, jobs, people and households.

Much of the regulatory attention and many of the proposals, aim to address areas of weakness that arose during the crisis, in particular, capital adequacy levels and liquidity management.

The Basel Committee on banking supervision released its consultative document in December 2009 with a focus on three key areas. The first area relates to capital adequacy and requires banks to have adequate Tier 1 capital of sufficient quality to absorb losses on an ongoing basis.

The second area is to ensure healthy liquidity. Too many banks (even those whose capital ratios were considered solid) faced difficulties because they could not raise cash fast enough to cope with sudden outflows.

The third area is the leverage ratio. The emergence of excessively leveraged financial institutions has been a common feature of economic crises both past and present.

The interconnectedness of the financial system globally has further highlighted the importance and need for a synchronised and coordinated effort among regulatory authorities across the world. It will be critical for the authorities to find a balance between the extent of regulation and the need to support economic activity.

At Absa, we have anticipated regulatory changes and are engaged with the authorities about the potential implications. As is the case with other major South African banking groups, our capital base is solid and our leverage ratios are prudent. We have improved our capital ratios during the year, with our total capital ratio now at 14,7%. This level is well above both our board-approved target and minimum regulatory level.

Absa supports the spirit of the proposed changes, which we believe will enhance risk sensitivity. We are committed to assist in assessing the potential impact of the proposed changes to ensure that they are fit for purpose from a South African perspective.

Performance review

In 2009, the country's economy declined by 1,8% as consumers spent less and investment growth weakened. Increased government spending, and the easing of monetary policy, gave some relief. However, consumers and businesses remained under pressure because of high unemployment and indebtedness levels. 870 000 workers lost their jobs. This was the first recession in 17 years in South Africa and, coupled with a global recession, the consequences were far more severe than expected.

These conditions tested the resilience of our organisation and the strength of our strategy. We believe that Absa has emerged from it stronger. Once again, our business model of diversifying income streams proved its importance in difficult trading conditions.

The severity of the past two years is evident in our financial performance, especially the increase in credit impairments. Credit impairments are a good indicator of the financial health of our customers and the state of their finances.

It is against this background that our financial performance in 2009 should be seen.

Our results were seriously affected by three factors: higher credit impairments in retail banking; the impairments in the values of investments acquired after the default by a broker on single-stock futures trading; and the lower valuation of our private equity portfolio.

Headline earnings declined 23,0% to R5 986 million and attributable earnings declined by 37,2% to R5 315 million; the difference in declines between headline and attributable earnings was due to the impairments associated with the single-stock futures defaults.

Yet the underlying businesses of the Bank performed well, especially in the second half of 2009. We grew customer numbers, transactional volumes and net interest margins. We restricted the decline in the Bank's income to 3,2% and kept a tight rein on costs. The combination of these helped us improve our cost-to-income ratio to below 50%.

Divisional highlights

Retail banking

The Retail banking unit posted a 15,6% decline in attributable earnings to R2 814 million, largely due to an increase in impairments. Excluding impairments, the underlying business performed respectably. Revenues rose 2,7%, costs were contained at 2008 levels, and customer deposit growth exceeded expectations.

Absa Capital

Absa Capital's results were significantly affected by the single-stock futures trading default and, to a lesser extent, by the fall in the value of investments in the private equity portfolio. Attributable earnings fell 90,4% to R192 million.

Absa Corporate and Business Bank

Absa Corporate and Business Bank's attributable earnings declined 18,5% to R2 276 million, largely due to higher impairments across the business. Despite the highly competitive and challenging environment, Absa Corporate and Business Bank grew the number of customers and transaction volumes.

Economic outlook

There are growing signs that the global economic recovery is under way. The International Monetary Fund (IMF) has forecast growth of 3,9% in 2010. However, the outlook remains uncertain. Various factors place this recovery at risk, including sovereign debt risks in the Eurozone, uncertainty about China's efforts to prevent economic overheating, and the risk of destabilising the markets when the central banks exit the policy responses to the crisis.

Economic conditions in South Africa are also showing signs of recovery even though business and consumer confidence remains weak. There is no doubt that during this period South Africa's recovery will depend heavily on the momentum of the global recovery and continued government spending. We expect the economy to grow by 2,5% this year.

Growth opportunities

Our association with Barclays provides us with a global platform and brand to differentiate our offerings in the South African and African markets. It is a platform that we have yet to fully exploit and an area which we intend to focus on closely in future.

Africa remains an important area of growth for Absa Bank. We will continue to make significant investments to strengthen our capability to service this growing market as well as our South African business clients that are expanding across the continent. We will focus on implementing our solutions and expertise in those countries where Absa and Barclays operate.

There are considerable opportunities for collaboration with Barclays, particularly in the areas of Agri-business and Islamic banking. Absa's Agri-business and Islamic banking units are both centres of excellence within the Barclays Group, and we plan to use these capabilities across the continent for the benefit of the entire Group.

Absa will launch a **Corporate Bank** this year to focus on the top 1 000 corporate customers, with solutions and opportunities that draw on the expertise of our investment banking division, as well as other relevant business units across Absa.

Currently, over five million South Africans in the **entry-level segment** of the market have chosen Absa. This year we will increase our efforts to serve this market more comprehensively. We will offer a broader range of financial services, including the ability to transact on our banking platforms and build financial security. We will launch new low-cost channels and basic banking products to grow value from this important segment.

The **middle market** remains the core market segment for the Bank. Our 2009 performance confirmed our competitive edge. To strengthen our relationships with this loyal customer base, we are working harder to understand their needs. This will help us deliver targeted and efficient services and increase our product penetration.

Technology is a key differentiator in this sector. This year we will enhance our electronic product offering and capture significant additional revenue in this market.

Growing our **Wealth** business and improving its scale remains a priority. While we have historically pursued an organic approach to growing this business, we are now also considering inorganic options to achieve critical mass within a shorter time.

The way forward

'One Absa' strategy

During 2009, we launched the 'One Absa' strategy which comprises four key pillars: to achieve sustainable growth in targeted markets; to have a simple and streamlined Group for customer delivery; to optimise balance sheet management and entrench proactive risk management; and to ensure that support is provided through a people- and customer-centred organisation.

The tough business environment in 2009 tested the strength of these pillars and they proved remarkably sturdy, confirming the robust quality of our strategy.

During the past year, we also took several steps to ensure that there is adequate and balanced attention between strategy and implementation. As a result, we reorganised the Executive Committee and established an Operations Committee. The Operations Committee has been tasked with driving disciplined execution of the strategy and with ensuring that the anticipated benefits are realised.

The four pillars of the 'One Absa' strategy:

1. Sustainable growth in targeted markets

   We want to be the number one bank in South Africa and selected African markets, measured in terms of profitability and number of customers. To achieve this goal we must develop a deeper understanding of our customers and their needs. This will require us to draw on the expertise of all our business units to satisfy those needs.

2. Simple streamlined Bank for customer delivery

   We are working hard to instil a culture within Absa of operating as a fully integrated organisation, in a manner that generates efficiencies and places the customer at the centre of everything that we do. That is why we are continuously streamlining our operating model, systems and processes, and have been reducing costs through improved efficiencies.

3. Balance sheet optimisation and proactive risk management

   We want to have a strong balance sheet that can withstand economic and financial shocks. This requires us to become better at balancing risk and reward, while ensuring that we manage our capital and liquidity optimally.

4. People- and customer-centred organisation

   We aim to deliver leading-edge customer service, using the most talented and motivated people.

Conclusion

2009 was a very trying time, but as promised, we stayed close to our customers, working harder than ever before to exceed their expectations. Our employees have displayed diligence, integrity, a sense of teamwork and, most importantly, an understanding of the economic and financial pressures with which our clients have had to contend. I want to take this opportunity to thank them warmly for their efforts. They are as determined as I am to ensure that the resources of Absa are employed prudently for the long-term success of all of our stakeholders.

Maria Ramos

Chief Executive

The Absa Bank board of directors

Introduction

The Absa Bank board comprises an appropriate balance of executive, non-executive and independent directors, with a majority of independent directors (as defined by the King II report).

Overview of 2009

The following changes to the board occurred during 2009:

- On 1 March 2009, M Ramos was appointed as Absa's new Chief Executive, replacing S F Booysen, who resigned effective 28 February 2009.
- On 23 March 2009, B C M M de Vitry d'Avaucourt[1] and A Jenkins[2] were appointed as non-executive directors (representing Barclays Bank PLC), replacing R A Jenkins and F F Seegers, who both resigned on 11 February 2009.
- F A Sonn retired at the annual general meeting on 21 April 2009.
- N P Mageza retired as executive director from the board on 30 June 2009.
- On 19 July 2009, G Marcus resigned as Chairperson. D C Brink was appointed as Chairman from 19 July 2009.

The directors of Absa Bank as at 31 December 2009 were:

Executive directors: M Ramos (Chief Executive), J H Schindehütte[3] (Finance Director) and L L von Zeuner (Deputy Chief Executive).

Non-executive directors: Y Z Cuba, B C M M de Vitry d'Avaucourt[1], A Jenkins[2] and R Le Blanc[2].

Independent non-executive directors: D C Arnold, D C Brink[4] (Chairman), B P Connellan[4], S A Fakie, G Griffin[4], M W Hlahla, M J Husain, T M Mokgosi-Mwantembe, E C Mondlane Jr[5], T S Munday, S G Pretorius and B J Willemse.

Notes

[1]*French.*

[2]*British.*

[3]*Mr Schindehütte resigned from the board with effect from 28 February 2010. D W P Hodnett was appointed as Finance Director with effect from 1 March 2010.*

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

[5]*Mozambican.*

The membership of the board committees as at 31 December 2009 were as follows:

Committee	Members
Group Audit and Compliance Committee (GACC)	D C Arnold (Chairman), S A Fakie, G Griffin[4], T S Munday
Group Risk and Capital Management Committee (GRCMC)	D C Arnold, D C Brink[4], G Griffin[4] (Chairman), M W Hlahla, M J Husain, R Le Blanc[2], E C Mondlane Jr[5], T S Munday, B J Willemse
Directors' Affairs Committee (DAC)	D C Arnold, D C Brink[4] (Chairman), G Griffin[4], M J Husain, R Le Blanc[2]
Group Remuneration and Human Resources Committee (GRHRC)	D C Brink[4], B P Connellan[4], B C M M de Vitry d'Avaucourt[1], A Jenkins[2], T M Mokgosi-Mwantembe, S G Pretorius (Chairman)
Concentration Risk Committee (CoRC)	D C Brink[4] (Chairman), B P Connellan[4], T S Munday, M Ramos, J H Schindehütte[3], B J Willemse, L L von Zeuner
Board Finance Committee (BFC)	D C Arnold, D C Brink[4] (Chairman), B P Connellan[4], Y Z Cuba, B C M M de Vitry d'Avaucourt[1], T S Munday
Brand and Reputation Committee (BRC)	D C Brink[4], T M Mokgosi-Mwantembe, T S Munday (Chairman), B J Willemse

Notes

[1]*French.*

[2]*British.*

[3]*Mr Schindehütte resigned from the board with effect from 28 February 2010. D W P Hodnett was appointed as Finance Director with effect from 1 March 2010.*

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

[5]*Mozambican.*

The Absa Bank board of directors

D C (Des) Arnold (69)

Qualifications
- CA(SA)
- FCMA
- AMP

Year appointed: 2003

Independence
Independent director

Absa board committee memberships
GACC (Chairman); GRCMC; DAC; BFC.

Other directorships and trusteeships
- Director of Absa Group Limited;
- Director of Wits Health Consortium (Proprietary) Limited (Chairman of Audit Committee);
- Chairman of Barlows Pension Fund;
- Trustee of Absa Group Retirement Fund.

Expertise and experience
Des was formerly the Executive Director: Finance and Administration of Barloworld Limited. He joined the Barlows Group in 1967 and held several 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.

Des 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.

D C (Dave) Brink (70)

Chairman

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

Year appointed: 1992

Independence
Independent director

Absa board committee memberships
DAC (Chairman); GRCMC; GRHRC; CoRC (Chairman); BFC (Chairman); BRC.

Other directorships
- Director of Absa Group Limited;
- Director of Sappi Limited (Lead Director; member of the Audit Committee and Nominations and Governance Committee; Chairman of the Compensation Committee);
- Trustee of Absa Foundation;
- Chairman of Absa Group Retirement Fund;
- Co-Chairman of Business Trust;
- Director of National Business Initiative;
- Vice-President of South African Institute of Directors;
- Director of Steinhoff International Holdings Limited (Chairman of the Audit Committee).

Expertise and experience
Dave 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 Chairman in 1994.

Dave 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 Chairman of the Sustainability Committee and a member of the Audit Committee.

B P (Brian) Connellan (69)

Qualifications
- CA(SA)

Year appointed: 1994

Independence
Independent director

Absa board committee memberships
GRHRC; CoRC; BFC.

Other directorships
- Director of Absa Group Limited;
- Director of Illovo Sugar Limited;
- Director of Reunert Limited;
- Director of Sasol Limited.

Expertise and experience
After qualifying as a chartered accountant, Brian joined the Barlows Group in 1964. He managed several subsidiaries and was appointed as a director of Barlow Rand Limited in 1985. He was Executive Chairman of the Building Materials, Steel and Paint division until 1990. Thereafter, he was appointed as Executive Chairman of Nampak Limited, a position he held until retirement in 2000.

Y Z (Yolanda) Cuba (32)

Qualifications
- BCom Stats
- BCom (Hons) Acc
- CA(SA)

Year appointed: 2006

Independence
Non-executive director

Absa board committee memberships
GACC (permanent attendee); BFC.

Other directorships and memberships
- Director of Absa Group Limited;
- Director of Mvelaphanda Group Limited;
- Non-executive director of Mvelaphanda Resources Limited;
- Non-executive director of Avusa Limited;
- Non-executive director of Steinhoff International Holdings Limited;
- Director – Total Facilities of Management Company (Proprietary) Limited;
- Non-executive director of Life Healthcare (Proprietary) Limited;
- Non-executive director of Reatile Resources (Proprietary) Limited;
- Member of Nelson Mandela Foundation Investment and Endowment Committee.

Expertise and experience
In 1999, Yolanda started her career in marketing with Robertsons Foods. She then moved to Fisher Hoffman, an auditing firm, where she completed her articles in 2002. In January 2003, she joined Mvelaphanda in its Corporate Finance division.

Yolanda was appointed as Deputy Chief Executive Officer before being appointed as Chief Executive Officer of Mvelaphanda Group Limited in July 2007.

B C M M (Benoit) de Vitry d'Avaucourt (47)

Qualifications
- MS in Technology and Policy, MIT (US)
- Diploma of Ingenieur Civil des ponts et Chaussées (France)
- Mathématiques Supérieures and Mathématiques Spéciales (France)

Year appointed: 2009

Independence
Non-executive director

Absa board committee memberships
GRHRC; BFC.

Other directorships and memberships
- Director of Absa Group Limited;
- Managing Director – Barclays Capital;
- Head of Global Markets Europe;
- Head of Commodities and Emerging Markets;
- Member of the Executive Committee – Barclays Capital;
- Former board member of the International Swaps and Derivatives Association (ISDA);
- Vice Chairman of the Association for Financial Markets in Europe (AFME).

Expertise and experience
Benoit is responsible for trading and risk management for Commodities, Emerging Markets and the Quantitative Analytics Group. He also has regional responsibility for the firm's trading activities. He is a member of the Executive Committee at Barclays Capital and he is responsible for Absa Capital. He is also responsible for Barclays Capital and Barclays Wealth in the Middle East and for Barclays Natural Resource Investments.

S A (Shauket) Fakie (56)

Qualifications
- BCom
- CA(SA)

Year appointed: 2008

Independence
Independent director

Absa board committee memberships:
GACC.

Other directorships and memberships
- Director of Absa Group Limited;
- Member of South African Institute of Chartered Accountants;
- Member of Australian Institute of Chartered Accountants;
- Member of Institute of Public Finance and Audit;
- Director of several MTN subsidiary companies in Africa.

Expertise and experience
Shauket was Auditor-General of South Africa for seven years and served as Chairman of the UN Panel of External Auditors. He was also the Secretary General for the Auditors-General Association on the African continent. During his tenure as Auditor-General, he served as External Auditor to the World Health Organisation in Geneva and the United Nations in New York. He was also a member of the Audit Advisory Committee to the World Bank in Washington.

He currently holds an executive position at MTN, responsible for Internal Audit and Business Risk Management.

He serves on the boards of various companies, community and non-profit organisations.

The Absa Bank board of directors

G (Garth) Griffin (60)

Qualifications
- BSc
- FIA
- FASSA

Year appointed: 2001

Independence
Independent director

Absa board committee memberships
GRCMC (Chairman); GACC; DAC; Chairman of Absa Life and Absa Insurance Actuarial Committees. Also serves on the boards of Absa Financial Services and its insurance subsidiaries.

Other directorships and trusteeships
- Director of Absa Group Limited;
- Director of Swiss Re Life and Swiss Re Africa;
- Chairman of two privately held companies based in Cape Town;
- Trustee of Absa Group Pension Fund;
- Trustee of University of Cape Town Foundation.

Expertise and experience
Garth is an actuary with 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 many South African and international businesses, including Allan Gray/Orbis, Investec Asset Management and Old Mutual plc. He has also served as a non-executive director on several boards in the South African financial services sector, including Sage Group and Citadel Holdings Limited.

Garth was Group Chief Executive Officer of the Sage Group from April 2003 to May 2005. He was President of the Actuarial Society of South Africa for 2008 and 2009.

M W (Monhla) Hlahla (46)

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

Year appointed: 2005

Independence
Independent director

Absa board committee memberships
GRCMC.

Other directorships and trusteeships
- Director of Absa Group Limited;
- Managing Director of Airports Company South Africa;
- Non-executive director and Interim Chairman of Industrial Development Corporation.

Expertise and experience
Monhla read for a Bachelor in Economics and Masters in Urban and Regional Planning degrees in the USA. While there, she worked at the Coalition for Women's Economic Development, a provider of microloans 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 (DBSA). At the DBSA, Monhla successfully managed several large infrastructure projects.

In 2000, Monhla joined Old Mutual Employee Benefits as Regional Manager for the Northern Region. She held this position until her appointment as Managing Director and Chief Executive Officer of the Airports Company South Africa (ACSA) in 2001.

M J (Mohamed) Husain (49)

Qualifications
- BProc

Year appointed: 2008

Independence
Independent director

Absa board committee memberships
GRCMC; DAC.

Other directorships and trusteeships
- Director of Absa Group Limited;
- Member of Law Society of the Northern Provinces;
- Chairman of Attorneys Insurance Indemnity Fund;
- President of International Commonwealth Lawyers' Association;
- Trustee of Wits Law School Endowment Appeal;
- Member of Eskom's Board Tender Committee;
- Chairman of Remuneration Committee of the Law Society of South Africa;
- Director of Knowles Husain Lindsay Incorporated;
- Director of KLH Investments (Proprietary) Limited;
- Councillor of Law Society of South Africa.

Expertise and experience
Mohamed has been an attorney for approximately 25 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 also acted as a Judge of the High Court.

Mohamed 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.

A (Antony) Jenkins (48)

Qualifications
- Masters in philosophy, politics and economics (University of Oxford)
- MBA, Cranfield School of Management

Year appointed: 2009

Independence
Non-executive director

Absa board committee memberships
GACC (permanent attendee); GRHRC.

Other directorships and memberships
- Director of Absa Group Limited;
- Director of Barclays Bank Delaware; Barclays Financial Corporation; Visa Europe Limited; Barclays Lead for Equality and Diversity;
- Member of Barclays Group Treasury; Group Recruitment and Promotions Committee.

Expertise and experience
Antony was appointed Chief Executive of Global Retail Banking and joined the Barclays Executive Committee in November 2009. Before that he was Chief Executive of BarclayCard from January 2006 where he led a revival in the fortunes of the business.

Antony is the executive responsible for diversity and inclusion at Barclays and, in February 2009, he became a Barclays-appointed non-executive director of Absa Group Limited. Since October 2008, Antony has been on the board of Visa Europe Limited.

Barclays is where Antony started his career in finance back in 1983, when he completed the Barclays Management Development Programme before going on to hold various roles in retail and corporate banking. He moved to Citigroup in 1989, working in London and New York.

R (Robert) Le Blanc (53)

Qualifications
- MSc
- MBA

Year appointed: 2007

Independence
Non-executive director

Absa board committee memberships
GRCMC; DAC.

Other directorships and memberships
- Director of Absa Group Limited.

Expertise and experience
Robert has been the Chief Risk Officer for Barclays Group, based in London, since 2004. He joined Barclays in 2002 as the Head of Risk Management at Barclays Capital.

Before joining Barclays, Robert spent most of his career at JP Morgan in the capital markets, fixed income, emerging markets and credit areas, and ultimately in the risk management function.

T M (Thoko) Mokgosi-Mwantembe (48)

Qualifications
- BSc
- MSc Medical Chemistry
- Dip Education

Year appointed: 2008

Independence
Independent director

Absa board committee memberships
GRHRC; BRC.

Other directorships
- Director of Absa Group Limited;
- Director of Knorr-Bremse (SA) (Proprietary) Limited;
- Director of Vodacom Group Limited;
- Director of Paracon Holdings Limited;
- Director of IFCA Technologies Limited.

Expertise and experience
Thoko started her career as Product Manager for Glaxo (1989 to 1994) and Merck, Sharp and Dohme (1994 to 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 October 2008, Thoko 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 Absa Bank board of directors

E C (Eduardo) Mondlane Jr (52)

Qualifications
- Political Science Extension Student UCLA

Year appointed: 2007

Independence
Independent director

Absa board committee memberships
GRCMC.

Other directorships and positions
- Director of Absa Group Limited;
- Director of Barclays Bank Mozambique;
- Managing Director of Ninham Shand Mozambique Lda;
- Chairman of Retails Masters SA (Mozambique);
- Advisory Board of Confederation of Economic Associations (Mozambique);
- Advisory Board of Lapdesk (South Africa).

Expertise and experience
Eduardo left university to pursue a passion for African development, which led him to establish and operate an Africa-focused trading company based in New York. He also established the Mozambique Business Council in Washington, DC.

Eduardo worked in the aerospace industry for many years with Boeing Commercial Airplanes, United Technologies and Guinness Peat Aviation. He was an adviser covering various sub-Saharan African markets. In 1994, he moved to the infrastructure development industry where he advised various multinational contractors in the development of strategically important infrastructure projects in southern Africa.

He serves as an adviser for strategic infrastructure development to various South African and multinational companies.

T S (Trevor) Munday (60)

Qualifications
- BCom

Year appointed: 2007

Independence
Independent director

Absa board committee memberships
GACC; CoRC; BFC; BRC (Chairman); GRCMC; DAC.

Other directorships and positions
- Director of Absa Group Limited;
- Chairman of Reunert Limited;
- Director of Sasol Petroleum International (Proprietary) Limited; Sasol Synfuels International (Proprietary) Limited; various divisions of Sasol Chemicals Industries Limited (including Sasol Nitro; Sasol Polymers);
- Director of Iron Mineral Beneficiation Services (Proprietary) Limited.

Expertise and experience
Trevor's career began in 1971 and was spent in numerous 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, Trevor was the Managing Director of Polifin Limited. In 2001, he was appointed as an Executive Director of Sasol Limited, with global responsibility for:
- Finance and accounting;
- Risk management;
- Internal audit;
- Corporate affairs (including communications, brand management, corporate social investment and sport sponsorships);
- Planning.

In 2003, Trevor also assumed responsibility for the Sasol Group's global chemical businesses, with operations in South Africa, Europe, the United States of America, the Middle East, South East Asia and China.

Trevor 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.

S G (Brand) Pretorius (62)

Qualifications
- MCom (Business Economics)

Year appointed: 2009

Independence
Independent director

Absa board committee memberships
GRHRC (Chairman); DAC.

Other directorships and trusteeships
- Director of Absa Group Limited;
- Director of the Bidvest Group Limited;
- Director of numerous McCarthy Group companies;
- Board member of National Business Initiative;
- Board of Trustees of READ Educational Trust.

Expertise and experience
Brand started his career at Toyota South Africa in 1973. In 1988, he was appointed Managing Director of Toyota South Africa Marketing and under his leadership Toyota became the market leader in sales and customer satisfaction.

Brand was appointed as Chief Executive Officer of McCarthy Motor Holdings in 1995. He is currently the Chief Executive of the holding company, McCarthy Limited.

Brand has received many national marketing and leadership awards. He holds honorary professorships at the University of Johannesburg and the University of the Free State. He is a Fellow in Leadership at the Gordon Institute of Business Science, as well as a Visiting Executive at the Centre for Responsible Leadership at the University of Pretoria.

M (Maria) Ramos (50)

Qualifications
- MSc Economics
- BCom (Hons) Economics
- Institute of Bankers Diploma (CAIB)

Year appointed: 2009

Absa board committee memberships
CoRC.

Areas of responsibility
Maria is the Chief Executive.

Expertise and experience
Maria joined Absa at the beginning of March 2009 as Chief Executive and is a member of the Barclays PLC Executive Committee.

Before joining Absa, she was Group Chief Executive of Transnet Limited (since 2003). She was successful in leading Transnet through an extensive financial, cultural and operational turnaround, as well as transforming a state-owned enterprise into a modern and agile focused freight, transport and logistics company. Before joining Transnet, she held the position of Director-General of the National Treasury.

Maria is an accomplished academic and has taught at various institutions. She was honoured as the 'Outstanding Businesswoman of the Year' at the 2009 African Business Awards and was also rated as the world's 9th most influential businesswoman by *Fortune* magazine.

Participation in external entities
Maria currently serves on the executive committees of the:
- Business Trust;
- International Business Council;
- World Bank Chief Economist Advisory Panel;
- Business Leadership South Africa;
- Banking Association of South Africa.

J H (Jacques) Schindehütte (50)

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

Year appointed: 2005

Absa board committee memberships
CoRC.

Areas of responsibility
Jacques is responsible for:
- Group Finance;
- Business Performance and Management;
- Group Treasury;
- Corporate Development;
- Group Investor Relations;
- Group Secretariat;
- Sarbanes-Oxley.

Expertise and experience
Jacques started his career with accounting firm Arthur Young and qualified 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 an executive director in January 2005. He resigned from the board on 28 February 2010.

L L (Louis) von Zeuner (48)

Qualifications
- BEcon

Year appointed: 2004

Absa board committee memberships
CoRC.

Areas of responsibility
Louis is the Deputy Chief Executive.

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

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

In 2000, he moved to Absa's head office, where he became the Operating Executive of Absa Commercial Bank. He was appointed as an executive director on the Absa Group board in September 2004, and became Deputy Chief Executive in 2009.

The Absa Bank board of directors

B J (Johan) Willemse (55)

Qualifications

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

Year appointed: 2008

Independence
Independent director

Absa board committee memberships
GRCMC; CoRC; BRC.

Other directorships and trusteeships

- Director of Absa Group Limited;
- Vice Chairman of Agricultural Economics Association of Southern Africa;
- Chairman of Department of Agricultural Economics at the University of the Free State;
- Trustee of University of the Free State provident fund.

Expertise and experience
Johan has served as Chief Economist of the South African Agricultural Union (SAAU).
He has also served as Chief Economist of the Maize Board, consulting to Agri-business. In these roles, and as a member of the National Agricultural Marketing Council (NAMC), he has gained experience in a wide variety of economic and agricultural issues, including:

- Price and marketing policies;
- Broad agricultural policy issues;
- Pricing policies and strategies;
- International trade and futures markets.

Johan currently consults to major agricultural businesses in South Africa on agricultural business strategy and markets.

D W P (David) Hodnett (40)

Qualifications

- BCom
- CA(SA)
- MBA

Tenure at Absa: Two years (appointed in January 2008)

Other directorships and trusteeships

- Director of Absa Group Limited.

Areas of responsibility
David is responsible for Group Risk and currently oversees the Compliance, Credit Risk, Operational Risk, Market Risk, Group Financial Crime, Business Continuity and Data Governance divisions. He was appointed as Finance Director on 1 March 2010.

Expertise and experience
David completed his articles of clerkship at KPMG Inc. He was promoted to the position of partner in the Financial Services consulting group and later left to join the Standard Bank Group. He joined Absa in January 2008 as Risk Officer.

New board appointment in 2010

Contents

Governance and accountability

Corporate governance statement

Introduction

The global economic crisis has highlighted the importance of sound corporate governance within the financial services industry. Absa's robust corporate governance systems and processes enabled the Bank to weather this crisis, and Absa continues to be well positioned for the future.

King II compliance

Absa Bank Limited's board of directors (the board) recognises the need to conduct the affairs of the enterprise with integrity and in line with best corporate practices. For that reason, Absa Bank Limited is fully committed to the principles of the Code of Corporate Practices and Conduct (the Code) set out in the King Report on Corporate Governance (King II).

The board is of the opinion that Absa Bank has complied with and applied the requirements of King II throughout the year under review.

Barclays requirements

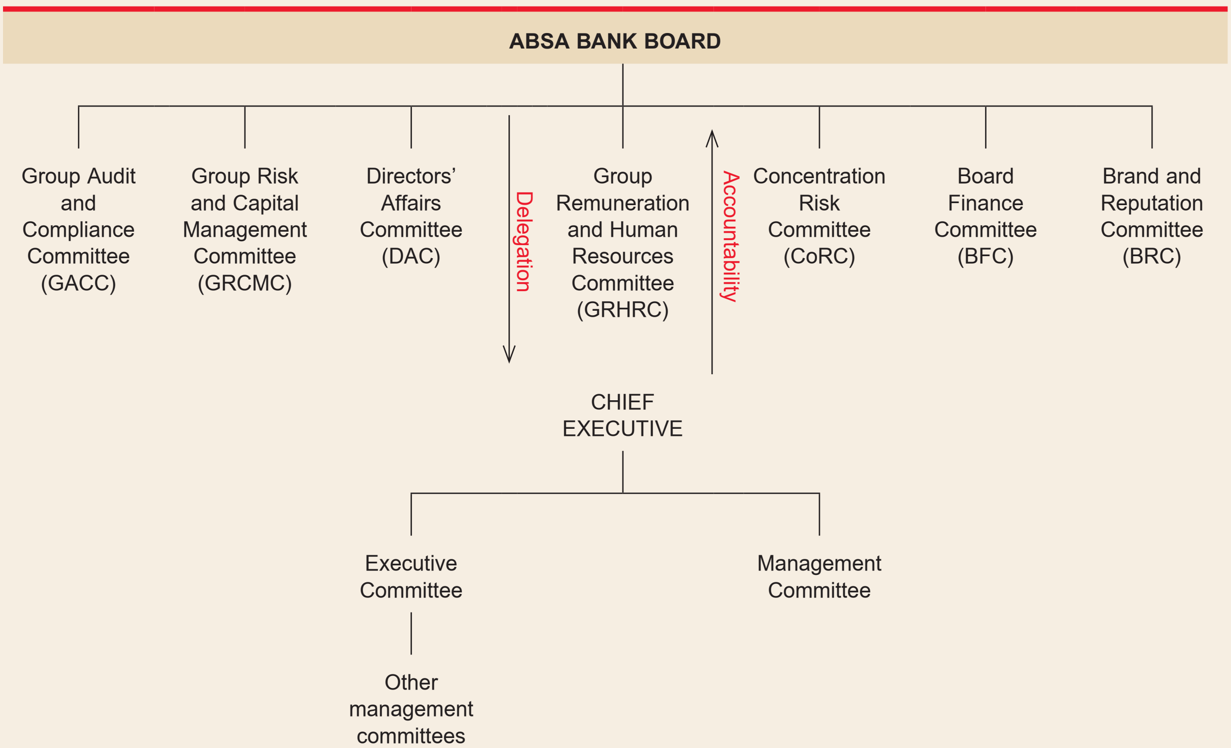
As a subsidiary of Barclays Bank PLC (Barclays), Absa Group Limited is required to comply with the regulatory requirements applicable to Barclays. From a governance perspective, Absa also follows the international best practice guidelines set out in the UK's Combined Code on Corporate Governance.

Application of King II and approach to corporate governance

The board believes that compliance with the formal standards of governance practice is important and that embracing the spirit and principles of codes such as King II is even more vital.

As such, the board strives to ensure that good governance is practised at all levels in the Bank and that it is embedded into Absa's operations. The code is applied to all Absa subsidiary companies.

Governance structure



Status on King III compliance

The King Code of Governance Principles for South Africa 2009 (King III), which was published on 1 September 2009, took effect from 1 March 2010.

Absa Bank is assessing the principles of King III with a view to adopting those that have not yet been adopted within the Bank. Absa's compliance with, and application of, King III will be fully reported on in the next annual report.

Corporate governance statement

Roles of Company directors

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

Measuring and reporting

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

Interaction between Absa and Barclays

Absa and Barclays work together to maximise value for all stakeholders while complying with all relevant laws, regulations and standards. Absa and Barclays interact in a way that takes account of the regulations, laws, fiduciary responsibilities and industry standards that apply to both groups. The two groups interact in a manner that is also sensitive to the rights and interests of Absa's minority shareholders.

The approach is reviewed annually by the board, considering recommendations from the Directors' Affairs Committee (DAC).

Boards of directors and board committees

The board composition

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

The Group board

The 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 in the King II report).

The detailed categorisation of the directors appears on page 12 of this report. As at 31 December 2009, there were 19 directors, of which three were executive, four were non-executive and 12 were independent.

The Chairman of the board is an independent director. The Chairman is not currently appointed by the board each year, but this practice will be introduced during 2010.

The directors bring a wealth of skills, knowledge and experience to the board. They are able to discuss and debate Absa's business and matters of strategy, performance, resources, transformation, diversity, employment equity, standards, conduct and policy in a way that is robust, informed and constructive.

Board procedures and related matters

The board has full control over all the companies in Absa. It monitors executive management's implementation of approved plans and strategies.

Board meetings

The board meets regularly. Board meetings are scheduled well in advance according to a forward plan for the year. This plan 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, videoconferencing and teleconferencing facilities are made available to include them in the proceedings. This way, they can participate in discussions and decision-making.

The number of meetings held during 2009 (including meetings of board-appointed committees) and the attendance of each director are set out on page 27 of this report. Reasons for non-attendance are provided to the Chairman.

Agenda and meeting structure

The board agenda and meeting structure focus on strategy, performance monitoring, governance and related matters. This ensures that the board's time and energy are appropriately applied. Directors may propose additional matters for discussion at board meetings.

Board documentation

Management ensures that board members are provided with all relevant information and facts to enable them 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 in exceptional circumstances.

Board's access to information

The board has unrestricted access to all Company information, records, documents and property.
The information needs of the board are reviewed annually. Efficient and timely procedures for informing and briefing board members before board meetings have been developed and implemented. All directors are kept informed of key developments affecting Absa between board meetings.

Board interactions with executive management

The board meets with management annually to agree on Absa strategy and to consider long-term issues facing Absa as well as the environment in which the Bank operates.

Non-executive directors have access to management and may meet with management without executive directors in attendance. Such meetings are facilitated through the office of the Company Secretary.

The non-executive directors meet without the presence of management before and after every scheduled board meeting.

Board oversight of risks and performance

The board identifies and monitors key risk areas, key performance areas and non-financial aspects relevant to Absa, supported by board-appointed committees. The board also considers several key performance indicators, variance reports and industry trends every quarter.

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 directors are empowered to obtain independent professional advice at Absa's expense, should they consider it necessary.

The Absa board charter

Purpose and objectives

The board charter regulates how the board and individual members of the board discharge their responsibilities according to the principles of good governance. The charter aims to ensure that all board members understand their duties and responsibilities as well as the laws, regulations and best practices governing their conduct.

The charter clearly outlines:

- the roles of the Chairman, the Chief Executive and individual board members;
- board composition (including qualifications and key competencies for board membership);
- standards for conduct around conflicts of interest;
- the process of determining board remuneration and rewards;
- director orientation, induction and training;
- succession planning and director selection and appointment;
- the role of the board (including adopting strategic plans and monitoring operational performance and management);
- board procedures;
- access to management by non-executive directors;
- matters specifically reserved for the board, including the approval of:
  - Absa'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 Chairman, Chief Executive, and executive and non-executive directors);
  - delegations of authority to the Chief Executive;
  - board committee mandates, authorities and membership;
  - Absa's risk appetite;
  - significant Company policies; and
  - Absa's corporate governance philosophy and ongoing governance compliance;
- compliance with laws and regulations;
- risk management and internal controls;
- stakeholder communication; and
- board and individual director performance evaluation.

Board appointments and succession planning

Non-executive directors on the board are appointed for an initial term of office of three years in terms of the articles of association. Reappointment to the board is not automatic, although directors may offer themselves for re-election. A third of the directors retire by rotation annually.

The names of directors eligible for re-election are submitted at the annual general meeting, accompanied by appropriate biographical details set out in this annual report. Non-executive directors are required to retire at the annual general meeting following their 70th birthday, unless they are asked to remain on the board with good cause shown.

Directors who have served for nine years or more

In line with international best practice, all Absa 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 also assesses whether the independence of these directors has been impaired. Directors that have served on the board for more than nine years are D C Brink, B P Connellan and G Griffin. The board is satisfied that their independence of character and judgement has not been compromised.

Appointment of directors by the board

The board as a whole selects and appoints directors, including the chief executive and executive directors based on recommendations from the DAC. Where appropriate, these recommendations are supported by recommendations of the Group Remuneration and Human Resource Committee (GRHRC). Barclays is consulted during the process of director selection and appointment.

All appointments follow a formal and transparent procedure and are subject to confirmation by the shareholders at the annual general meeting. Before appointment, potential board appointees must undergo a 'fit and proper' test in terms of the JSE Listings Requirements and the Banks Act.

Succession planning

The DAC makes recommendations around non-executive director succession planning to the board. The succession planning process encompasses an evaluation of the skills, knowledge and experience required to implement Absa's business plans and strategy, as well as the need to transform the board and ensure greater diversity. The GRHRC makes recommendations around executive director succession planning to the DAC for approval by the board.

Director induction, training and development programmes

Training and orientation workshops are held for both new and existing directors. The workshops cover topics such as Absa's business, corporate governance, fiduciary duties and responsibilities, new laws and regulations and risk management.

Directors (particularly new directors) are encouraged to attend development programmes that focus on the duties, responsibilities, powers and potential liabilities of directors.

Orientation for new board members

All newly appointed directors go through a formal two-day orientation programme with members of management. New directors are also provided with a governance file setting out matters such as:

- important legislation, including the provisions and regulations of the Banks Act;
- the board and committee governance structure;
- the board plan for the year;
- the board charter (which forms part of their letters of appointment); and
- the terms of reference of all board-appointed committees and key Company policies.

The Company Secretary meets with new directors to take them through the governance file and to review recent board documentation.

Ongoing training for directors

Director training is scheduled throughout the year. The training is provided internally or by external service providers. The internal training programme includes sessions before most board meetings. Sessions are also hosted for board committee members on specialist topics such as International Financial Reporting Standards (IFRS) and Basel II Capital Accord (Basel II).

Directors are encouraged to attend external courses such as the Banking Board Leadership Programme presented by the Gordon Institute of Business Science and other courses focusing on banking topics (such as risk management and the responsibilities of bank directors). Director participation in the training that Absa provides is monitored and assessed.

Independence

The DAC assesses the independence of each director against the criteria set out in King II, the JSE Listings Requirements, the Combined Code and other corporate governance principles.

The DAC believes that at 31 December 2009, the following directors met these criteria: D C Arnold, D C Brink, B P Connellan, S A Fakie, G Griffin, M W Hlahla, M J Husain, T M Mokgosi-Mwantembe, E C Mondlane Jr, T S Munday, S G Pretorius and B J Willemse.

Performance assessment: Chairman and non-executive directors

The Chairman performs an annual evaluation of individual non-executive directors. The Chairman's findings are presented to the DAC and it makes recommendations to the board based on the information supplied. The DAC is responsible for evaluating the Chairman's performance.

The board considers the recommendations of the DAC to determine whether it will endorse a retiring director's re-election. If a director's performance is not satisfactory, the board will not endorse the re-election.

Collective board evaluation

The board conducts a collective board evaluation during the first quarter of every year with a view to determining how the board's effectiveness can be improved. The DAC considers the results of the evaluation and makes recommendations to the board for adoption. The Chairman meets with each director individually to discuss any matters that arise from the evaluation process.

Board remuneration and share ownership

Details of Absa's remuneration policies and practices and the remuneration paid to the directors can be found in the remuneration report which is contained in the Absa Group Limited annual report for the year ended 31 December 2009.

Non-executive directors receive fees for their contributions to the board and to the committees on which they serve. In line with international best practice, proposals on non-executive directors' remuneration are made by the chairman and the chief executive for review by the board.

Non-executive directors must hold a minimum of 1 000 Absa Group Limited ordinary shares throughout their tenure. Non-executive directors do not receive share options or incentive awards that are tied to the share price or corporate performance.

Attendance at board and board committee meetings

The table below outlines details of board members' attendance of board and board committee meetings for 2009:

Name	Absa Group Limited and Absa Bank board	GACC	GRCMC	DAC	GRHRC	BFC	BRC	Total
Current directors								
D C Arnold	7/8	8/8*	6/6	5/6		3/4		29/32
D C Brink (Chairman)	8/8*	#	3/3	6/6*	6/6*	4/4*	1/2	28/29
B P Connellan	8/8				6/6	3/4		17/18
Y Z Cuba	6/8	#				2/2		8/10
B C M M de Vitry d'Avaucourt	4/5				5/5	3/3		12/13
S A Fakie	6/8	7/8						13/16
G Griffin	8/8	8/8	6/6*	5/6				27/28
M W Hlahla	7/8		5/6					12/14
M J Husain	7/8		5/5	3/5				15/18
A Jenkins	5/5				4/5			9/10
R Le Blanc	6/8	#	6/6	5/5				17/19
T M Mokgosi-Mwantembe	7/8				5/5		2/2	14/15
E C Mondlane Jr	8/8		5/6					13/14
T S Munday	8/8	8/8	5/5	0/0		4/4	2/2*	27/27
S G Pretorius	7/8			0/0	4/4*			11/12
M Ramos	6/6	#	#	#	#	#		6/6
J H Schindehütte	8/8	#	#		#	#		8/8
L L von Zeuner	8/8	#	#	#	#			8/8
B J Willemse	8/8		5/6				2/2	15/16
Previous directors								
S F Booysen	2/2							2/2
R A Jenkins	2/2							2/2
N P Mageza	4/4							4/4
G Marcus	4/4*			4/4*	2/2*	2/2		12/12
F F Seegers	1/2			1/1	1/1			3/4
F A Sonn	3/3			2/2	1/1			6/6
% attendance		97	93	86	100	83	88	

Notes

**Denotes Chairperson.*

#Denotes attendance/standing invitee.

Board committees

The board has appointed several committees to help it meet its responsibilities. All board committees operate under written terms of reference that have been approved by the board. The membership and principal functions of these are set out in the pages that follow.

There is transparency and full disclosure from board committees to the board. Committee chairpersons provide the board with a verbal report on recent committee activities. The minutes of committee meetings are available to all board members. Board committees are empowered to take independent outside professional advice when they believe it to be necessary.

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

Board and committee checks and balances

The board takes full ownership of certain key decisions to ensure it retains proper direction and control of Absa. A comprehensive framework setting out the authorities and responsibilities of the boards and committees in Absa is in place.

This framework ensures that there is a balance of power and that no individual has unlimited decision-making powers. All board-delegated authorities are reviewed and updated annually by the board. The board evaluates the performance and effectiveness of board committees every year.

The 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 that follow have effectively discharged their responsibilities as contained in their respective terms of reference during the year under review.

The role of the subsidiary boards

Although the board usually has overall responsibility for the affairs of Absa, subsidiary boards play an important role in the governance of the Bank. Absa directors have full access to all subsidiary board documentation.

The subsidiary boards usually meet about five times a year, usually before board meetings.

The board recognises that it is ultimately accountable and responsible for the performance and affairs of Absa. Delegating various functions and authorities to committees and management does not absolve the board and its directors of their duties and responsibilities.

Group Audit and Compliance Committee (GACC) – Report of the Chairman

Dear Shareholder

Set out below is my report in terms of section 270A(f) of the Companies Act, 1973 (as amended). The report provides an overview of the GACC and its activities as well as appropriate information on how the GACC has discharged its responsibilities.

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

Composition and meeting procedures: All the members of the GACC are independent directors. Y Z Cuba (who is a representative of Batho Bonke Capital (Proprietary) Limited) and A Jenkins (a representative of Barclays) are permanent attendees of the committee. The qualifications of the GACC members are set out on pages 14 to 18 of the annual report. They were appointed to the committee on the following dates: D C Arnold (April 2003), S A Fakie (April 2008), G Griffin (May 2007) and T S Munday (April 2007).

Meetings of the committee are held at least once a quarter and are attended by the Chief Executive, the Deputy Chief Executive, the Finance Director, Risk Officer, external and internal auditors, the Compliance Officer and, by invitation, members of executive management, including those involved in control and finance, and the Absa Chairman (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 (excluding management). Such private discussions provide an opportunity for committee members and the external auditors to communicate candidly. Management is then invited to join the meeting and it proceeds according to the agenda.

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

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

During 2009, the GACC's activities and key decisions included:

- 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, together with the external auditors, the conformity of the audited financial statements and related schedules with IFRS and the quality and appropriateness of Absa's accounting policies;
- reviewing and approving internal audit and compliance policies, plans, reports and findings;
- reviewing the effectiveness of the internal audit function;
- ensuring compliance with the applicable legislation and regulations;
- making the necessary enquiries in collaboration with the Group Risk and Capital Management Committee (GRCMC) to ensure that all risks to which Absa is exposed are identified and managed in a well-defined control environment;
- recommending to the board the appointment of external auditors and fees payable to the external auditors;
- evaluating the performance of the external auditors;
- approving Absa's policy on external audit firms providing non-audit services and ensuring compliance with the policy;
- satisfying itself on the appropriateness of the experience and expertise of the Financial Director and the adequacy of resources of the finance function and experience of the senior members of management responsible for the finance function;
- ensuring that the appointment of the external auditors complied with the Corporate Laws Amendment Act and any other legislation relating to appointing external auditors;
- considering the impact of significant events and issues and controls in this regard;
- considering tax provisions and related tax matters;

- benchmarking the GACC's activities relative to King III and presenting the outcomes to the South African Reserve Bank (areas for improvement are being addressed – a key one being the GACC's role in regard to integrated reporting);
- reviewing and approving external audit plans, findings, reports and fees; and
- collaborating with the GRCMC and considering issues identified by that committee.

As Chairman of the GACC and in order to execute my responsibilities, I also:

- attended all meetings as a member of the GRCMC;
- met separately with the external auditors, Head of Internal Audit, Compliance Officer and Risk Officer on a regular basis;
- met with executive management on a regular basis;
- reported to the board after each committee meeting;
- attended an Absa Group Limited subsidiary audit committee meeting; and
- attended audit committee forum meetings held under the auspices of the Institute of Directors.

Absa's policy on non-audit services, which is reviewed annually by the GACC, sets out in detail which services may or may not be provided by 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 Financial Director. All non-audit services fees are reported to 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 and outputs and quality control, business insight, independence and general factors (such as black economic empowerment credentials).

Absa also has an audit partner rotation process according to the relevant legal and regulatory requirements.

The GACC is satisfied with the independence of the external auditors and has nominated the reappointment of Ernst & Young Inc. and PricewaterhouseCoopers Inc. as the independent registered audit firms and the individual registered auditor of those firms, namely E van Rooyen and T Winterboer. This is subject to the board's endorsement and the approval of Absa Group Limited ordinary shareholders.

In assessing the independence of the external auditors, the GACC satisfied itself that the external auditors:

- do not hold any financial interest (either directly or indirectly) in Absa;
- do not hold a position, either directly or indirectly, that gives the right to exert significant influence over the financial or accounting policies of Absa;
- are not economically dependent on Absa having regard to the quantum of audit fees paid by Absa to the external auditors relative to their total fee base; and
- do not provide non-auditing services to Absa which fall outside those described in Absa's non-audit services policy and which could compromise the external auditors' independence.

The GACC has also satisfied itself that the individual auditors who undertake the audit and their immediate families do not have personal or business relationships with Absa.

As part of its report to the board, the GACC comments on the financial statements, the accounting practices and the internal financial controls of the Company. The committee stays abreast of current and emerging trends in accounting standards. More information on internal controls is set out on page 40 of the compliance report.

The following external advisers or assurance providers are required to attend meetings of the GACC: Ernst & Young Inc. and PricewaterhouseCoopers Inc.

Committee mandate and performance evaluation

The GACC operates under written terms of reference, reviewed and approved by the board annually. An evaluation of the GACC's performance was conducted and the overall outcome was positive. The GACC is satisfied that it had discharged its responsibilities according to its terms of reference. In addition, the GACC is of the view that it has complied with its legal, regulatory and other statutory responsibilities.

Des Arnold — GACC Chairman

Group Risk and Capital Management Committee (GRCMC) – Report of the Chairman

Dear Shareholder

Set out below is my report covering an overview of the GRCMC and its activities.

Members: D C Arnold, D C Brink, G Griffin (Chairman), M W Hlahla, M J Husain, R Le Blanc, E C Mondlane Jr, T S Munday and B J Willemse.

Composition and meeting procedures: The GRCMC is chaired by an independent director and consists of a further seven independent directors and one non-executive director. Members of executive management attend by invitation. The committee usually meets at least four times a year, but during 2009, six meetings were held.

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

During the year, the GRCMC's activities and key decisions included:

- recommending Absa's risk appetite to the board for approval, and monitoring the actual risk taken on against the board-approved appetite on a quarterly basis;
- assisting the board to execute its duties regarding risk and capital management specified in the Banks Act, and in particular to assist the board to:
  - evaluate the adequacy and efficiency of the risk policies, procedures, practices and controls applied in Absa in the day-to-day management of the business;
  - identify the build-up and concentration of risks and to develop a risk-mitigation strategy to ensure Absa manages these risks optimally;
  - oversee the independent risk management function, to coordinate the globalised monitoring of risk management, and to facilitate and promote communication regarding risk policies, procedures, practices and controls or any other related matters; and
  - establish a process that relates capital to risk undertaken and states capital adequacy goals with respect to risk, considering Absa's strategic focus and business plan;
- monitoring Absa's emerging risk profiles and report its findings to the board;
- monitoring the level of available capital, both current and projected, and reporting to the board on the adequacy of available capital relative to the emerging risk profile of Absa;
- reviewing the adequacy and effectiveness of the principal risk control frameworks and policies and annually reviewing the effectiveness of implementing the frameworks;
- reviewing, 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 Absa;
- assessing Absa's risk management approach and practices in the light of the global financial crisis;
- liaising with the GACC to ensure appropriate oversight of key controls relating to risk management issues;
- ensuring Absa makes appropriate disclosure of its risk management and capital management status and activities; and
- collaborating with the GACC and considering issues identified by that committee.

As Chairman of the GRCMC and in order to execute my responsibilities, I also:

- attended all meetings of the GACC;
- met with the Risk Officer regularly;
- met with executive management regularly; and
- reported to the board after each committee meeting.

The following external advisers are invited to attend meetings of the GRCMC: Ernst & Young Inc. and PricewaterhouseCoopers Inc.

Committee mandate and performance evaluation

The GRCMC operates under written terms of reference, reviewed and approved by the board annually. An evaluation of the GRCMC's performance was conducted and the overall outcome was positive. The GRCMC was satisfied that it had discharged its responsibilities according to its terms of reference.

Garth Griffin — GRCMC Chairman

Directors' Affairs Committee (DAC) – Report of the Chairman

Dear Shareholder

Set out below is my report covering an overview of the DAC and its activities.

Members: D C Arnold, D C Brink (Chairman), G Griffin, M J Husain, T S Munday, S G Pretorius and R Le Blanc.

Composition and meetings: The DAC is chaired by the Absa Chairman and the majority of its members are independent directors. Six meetings were held during 2009.

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

During the year, the DAC's activities and key decisions included:

- reviewing all aspects relating to ongoing corporate governance during the year, including statements about this in the annual report to shareholders and considering the requirements of Regulation 39 (18) of the Banks Act;
- recommending the appointment of the Deputy Chief Executive to the board for approval;
- considering current and emerging trends in corporate governance and Absa's governance systems, as well as benchmarking Absa'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;
- reviewing Absa's approach to complying with King III;
- considering the Walker Review (United Kingdom);
- establishing and maintaining a board continuity programme encompassing succession planning for the Chief Executive and members of the board;
- conducting an effectiveness evaluation of the board to review its performance in meeting its key responsibilities; and
- annually evaluating the directors' performance and making recommendations to the board for consideration.

Committee mandate and performance evaluation

The DAC operates under written terms of reference, reviewed and approved by the board annually. An evaluation of the DAC's performance was conducted and the overall outcome was positive. The DAC was satisfied that it had discharged its responsibilities according to its terms of reference.

Dave Brink — DAC Chairman

Group Remuneration and Human Resources Committee (GRHRC) – Report of the Chairman

Dear Shareholder

Set out below is my report covering an overview of the GRHRC and its activities.

Members: D C Brink, B P Connellan, B C M M de Vitry d'Avaucourt, A Jenkins, T M Mokgosi-Mwantembe and S G Pretorius (Chairman).

Composition and meeting procedures: The GRHRC is chaired by an independent director and comprises mainly independent directors. The Chief Executive, the Deputy Chief Executive, the executive responsible for human resources and the Finance 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: This committee assists with and advises the board on various remuneration and human resources matters.

During the year, the GRHRC's activities and key decisions included:

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

In executing its responsibilities, the GRHRC is empowered to engage independent external consultants. During the year, the following external advisers attended certain meetings of the committee: Global Remuneration Solutions (Proprietary) Limited.

The committee stays abreast of key developments, especially in the light of the global financial crisis and the focus on remuneration practices.

Committee mandate and performance evaluation

The GRHRC operates under written terms of reference, reviewed and approved by the board annually. An evaluation of the GRHRC's performance was conducted and the overall outcome was positive. The GRHRC was satisfied that it had discharged its responsibilities according to its terms of reference.

Brand Pretorius — GRHRC Chairman

Concentration Risk Committee (CoRC)

Members: D C Brink (Chairman), B P Connellan, B J Willemse, T S Munday, M Ramos, L L von Zeuner and J H Schindehütte*. The composition of the committee was approved by the Registrar of Banks in terms of section 73(1)(a) of the Banks Act.

Role, purpose and principal functions: This committee was established pursuant to section 73 of the Banks Act. The committee considers and approves credit applications with financing limits exceeding 10% of Absa's qualifying capital and reserves. For exposures to private sector non-bank persons greater than 25% of qualifying capital and reserves, prior approval is required from the SARB.

Composition and meeting procedures: The committee meets on an ad hoc basis to approve loan applications as described above. The quorum for approval consists of three non-executive directors, the Chief Executive and the Finance Director. Specific members of management such as the Risk Officer attend meetings in an ex officio capacity as required.

All exposures approved by the committee are reported to the board for notification.

*Resigned from the board effective 28 February 2010 and will be replaced by D W P Hodnett.

Board Finance Committee (BFC)

Members: D J Arnold, D C Brink (Chairman), B P Connellan, Y Z Cuba, B C M M de Vitry d'Avaucourt and T S Munday.

Composition and meeting procedures: The Board Finance Committee is chaired by the Absa Chairman, 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. Four meetings were held in 2009.

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

Brand and Reputation Committee (BRC)

Members: D C Brink, T M Mokgosi-Mwantembe, T S Munday (Chairman) and B J Willemse.

Composition and meeting procedures: All members of the BRC are independent non-executive directors. The Chief Executive and Risk Officer attend the BRC in an ex officio capacity. The committee meets at least once a quarter or more frequently if necessary.

Role, purpose and principal functions: This committee was formerly a management committee and was elevated to a board committee during 2009. The BRC helps the board:

- to protect and enhance the brand and reputation of Absa;
- to promote an environment in which all stakeholders are seen to be treated fairly;
- by giving advice on business decisions and other matters that may impact Absa's reputation; and
- by giving advice on appropriate actions to be taken to maintain robust and ethical business practice, for example, stakeholder relationship management.

Executive directors and the Executive Committee (Exco)

There are three executive directors on the board and several executive directors on the boards of Absa's main subsidiaries. Executive directors are required to retire from the board (as executive directors) at 60.

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

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

During the year, changes were made to the structure of Exco. An Operations Committee and a Management Committee were established under the chairmanship of the Deputy Chief Executive and Chief Executive respectively. The Operations Committee meets bi-monthly and its main functions are:

- executing operations, deploying shared resources and implementing Absa policies and guidelines; and
- monitoring financial and operational metrics, determining root cause of deviations and ensuring solutions are implemented.

The Management Committee meets weekly and its main functions are to monitor Absa's financial performance, focus on the risk environment and evaluate high-priority issues affecting Absa.

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

Members of Exco are generally 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 outlined in the board-approved risks policy, which identifies 18 principal risks facing Absa. The policy sets out a five-step process for managing risks.

Each risk is managed using a risk control framework and the policies applicable to that particular risk. Details on the approach, policies, methodology and risk governance structure can be found in the risk and capital management report which is available on Absa's website.

Regulatory compliance

The board of directors is appointed by the ordinary shareholders of Absa Group Limited to lead, control, monitor and govern the business of Absa. The board, through the Chief Executive, delegates the authority of legal and regulatory compliance to the Compliance Officer. The Compliance Officer ensures that the compliance process operates effectively and that Absa adheres to all laws, regulations and supervisory requirements.

The Compliance Officer independently monitors the adequacy and effectiveness of internal controls implemented to ensure legal and regulatory compliance. Details of Absa's compliance risk framework and processes are contained in the risk and capital management report which is available on Absa's website.

Company Secretary

All directors have access to a suitably qualified and experienced Company Secretary. The Company Secretary provides guidance to the board as a whole and to individual directors with regard to how their responsibilities should be discharged in the best interests of Absa.

The Company Secretary oversees the induction of new directors. The secretary also assists the Absa Chairman and the Chief Executive to determine the annual board plan and board agendas, as well as to formulate governance and board-related issues.

Going concern

The board has considered and recorded the facts and assumptions that lead it 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. Their statement in this regard is contained in the statement on the responsibility of the directors for the consolidated financial statements on page 43 of this report.

Organisational integrity and the code of ethics

Management ensures that there is appropriate focus on preventing losses arising from unethical behaviour. Absa has put various risk control procedures in place to minimise the effects of unethical behaviour.

Absa has appointed the Legal Counsel as the ethics officer. Compliance with Absa's code of ethics is monitored by means of annual attestations submitted by every Absa employee. This process is monitored by Absa's Compliance function. Absa's code of ethics is constantly refined, taking into account input from stakeholders in the organisation.

Rewards and incentives

Absa enforces its code of ethics by means of appropriate rewards and penalties. Rewards and incentives are in place for ethical behaviour, while unethical or dishonest behaviour is dealt with through disciplinary procedures, including criminal and civil charges.

Newly appointed employees and employees in sensitive positions are assessed for ethical risks. Absa offers training in procedures and laws for preventing crime. Awareness of ethical behaviour is stimulated by regular communication with Absa's employees.

Investigating corruption and fraud

All incidents involving potentially fraudulent activities are formally investigated and corrective actions are taken. Procedures are changed when prudent to prevent further incidence of unethical behaviour. Absa's code of ethics has been provided to all directors under cover of a letter from the Absa Chairman, in terms of which directors undertake to adhere to the code.

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

IT governance

As recommended by King III the board will from 2010 provide oversight of IT governance.

Compliance report

Introduction

An amendment to the Banks Act, No 94 of 1990 (the Banks Act), requires that all banks establish a compliance function in 2000. The Financial Intelligence Centre Act, No 38 of 2001 (FICA), as well as in the Financial Advisory and Intermediary Services Act, No 37 of 2002 (FAIS), entrenched this requirement. A compliance function is also considered to be a valuable contributor to good corporate governance and is supported by King III.

The increasingly stringent regulatory environment in the financial services sector means that banks face more compliance requirements every year. In addition to South African legal and regulatory requirements, Absa must also comply with regulations governing the Barclays Group. Those regulations include the Combined Code on Corporate Governance in the United Kingdom and Sarbanes-Oxley Act of 2002.

Failure to comply may result in:

- reputational risk;
- financial penalties (personal and corporate);
- greater regulatory scrutiny and intervention;
- criminal prosecution of executive officers and employees;
- increased capital requirements; and
- in extreme cases, the loss of or restrictions placed on Absa's licence to perform financial services-related activities.

Compliance governance

Absa Group Compliance helps management at Absa companies and business units to carry out their compliance risk management duties. The compliance function's structure and approach enables it to support management at all levels by leveraging off specialised technical skills and business knowledge.

Structure of Absa Group Compliance

Absa Group Compliance is structured into centralised and decentralised functions. The former sets standards for the whole Bank, takes responsibility for company-wide monitoring and forms the centre of expertise regarding legislation and compliance policies impacting Absa. The latter comprises business unit compliance officers who are deployed into the various Absa business units. They are responsible for business-specific monitoring, training and advice.

Methodologies and best practices

Absa addresses the compliance roles and responsibilities prescribed in the Banks Act by following methodologies that have been developed and benchmarked with industry and international best practice.

As business unit activities are not static, all regulatory risk profiles are updated every quarter to ensure that the risk of non-compliance with regulatory requirements is addressed.

Regulatory controls are monitored continually to ensure that they are effective and adequate. Any non-compliance identified through monitoring is reported following Absa's governance processes.

African operations (outside of South Africa)

Absa Group Compliance has embedded effective compliance risk management methodologies in African entities in which Absa Group Limited has a shareholding. During 2009, the theme-based compliance risk management approach was introduced throughout Absa's African operations. Absa Group Compliance now has an overall view of the level of compliance across a given theme at a given timeframe throughout Absa.

Key compliance focus areas

During the 2009 financial year, Group Compliance's key focus areas included the following:

- Anti-money laundering and international sanctions implementation.
- The National Credit Act (NCA).
- The continued identification of, and appropriate response to, new regulatory requirements.
- Driving employee awareness relating to regulatory requirements.
- Combating unethical behaviour.
- Communication with stakeholders.
- The new product approval process.

Anti-money laundering (AML) and sanctions environment

Governments and regulators still have money laundering and terrorist financing on their radars.

Financial institutions such as Absa Bank are expected to implement robust controls to detect these activities and report them to the authorities as quickly as possible. Regulators may impose substantial fines against financial institutions for failures in controls.

As part of a global organisation in Barclays PLC, Absa has implemented world-class systems and processes to ensure that the risk of money laundering and terrorist financing is mitigated as far as possible. Customer and payments monitoring systems ensure that the risk of entering into a relationship with a sanctioned person or being involved in a payment to a person mentioned on a sanctions list is low.

During the year under review, Absa concentrated on improving its anti-money laundering, terrorist financing and sanctions control environment. Advanced automated transaction monitoring systems have been rolled out to Absa's African subsidiaries, the National Bank of Commerce in Tanzania and Barclays Bank in Mozambique. These systems allow the banks to be proactive in identifying suspicious transactions and reporting them to regulators.

The National Credit Act (NCA)

The NCA became effective on 1 June 2007. It protects consumers of credit by entrenching consumer rights and introducing minimum disclosure requirements. It attempts to curb overindebtedness by prohibiting reckless lending and provides for registering credit providers with the National Credit Regulator. Absa's focus during the 2009 financial year was the monitoring of controls implemented during 2007 to ensure compliance with the Act.

Absa, as far as possible, provides documentation in plain language in line with the provisions of the Act. An Absa Language Statement of Intent Project was launched in 2009 to implement the Absa language proposal that was submitted to, and approved by, the National Credit Regulator (NCR).

Compliance with this Language Statement of Intent is a condition of Absa's registration as a credit provider. Joint ventures within Absa Group Limited who have elected to adopt the Absa language approach, with approval from the NCR, will form part of the project.

New regulatory requirements

Absa's New Regulatory Requirement Forum (NRRF) has the responsibility of assessing the impact that new regulations as well as changes and amendments to existing regulations will have on Absa's business.

The NRRF scans and evaluates the entire regulatory landscape by business area in Absa as well as for Absa Group Limited as a whole. It assesses changes according to all identified risk components, and then develops and introduces remediation-related controls to mitigate risks.

The governance and approach of the NRRF was amended during 2009 to ensure optimal efficiency. The amended approach will be embedded during 2010.

Employee awareness through the Employee Compliance Conduct Guide (ECCG)

Absa values its reputation for integrity and fair dealing. Through the ECCG and the associated Group-wide attestation process, Absa employees are made aware of the compliance-related policies as well as the conduct the Bank expects of all employees.

The ECCG is revised annually. All Absa employees and temporary employees are required to acknowledge that they received and understood the ECCG when they first joined Absa and then every year thereafter.

Combating unethical behaviour

Absa has instituted control measures in place to mitigate the risk of corrupt activities of the kind outlined in the Prevention and Combating of Corrupt Activities Act. Absa's Ethics Policy was implemented as a control to address this specific risk. Absa has also adopted an anti-corruption policy, applicable to all employees and aligned to this Act.

Employees and other stakeholders may anonymously report instances of unlawful or unethical behaviour to the Tip-offs Anonymous hotline. Allegations of corruption are investigated by dedicated specialist areas. These investigations are monitored by Absa Group Compliance.

Identified issues and trends are reported to the appropriate forums through the Absa governance structures. The process protects whistleblowers from being discriminated against as a result of reporting unlawful or unethical behaviour.

Communication with regulators and key stakeholders

Absa is regulated by several stakeholders including the South African Reserve Bank (SARB) and the Financial Services Board (FSB). Absa seeks to maintain relationships of trust and transparency with all regulators.

Compliance report

The Contact with Regulators Policy provides a framework for prompt and professional ad hoc communication with all financial services regulatory authorities. In terms of this policy, Absa Group Compliance provides guidance to business before and during meetings with regulators. It also maintains a log of all commitments made to regulators and monitors the progress made towards meeting these commitments.

Contact with regulators takes place through identified designated officials on a formal and informal basis, as and when required.

Listed below are several of the key regulators and industry stakeholders of Absa:

Stakeholder	Regulatory environment
South African Reserve Bank (SARB)	The SARB is the lead regulator for the South African banking sector.
Financial Services Board (FSB)	The FSB regulates the non-banking aspects of the financial services industry. This includes pension funds, collective investment schemes, fund management, long-term and short-term insurers, as well as financial advisory and intermediary services.
Department of Trade and Industry (DTI)	The DTI is focused on consumer protection and in this regard develops legislation and regulation to encourage appropriate business practices and enable consumers to exercise their rights.
National Credit Regulator (NCR)	The NCR was primarily established to regulate the South African credit industry.
The Banking Association of South Africa (BASA)	The Banking Association – the mandated representative of the banking sector – addresses banking industry issues through engagement with industry roleplayers.
Financial Intelligence Centre (FIC)	The FIC identifies the proceeds of unlawful criminal activities and combats money laundering.
Bank of Tanzania (BOT)	The BOT is the central bank of Tanzania and the regulator of the banking sector in Tanzania.
Bank of Mozambique	The Bank of Mozambique is the central bank of Mozambique and the regulator of the banking sector in Mozambique.
Competition Commission	The Competition Commission is responsible for enforcing the Competition Act in South Africa in order to ensure effective competition in all sectors, including the banking sector.

New product approval (NPA) process

Absa requires that all new products and services be subject to a standardised process that ensures that any new product or new market (or significant changes to existing products or markets) can only commence after a comprehensive review and sign-off process across all control and logistics functions.

This process ensures the consistency of Absa's offerings in the marketplace according to business strategy. It also ensures that products are only changed or launched after due consideration of all primary and consequential risks (such as financial, compliance and legal), infrastructure and resources. Absa Group Compliance is responsible for the compliance risk evaluation and is a compulsory signatory to any new product approval.

Regulatory developments

Anti-competitive, anti-trust and monopoly behaviour

In August 2006, the Competition Commission launched an enquiry into the transactional aspects of the South African retail banking sector. 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 card transactions.

The Panel of the Banking Enquiry concluded in June 2008 that transaction charges in South Africa are higher than what they are in more competitive environments due to market structure, information asymmetries and product complexities. To address these concerns, the Panel issued 28 recommendations touching upon many aspects of transactional accounts, such as ATMs, payment cards, EFTs and debit orders.

The recommendations are currently being considered by an intra-governmental Steering Committee comprising representatives from the Competition Commission, the National Treasury and the DTI. The Steering Committee is expected to publish its findings during the first half of 2010.

Financial Advisory and Intermediary Services Act (FAIS)

The Financial Services Board (FSB) introduced new fit and proper requirements that will apply to all representatives and key individuals from 1 January 2010. Absa Group Limited established a Group-wide project to implement the amendments to the FAIS legislation across the affected business units within Absa. The amended legislation came into effect in 2008, with the majority of amendments only applicable from 2010 onwards.

Future compliance requirements

Several new laws and regulations that will have an impact on Absa are being finalised. The most important of these are the Consumer Protection Act, the Companies Act, the amended fit and proper requirements for financial services providers and potential changes to the Banks Act. All changes and proposed changes to current laws and regulations, as well as proposed bills and regulations, are monitored through the NRRF.

Consumer protection

The Consumer Protection Act aims to promote a fair, accessible and sustainable marketplace for consumer products and services. The Act will entrench national norms and standards relating to consumer protection and provide for improved standards of consumer information.

The Act prohibits certain unfair marketing and business practices and promotes responsible consumer behaviour. This law will harmonise existing laws relating to protecting consumers and promoting a consistent enforcement framework for consumer transactions and agreements.

The DTI is in the process of developing the regulations needed to implement the Act. The Act will become effective in October 2010. A Consumer Protection Act (CPA) Group Project was established in 2009 to ensure effective implementation of the Act.

Companies Act

The new Companies Act is expected to take effect in 2010. The Act aims to simplify the registration of companies, encourage entrepreneurship and high standards of corporate governance, balance the rights and obligations of shareholders and directors, and promote the efficient and responsible management of a company.

It also provides for increased liabilities for directors for breaches of fiduciary duty or for any direct or indirect loss, damage or costs sustained by the company as a result thereof. Absa Group Limited carried out an extensive impact analysis of the Act during 2009 and started a Group-wide project to ensure that Absa effectively addresses the Act's legal and compliance implications.

Competition Amendment Act

The Competition Amendment Act, signed into law in 2009, provides for the regulation of so-called 'complex monopolies'. It introduces criminal liability for directors and managers who are responsible for a company participating in a cartel or who knowingly allowed a company to participate in a cartel.

Absa has been proactive in addressing any risks arising from the Competition Amendment Act since the proposals were first published in 2008. The effective date of the Competition Amendment Act is yet to be promulgated.

Penalties

The reforms mean that directors and managers could be imprisoned for up to 10 years and fined up to R500 000 if they break the law as set out in the Act. Unless the prosecution is abandoned or the individual acquitted, the Company is prohibited from paying the fine or the legal expenses the director or manager incurs defending himself or herself.

New Competition Commission powers

The reforms also introduce wide-ranging powers for the Competition Commission to investigate complex monopolies, defined as highly concentrated sectors where five participants have more than 75% market share. The Competition Commission may intervene where it considers that competitors, without any agreement, are acting in a parallel manner that is detrimental to consumers. Although participants of a complex monopoly may not be fined, they may be ordered to change their business practices.

Protection of Personal Information Bill

The Protection of Personal Information Bill was tabled before Parliament in August 2009. Once enacted, the Bill will regulate the processing of personal information of individuals and juristic entities and will apply to all private and public sector bodies as well as individuals. Absa is monitoring the legislative progress and appropriate action will be taken to implement the requirements of the Bill once it is finalised and enacted.

National Gambling Act (concerning Internet gambling)

The National Gambling Act prohibits Internet gambling in South Africa. Banks are required to implement measures by which they are able to identify the proceeds of Internet gambling and pay them over to the National Gambling Board. Absa is evaluating the ability of its controls to accommodate this requirement and will, if necessary, improve systems to accommodate the Act.

Internal control

The directors are responsible for ensuring that Absa maintains records which disclose, with reasonable accuracy, the financial performance and position of the Bank. The investing community, depositors, other banks and the regulatory authorities rely on these records.

To enable the directors to meet these responsibilities, the board sets standards for internal controls comprising policies, standards, systems and information. Management implements systems that support these controls. The controls:

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

Internal and external audits of internal controls

Absa's internal and external auditors independently appraise the adequacy and effectiveness of the internal controls. The GACC, with extensive input from the internal and external auditors, helps the directors to satisfy themselves about 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 43 of this report.

The Internal Audit function must undergo an independent quality review in line with the standards prescribed by the Institute of Internal Auditors. The outcomes of this review are considered by the GACC. The Chief Internal Auditor attends the Exco meetings in an ex officio capacity.

Share dealings

Absa Bank has a closed period policy in place to govern share trades by Absa directors and employees. Directors, officers, participants in the share incentive scheme and employees who may have access to price-sensitive information are precluded from dealing in Absa Bank preference shares from two weeks before the end of the interim and year-end financial periods until the release of the Bank'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 Bank preference shares are disclosed to the board and the JSE through SENS. In addition, details of trades in Absa Bank preference shares by Exco members are disclosed to the GRHRC.

Contents

Financial statements

Directors' approval

Statement of directors' responsibilities in relation to financial statements

The following statement, which should be read in conjunction with the auditors' report on their responsibilities set out in their report on page 44, is made 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 the Bank and of the Company at the end of the financial year and the net income and cash flows for the year, and other information contained in this report.

To enable the directors to meet these responsibilities:

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

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

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

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

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

It is the responsibility of the independent auditors to report on the consolidated and separate financial statements. Their report to the members of the Bank and Company is set out on page 44 of this report.

Approval of financial statements

The directors' report on pages 45 to 48 and the financial statements of the Bank and the Company, which appear on pages 49 to 256, were approved by the board of directors and are signed by:

D C Brink
Chairman

M Ramos
Chief Executive

Johannesburg
15 February 2010

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

In accordance with the provisions of the Companies Act, No 61 of 1973 (as amended), of South Africa, I certify that, in respect of the year ended 31 December 2009, 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
15 February 2010

Independent auditors' report to the members of Absa Bank Limited

Report on the financial statements

We have audited the Bank and Company financial statements of Absa Bank Limited, which comprise the directors' report, the statement of financial position and the consolidated statement of financial position as at 31 December 2009, the statement of comprehensive income and the consolidated statement of comprehensive income, the statement of changes in equity and the consolidated statement of changes in equity, the statement of cash flows and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 45 to 256, excluding the sections marked as 'unaudited' in notes 56.4 and 58.2 and the directors' report.

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 IFRS, and in the manner required by the Companies Act, No 61 of 1973 (as amended), of South Africa. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank and of the Company as at 31 December 2009, and their financial performance and their cash flows for the year then ended in accordance with IFRS, and in the manner required by the Companies Act, No 61 of 1973 (as amended), of South Africa.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: T Winterboer
Registered Auditor

Ernst + Young Inc.

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

Johannesburg
15 February 2010

Directors' report

General information and nature of activities

The Bank, which has preference shares listed on the JSE Limited, is incorporated and domiciled in South Africa and provides retail, commercial, corporate and investment banking services. The Bank operates primarily in South Africa and employs over 30 000 people. The address of the Bank's registered office is 170 Main Street, Johannesburg, 2001.

Absa Bank Limited is a wholly owned subsidiary of Absa Group Limited.

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

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

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

The consolidated and separate financial statements were approved for issue by the board of directors on 15 February 2010.

The financial statements set out fully the financial positions, results of operations and cash flows for the Bank and the Company for the year ended 31 December 2009.

Bank results

Main business and operations

The Bank recorded a decline of 23,0% in headline earnings to R5 986 million for the year ended 31 December 2009. Headline earnings per share (HEPS) decreased by 24,6% to 1 653,1 cents per share and fully diluted HEPS decreased by 24,6% to 1 653,1 cents per share.

Rising credit impairments and a decline in the performance of the Bank's investment portfolios were the primary reason for the decline in earnings. The decline in the investment portfolios is as a result of the write-down of the carrying value of associate investments acquired after the single stock futures trading default by a broker; as well as a decline in the value of the private equity portfolio. Within the context of a demanding economic environment, total revenues declined while good cost control enabled the Bank to cushion the effect of the increase in impairments. Customer numbers and transaction volumes continued to grow; and interest margins improved during the second half of 2009. The capital position of the Bank remains sound.

Headline earnings were derived from the following activities:

	2009 Rm	2008[1] Rm
Banking operations		
Retail banking	**2 814**	3 334
Retail Bank	**3 053**	2 419
Absa Home Loans	**(1 291)**	92
Absa Card	**787**	536
Absa Vehicle and Asset Finance	**265**	287
Absa Corporate and Business Bank (ACBB)	**2 276**	2 791
Absa Capital	**192**	1 994
Underlying performance	**1 179**	1 994
Single stock futures impairment	**(987)**	—
Corporate centre[2]	**489**	798
Capital and funding centre	**(35)**	4
Preference equity holders of the Bank	**(421)**	(457)
Profit attributable to ordinary equity holder of the Bank	**5 315**	8 464
Headline earnings adjustments	**671**	(694)
Total headline earnings (refer to note 39)	**5 986**	7 770

Notes

[1] *The comparatives have been restated for:*
- *Repossessed properties was moved from Corporate centre to Retail banking during the year under review.*
- *ACBB, to account for the fair value adjustments on acquisition of the minority of two Commercial Property Finance (CPF) subsidiaries in 2008.*
- *Absa Wealth was moved from Retail banking to Absa Capital during the year under review.*
- *The change in accounting policy regarding the retirement benefit assets.*

[2] *Corporate centre's comparatives includes the profit on Visa Inc.'s initial public offering (IPO) shares.*

Directors' report

Directors

The directors of the Company during the year and to the statement of financial position date are as follows:

D C Brink[1] (Chairman) (appointed as chairman on 19 July 2009)

G Marcus (Former Chairperson) (resigned as Chairperson and as a director on 19 July 2009)

M Ramos[2] (Chief Executive) (appointed as Chief Executive on 1 March 2009)

S F Booysen[2] (Former Chief Executive) (resigned as Chief Executive on 28 February 2009)

L L von Zeuner[2] (Deputy Chief Executive)

D C Arnold

B P Connellan[1]

Y Z Cuba

B C M M de Vitry d'Avaucourt[3] (appointed on 23 March 2009)

S A Fakie

G Griffin[1]

M W Hlahla

M J Husain

A Jenkins[4] (appointed on 23 March 2009)

R A Jenkins[4] (resigned on 11 February 2009)

R Le Blanc[4]

N P Mageza[2] (retired on 30 June 2009)

T M Mokgosi-Mwantembe

E C Mondlane Jr[5]

T S Munday

S G Pretorius (appointed on 1 January 2009)

J H Schindehütte[2]

F F Seegers[6] (resigned on 11 February 2009)

F A Sonn[1] (retired on 21 April 2009)

B J Willemse

Notes

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

[2]*Executive director.*

[3]*French.*

[4]*British.*

[5]*Mozambican.*

[6]*Dutch.*

Re-election of retiring directors

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

In line with international best practice, Absa Group Limited has introduced a requirement in terms of which all directors on the board for longer than nine years are subject to annual re-election by shareholders at the AGM. The directors who retire in terms of the above arrangement at the 2010 AGM are D C Brink, B P Connellan and G Griffin. These directors are eligible for re-election and have made themselves available for re-election. The Absa Group Limited board recommends the re-election of these directors.

Furthermore, one-third of the directors are required to retire at each AGM in terms of Absa Group Limited's articles of association and may offer themselves for re-election. The directors who retire in terms of the above arrangement at the 2010 AGM are D C Arnold, S A Fakie, G Griffin, M J Husain, R Le Blanc, S G Pretorius L L von Zeuner and B J Willemse. The Absa Group board recommends the re-election of these directors.

Directors' interest in Absa Bank Limited preference shares

As at the statement of financial position, the direct and indirect preference shareholding of directors in Absa Bank Limited was as follows:

	Number of shares			
	2009		2008	
	Direct	**Indirect**	Direct	Indirect
Present directors				
D C Arnold	**400**	**—**	400	—
B P Connellan	**300**	**—**	300	—
L L von Zeuner[1] (Deputy Chief Executive)	**562**	**—**	562	—
Past directors				
S F Booysen[1, 2] (Former Chief Executive)	**n/a**	**n/a**	—	11 000
N P Mageza[1, 3]	**n/a**	**n/a**	—	140
	1 262	**—**	1 262	11 140

Notes

[1]*Executive director.*

[2]*Resigned as a director on 28 February 2009.*

[3]*Retired as a director on 30 June 2009.*

There has been no change in the interest of directors between the date of the statement of financial position and 15 February 2010.

Directors' and officers' interest in contracts

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

Directors' emoluments

Directors' emoluments in respect of the Company's executive directors are disclosed in note 44.2 of the consolidated financial statements.

Subsidiaries, associates and joint ventures

The interests in subsidiaries, associates and joint ventures are set out in note 44 to the financial statements.

Acquisitions

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

Equity-accounted associates and/or joint ventures

- On acquisition of Abseq Properties (Proprietary) Limited, Absa Bank Limited also effectively acquired a 50,0% interest in Kilkishen Investments (Proprietary) Limited and 50,0% interest in Stand 1135 Houghton (Proprietary) Limited, both property investment companies.
- Absa Bank Limited acquired a further 2,2% interest in Blue Financial Services Limited, a micro-finance company, at a cost of R62 million during May 2009. The Bank's shareholding is now 20,2%.
- Absa Bank Limited acquired a 50,0% interest in Meadowood Investments 8 (Proprietary) Limited, a security special-purpose vehicle, for R1 on 1 January 2009. The acquisition resulted from the Bank exercising its rights in terms of a collateral agreement upon default by a client on loans.

Associates classified at fair value through profit or loss

- Absa Bank Limited acquired a 50,0% interest in Tembisa Mall (Proprietary) Limited, a property development company, at a cost of R29 million on 1 November 2009.

Subsidiaries

- On 31 January 2009, Absa Bank Limited acquired an additional 35,2% interest in Abseq Properties (Proprietary) Limited, a property and investment company, increasing its shareholding to 85,0% at a cost of R166 million.
- Absa Bank Limited acquired an additional 50,0% interest in Ngwenya River Estate (Proprietary) Limited, a property development company, increasing its shareholding to 100,0% on 1 October 2008 (subject to South African Reserve Bank approval). As at 31 December 2008, the investment was fully consolidated and minority interest of 50,0% was provided for. The acquisition became effective from April 2009 after receiving Reserve Bank and Competition Commission approval.

Disposals

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

- ApexHi Limited acquired 34,9% of Ambit Properties Limited in November 2008 and indicated their intention to acquire all of Ambit Properties Limited's (previously an equity-accounted associate) equity. Absa Bank Limited held 34,5% of Ambit Properties Limited's equity and indicated their support of the scheme proposed by ApexHi Limited whereby ApexHi Limited would acquire the entire equity of Ambit Properties Limited in exchange for a 6,0% shareholding in ApexHi Limited. As part of the swap transaction, Absa Bank Limited, through its subsidiary Ambit Management Services (Proprietary) Limited (a subsidiary of the Bank), committed to sell their property management contractual rights over Ambit Properties Limited to ApexHi Limited. At 30 June 2009, Absa Bank Limited was considered to be unconditionally bound to the transaction and previously gave an irrevocable undertaking to elect the option to be awarded ApexHi Limited shares at the conversion ratio. The transaction resulted in a net loss of R30 million which was recognised at 30 June 2009.

Refer to notes 13 and 51 for additional information on the above acquisitions and disposals.

Directors' report

Secretary

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

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

Authorised and issued share capital

Authorised

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

- 320 000 000 ordinary shares of R1,00 each;
- 250 000 000 'A' ordinary shares of R0,01 each; and
- 30 000 000 non-cumulative, non-redeemable preference shares of R0,01 each.

Issued

On 1 September 2009, 8 621 397 'A' ordinary shares were issued by Absa Bank Limited to Absa Group Limited at R121,79 per share, being R0,01 par value and R121,78 share premium.

Following the above share issue, the total issued share capital as at the statement of financial position date, was made up as follows:

- 302 609 359 ordinary shares of R1,00 each.
- 65 066 161 'A' ordinary shares of R0,01 each.
- 4 944 839 non-cumulative, non-redeemable preference shares of R0,01 each.

Dividends

- On 9 February 2009, a dividend of 429,6 cents per ordinary share was announced to the ordinary shareholder registered on 6 March 2009.
- On 9 February 2009, a dividend of 4 734,5 cents per preference share was announced to preference shareholders registered on 6 March 2009.
- On 3 August 2009, a dividend of 139,3 cents per ordinary share was announced to the ordinary shareholder registered on 28 August 2009.
- On 3 August 2009, a dividend of 3 799,0 cents per preference share was announced to preference shareholders registered on 28 August 2009.
- On 16 February 2010, a dividend of 244,8 cents per ordinary share will be announced to the ordinary shareholder registered on 12 March 2010. This dividend is payable on 15 March 2010.
- On 16 February 2010, a dividend of 3 280,32 cents per preference share will be announced to preference shareholders registered on 12 March 2010. This dividend is payable on 15 March 2010.

Events subsequent to statement of financial position date

- As at 31 December 2009, Absa Bank Limited held 1,26 billion shares (23,0%) in an associate, Pinnacle Point Group (PPG). On 8 February 2010, Absa Bank Limited concluded a transaction in terms of which it would subscribe for a further 1,47 billion shares in PPG and then sell the entire investment of 2,73 billion shares (39,0%) for R150 million of which R55 million is deferred.
- D W P Hodnett has been appointed as Finance Director with effect from 1 March 2010.

Auditors

PricewaterhouseCoopers Incorporated and Ernst & Young Incorporated have been recommended for reappointment by the GACC and 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 (unaudited)

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. The Company is currently evaluating the King III recommendations.

Contents

Absa Bank Limited and its subsidiaries (the Bank)

Consolidated statement of financial position

As at 31 December

	Note	2009 Rm (Bank)	2008[1] Rm (Bank)	2007[1] Rm (Bank)
Assets				
Cash, cash balances and balances with central banks	2	**15 526**	16 549	15 069
Statutory liquid asset portfolio	3	**33 943**	33 019	22 957
Loans and advances to banks	4	**35 036**	43 559	52 691
Trading portfolio assets	5	**47 303**	72 929	25 876
Hedging portfolio assets	5	**2 558**	3 139	725
Other assets	6	**7 219**	8 594	5 107
Current tax assets	7	**107**	—	168
Non-current assets held for sale	8	**—**	2 495	—
Loans and advances to customers	9	**487 672**	512 657	443 120
Loans to Absa Group companies	11	**16 232**	18 990	15 338
Investments	12	**16 849**	15 191	6 574
Investments in associates and joint ventures	13	**473**	2 071	905
Goodwill and intangible assets	14	**522**	297	228
Investment property	15	**1 705**	379	—
Property and equipment	16	**6 010**	5 431	4 258
Deferred tax assets	17	**86**	78	48
Total assets		**671 241**	735 378	593 064
Liabilities				
Deposits from banks	18	**43 235**	60 043	65 167
Trading portfolio liabilities	19	**36 957**	68 120	22 947
Hedging portfolio liabilities	19	**565**	1 080	2 226
Other liabilities	20	**9 089**	7 476	7 927
Provisions	21	**1 486**	1 893	2 253
Current tax liabilities	7	**31**	322	56
Non-current liabilities held for sale	8	**—**	408	—
Deposits due to customers	22	**343 763**	373 176	304 877
Debt securities in issue	23	**169 788**	159 042	134 023
Loans from Absa Group companies	24	**3 464**	3 946	5 900
Borrowed funds	25	**13 530**	12 143	9 796
Deferred tax liabilities	17	**1 915**	2 735	2 288
Total liabilities		**623 823**	690 384	557 460
Equity				
Capital and reserves				
Attributable to equity holders of the Bank:				
Ordinary share capital	26	**303**	303	303
Ordinary share premium	26	**10 465**	9 415	5 415
Preference share capital	26	**1**	1	1
Preference share premium	26	**4 643**	4 643	4 643
Other reserves	27	**2 566**	3 939	1 583
Retained earnings		**29 340**	26 670	23 633
		47 318	44 971	35 578
Minority interest		**100**	23	26
Total equity		**47 418**	44 994	35 604
Total equity and liabilities		**671 241**	735 378	593 064

Note

[1]*Reclassified and restated, refer to note 1.23.*

Consolidated statement of comprehensive income

For the year ended 31 December

		Bank	
	Note	2009 Rm	2008[1] Rm
Net interest income		**19 888**	20 550
Interest and similar income	28	**62 533**	73 475
Interest expense and similar charges	29	**(42 645)**	(52 925)
Impairment losses on loans and advances	10	**(8 392)**	(5 627)
Net interest income after impairment losses on loans and advances		**11 496**	14 923
Net fee and commission income		**12 247**	11 720
Fee and commission income	30	**12 993**	12 367
Fee and commission expense	30	**(746)**	(647)
Gains and losses from banking and trading activities	31	**2 547**	3 096
Gains and losses from investment activities	32	**68**	91
Other operating income	33	**736**	1 170
Operating profit before operating expenditure		**27 094**	31 000
Operating expenditure		**(19 835)**	(19 117)
Operating expenses	34	**(17 635)**	(18 498)
Other impairments	35	**(1 436)**	11
Indirect taxation	36	**(764)**	(630)
Share of retained (losses)/earnings from associates and joint ventures	13.1	**(50)**	65
Operating profit before income tax		**7 209**	11 948
Taxation expense	37	**(1 469)**	(3 027)
Profit for the year		**5 740**	8 921
Other comprehensive income			
Exchange differences on translation of foreign operations		**(201)**	(4)
Movement in cash flow hedging reserve		**(661)**	2 668
Fair value (losses)/gains arising during the year		**(143)**	2 064
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income		**(776)**	1 636
Deferred tax	17	**258**	(1 032)
Movement in available-for-sale reserve		**(329)**	(92)
Fair value losses arising during the year		**(309)**	(243)
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income		**(205)**	—
Amortisation of government bonds – release to the profit and loss component of the statement of comprehensive income		**104**	85
Deferred tax	17	**81**	66
Movement in retirement benefit assets		**75**	181
Increase in retirement benefit surplus		**104**	252
Deferred tax	17	**(29)**	(71)
Total comprehensive income for the year		**4 624**	11 674
Profit attributable to:			
Ordinary equity holder of the Bank		**5 315**	8 464
Preference equity holders of the Bank		**421**	457
Minority interest		**4**	(0)
		5 740	8 921
Total comprehensive income attributable to:			
Ordinary equity holder of the Bank		**4 199**	11 217
Preference equity holders of the Bank		**421**	457
Minority interest		**4**	(0)
		4 624	11 674
Earnings per share:			
• basic earnings per share (cents)	38	**1 467,8**	2 386,9
• diluted earnings per share (cents)	38	**1 467,8**	2 386,9

Note

[1]*Reclassified and restated, refer to note 1.23.*

Consolidated statement of cash flows

For the year ended 31 December

	Note	Bank 2009 Rm	Bank 2008 Rm
Cash flow from operating activities			
Interest, fee and commission income		**75 354**	82 554
Interest, fee and commission expense		**(44 019)**	(51 051)
Net trading and other income		**486**	9 553
Cash payments to employees and suppliers		**(16 846)**	(17 328)
Income taxes paid		**(2 552)**	(3 301)
Cash flow from operating profit before changes in operating assets and liabilities		**12 423**	20 427
Net decrease/(increase) in trading and hedging portfolio assets		**27 655**	(50 624)
Net decrease/(increase) in loans and advances to customers		**16 034**	(72 586)
Net decrease/(increase) in other assets		**14 620**	(13 989)
Net decrease in insurance contracts		**—**	(67)
Net (decrease)/increase in trading and hedging portfolio liabilities		**(31 955)**	44 017
Net (decrease)/increase in amounts due to customers and banks		**(29 763)**	49 801
Net (decrease)/increase in other liabilities		**(5 392)**	23 729
Net cash generated from operating activities		**3 622**	708
Cash flow from investing activities			
Purchase of investment property	15	**(35)**	—
Purchase of property and equipment	16	**(1 991)**	(2 119)
Proceeds from sale of property and equipment		**418**	197
Purchase of intangible assets	14	**(299)**	(133)
Proceeds from sale of intangible assets		**65**	—
Acquisition of subsidiaries, net of cash	51	**(132)**	(62)
Acquisition of associates and joint ventures, net of cash	13.5	**(61)**	(1 060)
Net increase in loans to associates and joint ventures	13.2	**(1)**	—
Net decrease in investments		**745**	1 954
Net cash utilised from investing activities		**(1 291)**	(1 223)
Cash flow from financing activities			
Issue of ordinary shares		**1 050**	4 000
Share buy-back		**(88)**	—
Proceeds from borrowed funds		**4 500**	1 886
Repayment of borrowed funds		**(3 100)**	—
Dividends paid		**(3 271)**	(6 412)
Net cash utilised from financing activities		**(909)**	(526)
Net increase/(decrease) in cash and cash equivalents		**1 422**	(1 041)
Cash and cash equivalents at the beginning of the year		**3 981**	5 023
Effect of exchange rate movements on cash and cash equivalents		**—**	(1)
Cash and cash equivalents at the end of the year	49	**5 403**	3 981

Consolidated statement of changes in equity

For the year ended 31 December

	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at 1 January 2009	**359 054**	**303**	**9 415**	**1**	**4 643**
Total comprehensive income	—	—	—	—	—
Profit for the year	—	—	—	—	—
Other comprehensive income	—	—	—	—	—
Dividends paid	—	—	—	—	—
Shares issued	**8 621**	**0**	**1 050**		
Contribution to the Absa Group Limited Share Incentive Trust	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Movement in capital reserve	—	—	—	—	—
Share of associates' and joint ventures' retained earnings/(losses)	—	—	—	—	—
Disposals of associates and joint ventures – release of reserves	—	—	—	—	—
Acquisition of subsidiary	—	—	—	—	—
Balance at 31 December 2009	**367 675**	**303**	**10 465**	**1**	**4 643**

	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at 1 January 2008 as previously reported	337 286	303	5 415	1	4 643
Restatement of opening balance (refer to note 1.23)	—	—	—	—	—
Restated balance at 1 January 2008	337 286	303	5 415	1	4 643
Total comprehensive income	—	—	—	—	—
Profit for the year	—	—	—	—	—
Other comprehensive income	—	—	—	—	—
Dividends paid	—	—	—	—	—
Shares issued	21 768	0	4 000	—	—
Contribution to the Absa Group Limited Share Incentive Trust	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Movement in general credit risk reserve	—	—	—	—	—
Share of associates' and joint ventures' retained earnings	—	—	—	—	—
Disposal of associates and joint ventures – release of reserves	—	—	—	—	—
Acquisition of subsidiary	—	—	—	—	—
Balance at 31 December 2008	359 054	303	9 415	1	4 643
Notes	26	26	26	26	26

Comparatives have been restated, refer to note 1.23.

Note

All movements are reflected net of taxation, refer to note 17.

Bank

2009

	General credit risk reserve Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Associates' and joint ventures' reserve Rm	Retained earnings Rm	Minority interest Rm	Total Rm
	—	**(34)**	**1 775**	**146**	**1 425**	**295**	**332**	**26 670**	**23**	**44 994**
	—	**(329)**	**(661)**	**(201)**	**—**	**—**	**—**	**5 811**	**4**	**4 624**
	—	**—**	**—**	**—**	**—**	**—**	**—**	**5 736**	**4**	**5 740**
	—	**(329)**	**(661)**	**(201)**	**—**	**—**	**—**	**75**	**—**	**(1 116)**
	—	**—**	**—**	**—**	**—**	**—**	**—**	**(3 271)**	**—**	**(3 271)**
	—	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1 050**
	—	**—**	**—**	**—**	**—**	**—**	**—**	**(88)**		**(88)**
	—	**—**	**—**	**—**	**—**	**(29)**	**—**	**68**	**—**	**39**
	—	**—**	**—**	**—**	**—**	**(68)**	**—**	**68**	**—**	**—**
	—	**—**	**—**	**—**	**—**	**39**	**—**	**—**	**—**	**39**
	—	**—**	**—**	**—**	**(3)**	**—**	**—**	**—**	**—**	**(3)**
	—	**—**	**—**	**—**	**—**	**—**	**(50)**	**50**	**—**	**—**
	—	**—**	**—**	**—**	**—**	**—**	**(100)**	**100**	**—**	**—**
	—	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**73**	**73**
	—	**(363)**	**1 114**	**(55)**	**1 422**	**266**	**182**	**29 340**	**100**	**47 418**

2008

	General credit risk reserve Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Associates' and joint ventures' reserve Rm	Retained earnings Rm	Minority interest Rm	Total Rm
	431	58	(893)	150	1 425	156	256	23 557	26	35 528
	—	—	—	—	—	—	—	76	—	76
	431	58	(893)	150	1 425	156	256	23 633	26	35 604
	—	(92)	2 668	(4)	—	—	—	9 102	(0)	11 674
	—	—	—	—	—	—	—	8 921	(0)	8 921
	—	(92)	2 668	(4)	—	—	—	181	—	2 753
	—	—	—	—	—	—	—	(6 412)	(13)	(6 425)
	—	—	—	—	—	—	—	—	—	4 000
	—	—	—	—	—	—	—	(61)	—	(61)
	—	—	—	—	—	139	—	42	—	181
	—	—	—	—	—	(42)	—	42	—	—
	—	—	—	—	—	181	—	—	—	181
	(431)	—	—	—	—	—	—	431	—	—
	—	—	—	—	—	—	65	(65)	—	—
	—	—	—	—	—	—	11	—	—	11
	—	—	—	—	—	—	—	—	10	10
	—	(34)	1 775	146	1 425	295	332	26 670	23	44 994
	27	27	27	27	27	27	27			

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 2009

IFRS 8 Operating segments, was early adopted in 2008.

IFRS 2 Share-based Payment – Vesting Conditions and Cancellations

The Standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Bank.

IFRS 7 Financial Instruments: Disclosures

The amended Standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by observability and significance of source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The fair value measurement disclosures are presented in note 60, and the liquidity risk disclosures are not significantly impacted by the amendments.

IAS 1 Presentation of Financial Statements (Revised)

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Bank has elected to present one statement.

IAS 23 Borrowing Costs (Revised)

The Standard has been revised to require capitalisation of borrowing costs on qualifying assets and the Bank has amended its accounting policy accordingly. In accordance with the transitional requirements of the Standard this has been adopted as a prospective change. Borrowing costs have been capitalised on qualifying assets from 1 January 2009. No changes have been made for borrowing costs incurred prior to this date that have been expensed.

IAS 27 Consolidated and Separate Financial Statements

The amended Standard removes the cost method definition. The distinction between pre- and post-acquisition dividends is therefore no longer required and all dividends are recognised in the statement of comprehensive income. The impact of this amendment on the Bank is not considered to be significant.

IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation

The Standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or performance of the Bank.

IFRIC 9 amended for embedded derivatives on reclassification

The amendments to IFRIC 9 and IAS 39 clarify the accounting treatment of embedded derivatives for entities that make use of the reclassification amendment to IAS 39. The reclassification amendment allows entities to reclassify particular financial instruments out of the ‘fair value through profit or loss’ category in specific circumstances. These amendments to IFRIC 9 and IAS 39 clarify that on reclassification of a financial asset out of the ‘fair value through profit or loss’ category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The impact of this amendment on the Bank is not considered to be significant.

IFRIC 13 Customer Loyalty Programmes

This Interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. The impact of this Interpretation on the Bank is not considered to be significant.

IFRIC 15 Agreement for the Construction of Real Estate

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

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 16 provides guidance on the accounting for a hedge of a net investment including:

- identification of the foreign currency risks that qualify for hedge accounting;
- which entity within a group can hold a hedging instrument in a hedge of a net investment in a foreign operation and in particular whether the parent entity holding the net investment in a foreign operation must also hold the hedging instrument; and
- how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item when the entity disposes of the investment.

The Bank has elected to recycle the gain or loss that arose from the direct method of consolidation, which is the method the Bank uses to complete its consolidation. As the Bank did not dispose of any net investment, the Interpretation has had no impact on the financial position or results. The Interpretation is to be applied prospectively.

IFRIC 18 Transfers of Assets from Customers

The Interpretation should be applied prospectively to all transactions from 1 July 2009 and applies to agreements for the transfer of property, plant and equipment from a customer that must be used to connect the customer to a network or provide the customer with an ongoing supply of goods or services. The Interpretation states that the contributed assets will be recognised initially at fair value, and the related income will be recognised immediately or over the relevant service period. It also provides new guidance for the separation and recognition of the different components of a transaction.

IFRIC 18 does not have a significant impact on the consolidated financial statements of the Bank.

Improvements to IFRSs

In May 2008 the International Accounting Standards Board issued its first omnibus of amendments to its Standards, primarily with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each amendment. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Bank.

- *IAS 1 Presentation of Financial Statements:* Assets and liabilities classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* are not automatically classified as current in the statement of financial position. The Bank amended its accounting policy accordingly and analysed whether its expectation of the period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instruments between current and non-current in the statement of financial position.
- *IAS 16 Property, Plant and Equipment:* The amendment replaces the term 'net selling price' with 'fair value less costs to sell'. The accounting policy was amended accordingly. This did not result in any change in the financial position of the Bank.
- *IAS 23 Borrowing Costs:* The definition of borrowing cost is revised to align with IAS 39 by referring to the use of an effective interest rate, as described by IAS 39, as a component of borrowing costs. The Bank has amended its accounting policy accordingly which did not result in any change in its financial position.
- *IAS 38 Intangible Assets*: *Expenditure on advertising and promotional activities* is recognised as an expense when the Bank either has the right to access the goods or has received the service. This amendment has no impact on the Bank because it does not enter into such promotional activities. The Bank reassessed the useful lives of its intangible assets and concluded that the straight-line method was still appropriate.

The amendments to the following Standards below did not have any impact on the accounting policies, financial position or performance of the Bank.

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*
- *IFRS 7 Financial Instruments: Disclosures*
- *IAS 8 Accounting Policies, Change in Accounting Estimates and Errors*
- *IAS 10 Events after the Reporting Period*
- *IAS 16 Property, Plant and Equipment*
- *IAS 18 Revenue*
- IAS *19 Employee Benefits*
- *IAS 20 Accounting for Government Grants and Disclosures of Government Assistance*
- *IAS 27 Consolidated and Separate Financial Statements*
- *IAS 28 Investment in Associates*
- *IAS 31 Interest in Joint Ventures*
- *IAS 34 Interim Financial Reporting*
- *IAS 36 Impairment of Assets*
- *IAS 39 Financial Instruments: Recognition and Measurement*
- *IAS 40 Investment Property*

AC 504 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction in the South African Pension Fund Environment

This Interpretation has been issued to provide guidance on the application of *IFRIC 14 – IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* in South Africa in relation to defined benefit pension obligations (governed by the Pension Funds Act, 1956), within the scope of *IAS 19 – Employee benefits.* This Interpretation is effective for the 31 December 2010 financial year but was early adopted by the Bank. Refer to note 1.23 for the impact on the Bank's results.

1.1 Basis of presentation

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

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

1.2 Use of estimates, assumptions and judgements

The preparation of financial information requires the use of estimates and assumptions about future conditions. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future may differ from those current estimates reported. The accounting policies that are deemed critical to the Bank's results and financial position, in terms of the materiality of the items to which the policy is applied, and which involve a high degree of judgement including the use of assumptions and estimation, are discussed below.

Impairment of loans and advances

The Bank's accounting policy for losses arising from the impairment of customer loans and advances is described in note 1.7.7. Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the statement of financial position date.

Management is required to exercise judgement in making assumptions and estimations when calculating loan impairment allowances on both individually and collectively assessed loans and advances.

The Bank uses two alternative methods to calculate collective impairment allowances on homogeneous groups of loans that are not considered individually significant:

- when appropriate empirical information is available, the Bank utilises roll-rate methodology. This methodology employs statistical analysis of historical data and experience of delinquency and default to estimate the likelihood that loans will progress through the various stages of delinquency and ultimately prove irrecoverable. The estimated loss is the difference between the present value of expected future cash flows, discounted at the original effective interest rate of the portfolio, and the carrying amount of the portfolio; and
- in other cases, when the portfolio size is small or when information is insufficient or not reliable enough to adopt a roll-rate methodology, the Bank adopts a formulaic approach which allocates progressively higher percentage loss rates the longer a customer's loan is overdue. Loss rates are based on historical experience.

Both methodologies are subject to estimation uncertainty, in part because it is not practicable to identify losses on an individual loan basis because of the large number of individually insignificant loans in the portfolio.

In addition, the use of statistically assessed historical information is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience. In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio. In certain circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the statement of financial position date, for example, where there have been changes in economic, regulatory or behavioural conditions such that the most recent trends in the portfolio risk factors are not fully reflected in the statistical models. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the impairment allowances derived solely from historical loss experience.

This key area of judgement is subject to uncertainty and is highly sensitive to factors such as loan portfolio growth, product mix, unemployment rates, bankruptcy trends, loan product features, economic conditions such as national and local trends in housing markets, the level of interest rates, account management policies and practices, changes in laws and regulations, and other factors that can affect customer payment patterns. These judgement areas are included in models which are used to calculate impairments. The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience. For example, roll-rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

Goodwill impairment

The Bank's accounting policy for goodwill is described in note 1.11.1.

The process of identifying and evaluating goodwill impairment is inherently uncertain because it requires significant management judgement in making a series of estimations, the results of which are highly sensitive to the assumptions used. The review of goodwill impairment represents management's best estimate of the factors below:

- the future cash flows of the cash-generating units (CGUs) are sensitive to the cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data in future years; however, the cash flow forecasts necessarily and appropriately reflect management's view of future business prospects at the time of the assessment; and
- the discount rate used to discount the future expected cash flows is based on the Bank's weighted average cost of capital. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate and a premium to reflect the inherent risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions outside of management's control and are therefore established on the basis of significant management judgement and are subject to uncertainty.

When this exercise demonstrates that the expected cash flows of a CGU have declined and/or that its cost of capital has increased, the effect is to reduce the CGU's estimated recoverable amount. If this results in an estimated recoverable amount that is lower than the carrying value of the CGU, a charge for impairment of goodwill will be recognised in the profit and loss component of the Bank's statement of comprehensive income for the year.

The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. In such market conditions, management retests goodwill for impairment more frequently than annually to ensure that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects.

Note 14 includes details of the CGUs with significant balances of goodwill, states the key assumptions used to assess the goodwill in each of those CGUs for impairment, and provides a discussion on the sensitivity of the carrying value of goodwill to changes in key assumptions.

Valuation of financial instruments

The Bank's accounting policy for determining the fair value of financial instruments is described in note 60.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities, and prepayment and default rates. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

The main assumptions and estimates which management considers when applying a model with valuation techniques are:

- the likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument. Management bases the determination of this rate on its assessment of what a market participant would regard as the appropriate spread of the rate for the instrument over the appropriate risk-free rate; and
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

When applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments will be based on some market observable inputs even where the unobservable inputs are significant.

Impairment of available-for-sale financial assets

The Bank's accounting policy for impairment of available-for-sale financial assets is described in note 1.7.3.

Available-for-sale financial assets are measured at fair value, and changes in fair value are recognised in equity in the available-for-sale reserve until the financial assets are either sold or become impaired. An impairment loss is recognised if there is objective evidence of impairment as a result of loss events which have an impact on the estimated future cash flows of the financial asset that can be reliably estimated. If an available-for-sale financial asset becomes impaired, the entire balance in equity relating to that asset is removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income as an impairment loss.

Management is required to exercise judgement in determining whether there is objective evidence that an impairment loss has occurred. Once an impairment has been identified, the amount of impairment loss is measured in relation to the fair value of the asset. More information on assumptions and estimates requiring management judgement relating to the determination of fair values of financial instruments is provided above in 'Valuation of financial instruments'.

The objective evidence required to determine whether an available-for-sale debt security is impaired comprises evidence of the occurrence of a loss event and evidence that the loss event results in a decrease in estimated future cash flows. Where cash flows are readily determinable, a low level of judgement may be involved. Where determination of estimated future cash flows requires consideration of a number of variables, some of which may be unobservable in current market conditions, more significant judgement is required.

There is no single factor to which the Bank's charge for impairment of available-for-sale debt instruments is particularly sensitive, because of the range of different types of securities held, and the wide range of factors which can affect the occurrence of loss events and the cash flows of securities, including different types of collateral.

Impairment of investment in associates and joint ventures

When indications exist that the carrying amount of the investment in associates and joint ventures would not be recoverable, an impairment is recognised. The recoverable amount is the higher of value in use and fair value less cost to sell and is based on the Bank's best estimate of the price the Bank would achieve in a sale transaction of the investment.

Deferred tax assets

The Bank's accounting policy for the recognition of deferred tax assets is described in note 1.20.2. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies.

The amount of deferred tax assets recognised is based on the evidence available about conditions at the statement of financial position date, and requires significant judgements to be made by management. Management's judgement takes into consideration the impact of both positive and negative evidence, including historical financial performance, projections of future taxable income, future reversals of existing taxable temporary differences, and the availability of assessed losses. The recognition of the deferred tax asset is mainly dependent upon the projection of future taxable profits.

Management's projections of future taxable income are based on business plans, future capital requirements and ongoing tax planning strategies.

Management's forecasts support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise the deferred tax assets.

Consolidation of special purpose entities (SPEs)

The Bank consolidates certain SPEs, which may or may not be directly or indirectly owned subsidiaries. These SPEs are consolidated when they are controlled by the Bank. Judgement is required in assessing and determining if the Bank controls SPEs.

Post-retirement benefits

The contribution towards the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. See note 40 for the assumptions used.

All permanent employees are members of the Absa Group Pension Fund (the fund), with the exception of employees that have commenced employment within the Bank at the age of 55 or older. All members, at 31 March 1997, had the option to convert to the defined contribution structure, of which the majority did.

Provisions

Various assumptions are applied in arriving at the carrying value of provisions that are recognised in terms of the requirements of *IAS 37 Provisions, Contingent Liabilities and Contingent Assets.* The carrying amounts of the liabilities are disclosed in note 21.

Management further relies on input from the Bank's lawyers in assessing the probability of matters of a significant nature.

Share-based payments

Where the fair value of share options relating to share-based payments is not based on Absa Group Limited's share price with a zero strike price, it is determined using option pricing models. The inputs to the option pricing models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. The valuation of share options is described in more detail in note 50.

1.3 Consolidation

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

1.3.1 Subsidiaries

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

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

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

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.

1.3.2 Investment in associates and joint ventures

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

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

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

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

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

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

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

After application of the equity method, the Bank determines whether it is necessary to recognise an additional impairment loss on the Bank's investment in its associates and joint ventures. The Bank determines at each statement of financial position date whether there is objective evidence that the investment in associate or joint venture is impaired. The primary indicators of potential impairment are considered to be adverse fair value movements, and the disappearance of an active market for the investments. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount (the higher of the asset's fair value less costs to sell and value in use) of the associate or joint venture and its carrying value and recognises the amount in the profit and loss component of the statement of comprehensive income.

1.3.3 Transactions with minority interests

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

1.3.4 Special purpose entities

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

SPEs controlled by the Bank are established under terms that:

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

1.3.5 Business combinations achieved in stages (step acquisitions)

A business combination may involve more than one exchange transaction. When the Bank purchases additional interests in an entity in which it does not have control prior to acquisition, the fair value of net identifiable assets is estimated for each exchange transaction to allow for the calculation of goodwill as a residual. The aggregate goodwill calculated is then reduced by any goodwill that has been impaired. The remaining goodwill is the amount recorded on the statement of financial position at the date of the acquisition.

1.3.6 Common control

Common control transactions are business combinations in which the combining entities are ultimately controlled by the Bank. Where the transaction has substance, common control transactions are accounted for under *IFRS 3 Business Combinations*, with the difference between the purchase price and the fair value of assets and liabilities recorded in goodwill.

1.4 Segment reporting

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

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

- Absa Capital: Provides investment banking services to the corporate, government and institutional investor 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 Corporate and Business Bank (ACBB): Provides a comprehensive range of commercial banking products and services to corporates, medium and large businesses.
- Absa Home Loans: Offers innovative residential property-related ownership solutions to the Bank's target market segments.
- Absa Vehicle and Asset Finance (AVAF): Offers customised vehicle and asset finance products (ranging from the financing of manufacturing equipment, leases, office automation and financing of private vehicles) and services to customers.
- Other: Consists of various non-banking activities and includes investment income earned by the London branch and Corporate Real Estate Services (CRES).
- 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.

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

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

The Bank has reclassified its operating segments to be in line with the management of these segments:

- Repossessed properties was moved from the Corporate centre to Retail banking; and
- Absa Wealth was moved from Retail banking to Absa Capital.

The change has no effect on the profit and loss of the Bank and comparative information has been reclassified to reflect the above.

1.5 Foreign currencies

1.5.1 Functional and presentation currency

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

1.5.2 Foreign currency translations

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

- The assets and liabilities of foreign subsidiary companies are translated at the closing exchange rates ruling at the statement of financial position date. Statement of comprehensive income 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 other comprehensive income.
- On consolidation, exchange differences arising on the translation of the net investment in foreign entities, borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the profit and loss component of the statement of comprehensive income 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 profit and loss component of the statement of comprehensive income, except when deferred in other comprehensive income 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 profit and loss component of the statement of comprehensive income. Other changes in the carrying amount are recognised in the other comprehensive income component of the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates 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 available-for-sale financial assets, are included in other comprehensive income.

1.6 Earnings per share

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

1.7 Financial instruments

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

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

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

1.7.1 Held-to-maturity

Held-to-maturity investments are non-derivative instruments with fixed or determinable payments and a fixed maturity where the Bank has a positive intention and ability to hold the investments to such date. These investments are held at amortised cost, using the effective interest rate and reviewed for impairment at each reporting date.

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

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

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

1.7.2 Financial instruments at fair value through profit or loss

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

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 statement of financial position as 'Trading portfolio assets or liabilities'. Subsequent to initial recognition, their fair values are remeasured, and all gains and losses from changes therein are recognised in the profit and loss component of the statement of comprehensive income in 'Gains and losses from banking and trading activities' as they arise.

Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below at initial recognition, and are so designated by management. The Bank may only designate financial instruments at fair value through profit or loss when the designation results in more relevant information, as follows:

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

The fair value designation, once made, is irrevocable. Measurement is initially at fair value, with transaction costs taken directly to the profit and loss component of the statement of comprehensive income. Subsequent to initial recognition, 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 statement of comprehensive income line would eliminate an accounting mismatch.

Derivatives

Subsequent to initial recognition, derivatives are remeasured at fair value (attributable transaction costs are recognised in the profit and loss component of the statement of comprehensive income 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'. Changes in the fair value of derivatives used to economically hedge the Bank's interest rate risk are recognised in 'Net interest income' in the profit and loss component of the statement of comprehensive income.

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.

Subsequent to initial recognition, the fair value adjustments which represent gains and losses, net of applicable taxes, are reported in other comprehensive income 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 other comprehensive income is recognised in the profit and loss component of the statement of comprehensive income. However, interest on available-for-sale instruments calculated using the effective interest rate method is recognised in the profit and loss component of the statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the profit and loss component of the statement of comprehensive income when the Bank's right to receive payment is established.

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

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

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

If impairment is assessed to have occurred, the cumulative gain or loss that has been previously recognised directly in other comprehensive income is removed from other comprehensive income and is recognised in the profit and loss component of the statement of comprehensive income. 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 profit and loss component of the statement of comprehensive income, the impairment loss shall be reversed, with the amount of the reversal recognised in the profit and loss component of the statement of comprehensive income. Reversals of impairment of equity instruments are not recognised in the profit and loss component of the statement of comprehensive income; increases in the fair value of equity instruments after impairment are recognised directly in other comprehensive income.

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 profit and loss component of the statement of comprehensive income. The carrying amount of impaired loans on the statement of financial position is reduced through the use of an appropriate 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 profit and loss component of the statement of comprehensive income when the following requirements are met:

- Where the economic characteristics and risks of the embedded derivative are not clearly and closely related to those of the host contract.

- The terms of the embedded derivative are the same as those of a stand-alone derivative.
- The combined contract is not held for trading or designated at fair value through profit or loss.

1.7.6 Financial liabilities

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

1.7.7 Impairment of financial assets at amortised cost

An impairment assessment of financial 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.

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

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

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

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

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses that group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account and the amount of the impairment loss is recognised in the profit and loss component of the statement of comprehensive income. If a loan receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of collateralised financial assets reflects the cash flows that may result from foreclosure, less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

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

Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experienced for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions 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 Bank to reduce any differences between loss estimates and actual loss experience.

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

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

Identified impairment

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

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

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

Unidentified impairment

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

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

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

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

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

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

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

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

1.7.8 Renegotiated loans

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

Restructuring activities include extended payment arrangements, approved external management plans, and deferral of payments.

Following restructuring, a previously overdue customer is reset to normal status and managed together with other similar accounts once the customer demonstrates the ability to make contractual payments for a specific period.

Restructuring policies and procedures are based on indicators or criteria which, in the judgement of local management, indicate that payment will most likely continue. The policies are kept under constant review. Restructuring is most commonly applied to residential mortgages and credit card receivables.

1.7.9 Derecognition of financial assets

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

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

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

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

1.7.10 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same party 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 profit and loss component of the statement of comprehensive income.

1.7.11 Fair value

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

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

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

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

(a) Level 1 – 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) Level 2 – 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) Level 3 – 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.

1.7.12 Scrip lending

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

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

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

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

1.7.13 Hedge accounting

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

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

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

Hedge accounting is discontinued when a derivative is not highly effective as a hedge, is sold, terminated, exercised or where the forecast transaction is no longer highly probable to occur. The same applies if the hedged item is sold or repaid. Instruments that have been designated as hedging instruments are reported on a separate line on the statement of financial position 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 profit and loss component of the statement of comprehensive income. 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 profit and loss component of the statement of comprehensive income.

Any ineffectiveness is recognised immediately in 'Gains and losses from banking and trading activities' in the profit and loss component of the statement of comprehensive income. When hedge accounting ceases, any adjustment to a hedged item for which the effective interest rate method is used, is amortised to the profit and loss component of the statement of comprehensive income 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 other comprehensive income. Any ineffective portion of the hedging instrument is immediately recognised in the profit and loss component of the statement of comprehensive income 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 other comprehensive income to the corresponding line in the profit and loss component of the statement of comprehensive income.

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

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit and loss component of the statement of comprehensive income.

1.7.14 Offsetting

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

1.7.15 Repurchase and reverse repurchase agreements

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

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

Repurchase and reverse repurchase agreements may either be designated at fair value through profit or loss if the requirements in IAS 39 to designate as such are met or classified as loans and receivables.

1.7.16 Compound financial instruments

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest rate method, unless it is designated at fair value through profit or loss. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

1.7.17 Loan commitments

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

1.7.18 Financial guarantee contracts

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

Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee was given. Other than where the fair value option is applied, subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the profit and loss component of the statement of comprehensive income 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 statement of financial position date.

Any increase in the liability relating to guarantees is recognised in the profit and loss component of the statement of comprehensive income. Any liability remaining is recognised in the profit and loss component of the statement of comprehensive income 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 profit and loss component of the statement of comprehensive income.

Where preference shares contain both a liability and an equity component, such components are classified separately as financial liabilities and equity components.

1.9 Revenue recognition

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

1.9.1 Net interest income

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised in 'Net interest income' in the statement of comprehensive income 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 on initial recognition. When calculating the effective interest rate, the Bank estimates the cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate and includes the following:

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

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

Interest is accrued in respect of impaired advances, based on the original effective interest rate used to determine the recoverable amount.

1.9.2 Net income from financial instruments designated at fair value through profit or loss

Net income from financial instruments designated at fair value through profit or loss held or issued as part of the Bank's trading activities (other than those used to economically hedge the Bank's interest rate risk) includes all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value through profit or loss. Interest income and expense and dividend income arising on these financial instruments are also included, and are accounted for as 'Gains and losses from banking and trading activities' or 'Gains and losses from investment activities' in the profit and loss component of the statement of comprehensive income.

Net income from financial instruments designated at fair value through profit or loss held or issued as part of the Bank's banking activities (other than those used to economically hedge the Bank's interest rate risk) includes all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value through profit or loss. Interest income and expense and dividend income arising on these financial instruments are not included, and are accounted for as 'Net interest income' in the profit and loss component of the statement of comprehensive income.

Net income from financial instruments used to economically hedge the Bank's interest rate risk are recognised in 'Net interest income' in the profit and loss component of the statement of comprehensive income.

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 profit and loss component of the statement of comprehensive income over the term of the lease using the net investment method (before tax) which reflects a constant periodic rate of return.

1.9.4 Net fee and commission income

Fee and commission income

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

Fee income is accounted for as follows:

- Fee and commission income that is integral to the effective interest rate on a financial instrument is included in the measurement of the effective interest rate.
- Income earned on the execution of a significant act is recognised as revenue when the act is completed. Loan syndication fees are recognised as revenue when the syndication has been completed or the syndication is probable and the Bank has retained no part of the loan package for itself or has retained a part of the same effective interest rate as other participants. The commission on the allotment of shares to a customer is recognised when the shares have been allotted. Placement fees for arranging a loan between a borrower and an investor are 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 relates 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 is 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 arises 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 in the statement of financial position.

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 profit and loss component of the statement of comprehensive income 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 received on investments in equity instruments

Dividends received are recognised in the period in which the right to receipt is established. Dividends received are disclosed in 'Gains and losses from investment activities'.

1.9.7 Sale of assets under construction

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

1.9.8 Rental income

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

1.10 Commodities

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

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

1.11 Intangible assets

1.11.1 Goodwill

Goodwill is initially measured at cost, being the excess of the cost of the business combination over the Bank's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss component of the statement of comprehensive income. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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

The first step of the impairment review process requires the identification of independent operating units by dividing the Bank's business into as many largely independent income streams as is reasonably practical. The goodwill is then allocated to these independent operating units. The first step of this allocation is based on the areas of the business expected to benefit from the synergies derived from the acquisition. The second step reflects the allocation of the net assets acquired to the operating units and the difference between the consideration paid for those net assets and their fair value. The carrying value of the operating unit, including the allocated goodwill, is compared with the higher of its fair value less cost to sell and its value-in-use to determine whether any impairment exists. Detailed calculations may need to be carried out taking into consideration changes in the market in which a business operates (eg competition activity or regulatory change). In the absence of readily available market price data, these calculations are usually based on discounting expected cash flows at the Bank's weighted average cost of capital, the determination of which requires the exercise of judgement.

Where goodwill forms part of a cash-generating unit and 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 profit and loss component of the statement of comprehensive income and is not reversed.

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

1.11.2 Computer software, customer lists and other intangible assets

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

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

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, are 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 profit and loss component of the statement of comprehensive income 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.

An intangible asset is derecognised on disposal or when the Bank expects no future economic benefits to arise from the asset. 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 profit and loss component of the statement of comprehensive income when the asset is derecognised.

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

	Customer lists	**Development costs**	**Other**
Useful lives	Finite	Finite	Finite
Amortisation method used	Amortised over the period of the expected future cash flows on a basis that reflects 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 reflects 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	20 – 33	10

1.12 Property and equipment

1.12.1 Property and equipment not subject to lease agreements

Property and equipment is initially recognised at cost. It is subsequently measured at cost, less accumulated depreciation and/or accumulated impairment losses, if any. Subsequent costs and additions are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit and loss component of the statement of comprehensive income during the financial period in which they are incurred.

All property and equipment, other than land, is depreciated on a straight-line basis to write down their cost to their residual values over their estimated useful lives.

The Bank uses the following annual rates in calculating depreciation:

Item	Annual depreciation rate %
Computer equipment	20 – 33
Freehold property	2
Furniture and other equipment	10 – 15
Motor vehicles	25

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

All borrowing costs are capitalised if they directly attribute to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognised in the profit and loss component of the statement of comprehensive income in the period in which they are incurred.

The fair value of property and equipment recognised as a result of a business combination is based on market values. Subsequent to the acquisition, the fair value of the property and equipment is considered to be its cost for measurement purposes. 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 profit and loss component of the statement of comprehensive income within 'Other operating income' in the year that the asset is derecognised. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end, and adjusted prospectively if appropriate.

1.12.2 Property and equipment subject to lease agreements

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

Finance leases

Leases where the Bank as lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of minimum lease payments. Lease payments are apportioned using the effective interest rate method to identify the finance cost, which is charged to interest expenses over the lease term, and the capital repayment, which reduces the liability to the lessor. The property and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Operating leases

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and rewards of ownership. Assets leased under operating leases are not recognised on the Bank's statement of financial position, while payments made are charged to the profit and loss component of the statement of comprehensive income on a straight-line basis over the period of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease on a straight-line basis.

1.12.3 Investment property

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

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Bank's investment property at year-end. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

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

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

Investment properties are derecognised when either they have been disposed of or when 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 profit and loss component of the statement of comprehensive income in the period of derecognition.

1.13 Repossessed properties

Repossessed properties acquired in exchange for loans as part of an orderly realisation are reported in 'Other assets' as inventory as it is held for sale in the ordinary course of business. The repossessed properties are recognised when the risks and rewards of the properties have been transferred to the Bank. The corresponding loans are derecognised when the Bank becomes the holder of the title deed.

The property acquired is initially recorded at cost which is 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. It is subsequently measured at the lower of the carrying amount and its net realisable value. No depreciation is charged in respect of these properties. Any subsequent write-down of the acquired property to net realisable value is recognised in the statement of comprehensive income, in 'Other impairments'. Any subsequent increase in the net realisable value, to the extent that it does not exceed the cumulative write-down, is also recognised in 'Other impairments'.

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

1.14 Constructed assets held for sale

Constructed assets held for sale 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 statement of financial position.

1.15 Non-current assets held for sale

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

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

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

1.16 Impairment of property, equipment and intangible assets

At each reporting date, or more frequently where events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount, property, equipment and intangible assets are assessed for impairment. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount, which is the higher of the asset's or the cash-generating unit's fair value less costs to sell, and its value-in-use. Fair value less costs to sell is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value-in-use is calculated by discounting the expected future cash in- or outflows to be obtained or incurred as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pretax 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 profit and loss component of the statement of comprehensive income in the period in which it occurs.

For the purposes of assessing impairment assets are grouped at the lowest levels for which there are separately identifiable cash flows.

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

1.17 Cash and cash equivalents

For the purposes of the statement of cash flows, cash comprises cash on hand and demand deposits. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

1.18 Provisions, contingent liabilities and commitments

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects the market assessments of the time value of money and the increases specific to the liability.

Transactions are classified as contingent liabilities where the existence of the Bank's possible obligations depends on uncertain future events beyond the Bank's control or when the Bank has a present obligation that is not probable or which the Bank is unable to measure reliably.

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

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

1.19 Employee benefits

1.19.1 Post-retirement benefits

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

Defined contribution structures

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

Contributions to any defined contribution plan are expensed as incurred.

Defined benefit structures

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

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Bank nor can they be paid directly to the Bank. Fair value is based on market price information and, in the case of quoted securities 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 Bank makes provision for post-retirement benefits to eligible employees. The cost in relation to eligible employees is assessed in accordance with actuarial principles based on the projected unit credit methodology, and recognised in the profit and loss component in the statement of comprehensive income. Actuarial gains and losses are recognised in other comprehensive income in the statement of comprehensive income in the year in which they occur after applying the asset ceiling test. Any other adjustments to the on-statement of financial position surplus or deficit are also recognised in the other comprehensive income component of the statement of comprehensive income as a result of applying the asset ceiling test. In respect of pensioners, the obligation is fully funded once the member reaches retirement.

The Bank's defined benefit structure is closed to new members and the structure will therefore run down as current membership dwindles.

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.

Short-term benefits

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

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

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

1.19.2 Share-based compensation

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

Employee services settled in equity instruments

The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options determined at the grant date, excluding the impact of any non-market vesting conditions (ie profitability). Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable or the number of shares that the employee will ultimately receive. This estimate of the number of options that are expected to become exercisable is revised at each reporting date and the difference is charged or credited to the profit and loss component of the statement of comprehensive income, 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 profit and loss component of the statement of comprehensive income. 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 profit and loss component of the statement of comprehensive income. 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 optionholder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

1.20 Taxation

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

1.20.1 Current taxation

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

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

1.20.2 Deferred taxation

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases and carrying amounts of property, plant and equipment, certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward. In relation to acquisitions, deferred tax is raised on the difference between the fair values of net assets acquired and their tax bases 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 rates enacted or substantially enacted at the reporting date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the difference will not reverse in the foreseeable future.

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

The tax effects of income tax losses available for carry-forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

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

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

1.20.3 Secondary tax on companies (STC)

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

STC is provided for at 10,0% on the net of dividends declared less dividends received (unless exempt from STC) by the Bank at the same time as the liability to pay the related dividends is recognised. STC credits that arise from dividends received and receivable that exceed dividends paid are accounted for as a deferred tax asset.

STC is included in the 'Taxation expense' line in the profit and loss component of the statement of comprehensive income.

1.20.4 Value added tax (VAT)

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

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the 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 statement of financial position.

1.21 Treasury shares

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

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

The Bank therefore does not recognise any gains or losses through the profit and loss component of the statement of comprehensive income when its own shares are repurchased.

1.22 Managed funds and trust activities

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

1.23 Reclassifications and restatements

Some items within the statement of comprehensive income and statement of financial position for the years ended 31 December 2008 and 31 December 2007 were reclassified and restated in the current year:

1.23.1 *IFRS 3 – Business Combinations* fair value adjustments

The acquisition of the majority interest in Ballito Junction Development (Proprietary) Limited and Ngwenya River Estate (Proprietary) Limited was accounted for provisionally in the 2008 financial year in accordance with *IFRS 3 Business Combinations.*

The Bank finalised the fair values of the assets and liabilities on acquisition within the 12-month window period as allowed by IFRS 3.

1.23.2 Retirement benefit fund

The Bank early adopted *AC 504 The Limit On A Defined Benefit Asset, Minimum Funding Requirements and their interaction in the South African Pension Fund Environment.* This early adoption resulted in the Bank recognising its defined benefit surplus as an asset, retrospectively. AC504 required the Bank to assess whether it had an unconditional right to the surplus. This right specifically relates to the surplus once the scheme has run off in the normal course of business. The effective date for AC504 is financial periods starting on or after 1 April 2009, however the Bank elected the early adoption as this guidance was published before the Bank's year-end and seeks to clarify an existing accounting pronouncement.

In addition the Bank changed its accounting policy in accordance with the allowed alternative in *IAS 19 Employee Benefits* to recognise actuarial gains and losses on the Bank's defined benefit pension plan. As a result of this change in accounting policy, any adjustments to the surplus by applying the limit to the asset in accordance with *IAS 19 Employee Benefits* will also be recognised in other comprehensive income. This new policy results in more relevant information on the Bank's performance by removing the volatility from changes in actuarial assumptions and reserves.

1.23.3 Gains and losses from financial instruments

Gains and losses from financial instruments, used as part of the Bank's interest rate management, have been reclassified to 'Net interest income' from 'Gains and losses from banking and trading activities', in line with the Bank's accounting policy. This reclassification eliminates mismatches previously experienced between these two statement of comprehensive income lines.

1.23.4 Reclassification to 'Provisions'

The provisions (excluding leave pay) which were previously included in 'Other liabilities and sundry provisions' have been reclassified to 'Provisions'.

The reclassifications and restatements had the following impact on the statement of financial position:

		31 December 2008 Reclassifications and restatements		
	As previously reported Rm	Business combination fair value adjustments (refer to note 1.23.1) Rm	Retirement benefit fund (refer to note 1.23.2) Rm	Reclassification to 'Provisions' (refer to note 1.23.4) Rm
Assets				
Cash, cash balances and balances with central banks	16 568	(19)	—	—
Statutory liquid asset portfolio	33 019	—	—	—
Loans and advances to banks	43 559	—	—	—
Trading portfolio assets	72 929	—	—	—
Hedging portfolio assets	3 139	—	—	—
Other assets	8 066	93	435	—
Current tax assets	—	—	—	—
Non-current assets held for sale	2 495	—	—	—
Loans and advances to customers	512 684	(27)	—	—
Loans to Absa Group companies	18 990	—	—	—
Investments	15 191	—	—	—
Investments in associates and joint ventures	2 071	—	—	—
Goodwill and intangible assets	291	6	—	—
Investment property	385	(6)	—	—
Property and equipment	5 512	(81)	—	—
Deferred tax assets	80	(2)	—	—
Total assets	734 979	(36)	435	—
Liabilities				
Deposits from banks	60 043	—	—	—
Trading portfolio liabilities	68 120	—	—	—
Hedging portfolio liabilities	1 080	—	—	—
Other liabilities and sundry provisions	9 427	—	—	(9 427)
Other liabilities	—	(58)	—	7 534
Provisions	—	—	—	1 893
Current tax liabilities	322	—	—	—
Non-current liabilities held for sale	408	—	—	—
Deposits due to customers	373 176	—	—	—
Debt securities in issue	159 042	—	—	—
Loans from Absa Group companies	3 946	—	—	—
Policyholder liabilities under insurance contracts	—	—	—	—
Borrowed funds	12 143	—	—	—
Deferred tax liabilities	2 609	5	121	—
Total liabilities	690 316	(53)	121	—
Equity				
Capital and reserves				
Attributable to equity holders of the Bank:				
Ordinary share capital	303	—	—	—
Ordinary share premium	9 415	—	—	—
Preference share capital	1	—	—	—
Preference share premium	4 643	—	—	—
Other reserves	3 939	—	—	—
Retained earnings	26 339	17	314	—
	44 640	17	314	—
Minority interest	23	—	—	—
Total equity	44 663	17	314	—
Total equity and liabilities	734 979	(36)	435	—

Bank				
	31 December 2007 Reclassifications and restatements			
Reclassified and restated Rm	As previously reported Rm	Retirement benefit fund (refer to note 1.23.2) Rm	Reclassification to 'Provisions' (refer to note 1.23.4) Rm	Reclassified and restated Rm
16 549	15 069	—	—	15 069
33 019	22 957	—	—	22 957
43 559	52 691	—	—	52 691
72 929	25 876	—	—	25 876
3 139	725	—	—	725
8 594	5 002	105	—	5 107
—	168	—	—	168
2 495	—	—	—	—
512 657	443 120	—	—	443 120
18 990	15 338	—	—	15 338
15 191	6 574	—	—	6 574
2 071	905	—	—	905
297	228	—	—	228
379	—	—	—	—
5 431	4 258	—	—	4 258
78	48	—	—	48
735 378	592 959	105	—	593 064
60 043	65 167	—	—	65 167
68 120	22 947	—	—	22 947
1 080	2 226	—	—	2 226
—	10 113	—	(10 113)	—
7 476	—	—	7 927	7 927
1 893	—	—	2 253	2 253
322	56	—	—	56
408	—	—	—	—
373 176	304 877	—	—	304 877
159 042	134 023	—	—	134 023
3 946	5 900	—	—	5 900
—	67	—	(67)	—
12 143	9 796	—	—	9 796
2 735	2 259	29	—	2 288
690 384	557 431	29	—	557 460
303	303	—	—	303
9 415	5 415	—	—	5 415
1	1	—	—	1
4 643	4 643	—	—	4 643
3 939	1 583	—	—	1 583
26 670	23 557	76	—	23 633
44 971	35 502	76	—	35 578
23	26	—	—	26
44 994	35 528	76	—	35 604
735 378	592 959	105	—	593 064

The reclassifications and restatements had the following impact on the statement of comprehensive income for the year ended 31 December 2008:

	31 December 2008				
		Reclassifications and restatements			
	As previously reported Rm	Business combination fair value adjustments (refer to note 1.23.1) Rm	Retirement benefit fund (refer to note 1.23.2) Rm	Profits and losses from derivatives (refer to note 1.23.3) Rm	Reclassified and restated Rm
Net interest income	20 239	—	—	311	20 550
Interest and similar income	73 164	—	—	311	73 475
Interest expense and similar charges	(52 925)	—	—	—	(52 925)
Impairment losses on loans and advances	(5 627)	—	—	—	(5 627)
Net interest income after impairment losses on loans and advances	14 612	—	—	311	14 923
Net fee and commission income	11 720	—	—	—	11 720
Fee and commission income	12 367	—	—	—	12 367
Fee and commission expense	(647)	—	—	—	(647)
Gains and losses from banking and trading activities	3 407	—	—	(311)	3 096
Gains and losses from investment activities	91	—	—	—	91
Other operating income	1 153	17	—	—	1 170
Operating profit before operating expenditure	30 983	17	—	—	31 000
Operating expenditure	(19 196)	—	79	—	(19 117)
Operating expenses	(18 577)	—	79	—	(18 498)
Other impairments	11	—	—	—	11
Indirect taxation	(630)	—	—	—	(630)
Share of retained earnings from associates and joint ventures	65	—	—	—	65
Operating profit before income tax	11 852	17	79	—	11 948
Taxation expense	(3 005)	—	(22)	—	(3 027)
Profit for the year	8 847	17	57	—	8 921
Profit attributable to:					
Ordinary equity holder of the Bank	8 390	17	57	—	8 464
Preference equity holders of the Bank	457	—	—	—	457
Minority interest	(0)	—	—	—	(0)
	8 847	17	57	—	8 921
Headline earnings	7 713	—	57	—	7 770

1.24 New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations issued are not yet effective for the year ended 31 December 2009 and have not been applied in preparing these consolidated financial statements:

- *IFRS 1 First-time Adoption of International Financial Reporting Standards* – Amendments relating to oil and gas assets and determining whether an arrangement contains a lease (2009) was amended to include some additional exemptions for first-time adopters of IFRS. This amendment will not impact the Bank as the Bank adopted IFRS in full in the financial year ending 31 December 2005. Consequently, IFRS 1 is no longer appropriate.
- *IFRS 2 Share-based Payment* – Amendments relating to group cash-settled share-based payment transactions (2009) was amended to clarify its scope and the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transaction. The amendments also incorporate the guidance contained in the following Interpretations:
  - *IFRIC 8 Scope of IFRS 2*
  - *IFRIC 11 IFRS 2 Group and Treasury Share Transactions*
  - The amendment, which becomes mandatory for the Bank's 2010 consolidated financial statements, is not expected to have a material impact on the consolidated financial statements.
- The revised *IFRS 3 Business Combinations (2008)* applies prospectively to business combinations first accounted for in accounting periods beginning on or after 1 July 2009. The principal amendments include:
  - the requirement to expense all acquisition-related costs;
  - recognition of fair value gains and losses in the statement of comprehensive income on interests in an acquiree at the time at which control is lost;
  - recognition of all increases and decreases in ownership interests over an acquiree within equity whilst control is held;
  - the option to recognise any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the net identifiable assets of the entity acquired;
  - restriction of adjustments to the initial measurement of contingent considerations on a business combination, with subsequent measurement of such items being recognised in the statement of comprehensive income; and
  - the requirement at acquisition to reclassify and redesignate all contractual arrangements, excluding leases and insurance contracts.

  The amendments are expected to affect the Bank's accounting for business combinations that arise after the date on which the amendments are adopted. The effect on the financial statements will be a function of the number and value of any business combinations transacted after the effective date.
- *IFRS 9 Financial Instruments* is effective for the period beginning on 1 January 2013, with early adoption permitted. The current standard is the first step in replacing *IAS 39 Financial Instruments: Recognition and Measurement.* IFRS 9 introduces new requirements for classifying and measuring financial assets. This standard will be further developed in 2010 to add new requirements for classifying and measuring financial liabilities, derecognition of financial instruments, impairment, and hedge accounting. The Bank is currently investigating the impact that the adoption of this standard will have on the Bank's financial position, results of operations and cash flows. The standard is however expected to have a material impact on the results of the Bank.
- Amended *IAS 27 Consolidated and Separate Financial Statements* requires accounting for changes in ownership interests by the Bank in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Bank loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in the statement of comprehensive income. The amendments to IAS 27, which become mandatory for the Bank's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements as the Bank is already applying these principles when accounting for transactions with minorities.

- As part of its annual improvements project, the International Accounting Standards Boards (IASB) has issued improvements that aim 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 become mandatory for the Bank's 2010 consolidated financial statements. There are no significant changes in the current year's improvements that will affect the Bank.

- 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.

- *IFRIC 17 Distributions of Non-cash Assets to Owners,* becomes effective for financial years beginning on or after 1 July 2009. The Interpretation is to be applied prospectively and clarifies that:
  - A dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity.
  - An entity should measure the dividend payable at the fair value of the net assets to be distributed.
  - An entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.
  - An entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation.

  IFRIC 17 will not have a significant impact on the consolidated financial statements of the Bank.

- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments* is effective for annual periods beginning on or after 1 July 2010 and clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. IFRIC 19 will not have a significant impact on the consolidated financial statements of the Bank.

	Bank 2009 Rm	Bank 2008 Rm
2. Cash, cash balances and balances with central banks		
Balances with the South African Reserve Bank (SARB)	**10 983**	12 626
Coins and bank notes	**4 543**	3 923
	15 526	16 549
Portfolio analysis		
Loans and receivables		
Balances with the SARB	**10 983**	12 626
Coins and bank notes	**4 543**	3 923
	15 526	16 549
Comparatives have been restated, refer to note 1.23.		
3. Statutory liquid asset portfolio		
Land Bank bills	**493**	492
Republic of South Africa (RSA) government bonds	**25 467**	19 156
Reverse repurchase agreements (refer to note 42)	**1 941**	4 100
SARB debentures	**223**	1 814
Treasury bills	**5 819**	7 457
	33 943	33 019
Portfolio analysis		
Available-for-sale financial assets	**17 904**	12 669
Land Bank bills	**493**	492
RSA government bonds	**11 369**	2 906
SARB debentures	**223**	1 814
Treasury bills	**5 819**	7 457
Available-for-sale instruments in fair value hedging relationship		
RSA government bonds	**12 403**	12 077
Financial assets designated at fair value through profit or loss	**3 636**	8 273
Reverse repurchase agreements	**1 941**	4 100
RSA government bonds	**1 695**	4 173
	33 943	33 019

RSA government bonds, SARB debentures and treasury bills valued at R2 011 million (2008: R3 470 million) have been pledged with the SARB. The related liability for the pledged assets, which is disclosed in 'Deposits from banks', bears interest at the SARB repurchase rate.

	Bank 2009 Rm	Bank 2008 Rm
4. Loans and advances to banks		
Other loans and advances to banks	**26 104**	26 312
Reverse repurchase agreements (refer to note 42)	**8 932**	17 247
	35 036	43 559
Portfolio analysis		
Financial assets designated at fair value through profit or loss	**2 403**	7 168
Other loans and advances to banks	**629**	—
Reverse repurchase agreements	**1 774**	7 168
Loans and receivables	**32 633**	36 391
Other loans and advances to banks	**25 475**	26 312
Reverse repurchase agreements	**7 158**	10 079
	35 036	43 559

Loans with variable rates are R25 784 million (2008: R26 053 million) and fixed rates are R9 252 million (2008: R17 506 million).

Included above are loans and advances with the Bank's ultimate parent company of R10 433 million (2008: R13 636 million). Refer to note 44 for the full disclosure of related party transactions.

Included above are loans and advances to banks with a carrying value of R3 814 million (2008: R2 462 million) that have been pledged as security, which excludes reverse repurchase agreements as disclosed in note 42. The amount pledged is the required threshold of cash collateral based on specific arrangements with different counter parties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

Collateral to the value of R9 320 million (2008: R6 177 million) was received on 'Other loans and advances to banks'. This collateral was on-pledged as part of repurchase agreements (refer to note 42).

	Bank 2009 Rm	Bank 2008 Rm
5. Trading and hedging portfolio assets		
Commodities	**631**	517
Debt instruments	**10 715**	5 178
Derivative assets (refer to note 59.3)	**31 686**	65 466
Commodity derivatives	**2 901**	4 722
Credit derivatives	**282**	343
Equity derivatives	**2 049**	2 322
Foreign exchange derivatives	**8 734**	31 479
Interest rate derivatives	**17 720**	26 600
Equity instruments	**142**	304
Money market assets	**4 129**	1 464
Total trading portfolio assets	**47 303**	72 929
Hedging portfolio assets (refer to note 59.3)	**2 558**	3 139
	49 861	76 068
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**1 946**	2 530
Derivatives designated as fair value hedging instruments	**612**	609
Financial assets held for trading	**46 672**	72 412
Debt instruments	**10 715**	5 178
Derivative assets	**31 686**	65 466
Equity instruments	**142**	304
Money market assets	**4 129**	1 464
Non-financial instruments	**631**	517
	49 861	76 068

Included above are derivative positions with the Bank's ultimate parent company of R6 936 million (2008: R15 672 million). Refer to note 44 for the full disclosure of related party transactions.

Trading portfolio assets with a carrying value of R10 297 million (2008: R5 178 million) have been pledged as security for repurchase agreements (refer to note 42).

In addition trading portfolio assets with a carry value of R418 million (2008: Rnil) have been pledged as security for deposits. These assets are pledged for the duration of the respective agreements.

Included in the financial assets held for trading are financial instruments related to the Bank's economic hedging programme with a notional value of R171 million (2008: R1 393 million) and a fair value of R3 million (2008: R30 million).

	Bank 2009 Rm	Bank 2008 Rm	Bank 2007 Rm
6. Other assets			
Accounts receivable and prepayments	**5 057**	5 329	2 591
Collateral	**740**	548	400
Deferred costs	**30**	27	25
Inventories	**507**	463	465
Cost	**571**	501	465
Write-down	**(64)**	(38)	—
Retirement benefit fund surplus (refer to note 40)	**616**	435	105
Settlement accounts	**269**	1 792	1 521
	7 219	8 594	5 107
Portfolio analysis			
Loans and receivables	**5 889**	7 429	4 210
Accounts receivable	**4 880**	5 089	2 289
Collateral	**740**	548	400
Settlement accounts	**269**	1 792	1 521
Non-financial assets	**1 330**	1 165	897
	7 219	8 594	5 107

Comparatives have been restated, refer to note 1.23.

Included above are settlement accounts with the Bank's ultimate parent company of R196 million (2008: R228 million). Refer to note 44 for the full disclosure of related party transactions.

	Bank 2009 Rm	Bank 2008 Rm
7. Current tax		
Current tax assets		
Amount due from revenue authorities	**107**	—
Current tax liabilities		
Amount due to revenue authorities	**31**	322

8. Non-current assets and liabilities held for sale

The Bank, through the private equity division in Absa Capital, transferred investments to a newly formed fund during the prior year. The Bank remained exposed to some of the risks and rewards of these assets and consequently continued to recognise these assets within 'Non-current assets held for sale' in the statement of financial position in 2008. The completion of the sale within 12 months is no longer considered to be highly probable and consequently the investments have been classified as 'Investments' in the 2009 statement of financial position.

	2009 Rm	2008 Rm
Non-current asset held for sale		
Investments	**—**	2 495
Non-current liabilities held for sale		
Other liabilities	**—**	408

9. Loans and advances to customers

	2009 Rm	2008 Rm
Cheque accounts	**29 180**	26 337
Corporate overdrafts and specialised finance loans	**10 390**	10 306
Credit cards	**14 774**	15 040
Foreign currency loans	**6 787**	11 775
Instalment credit agreements (refer to note 9.1)	**57 411**	64 869
Gross advances	**67 781**	80 967
Unearned finance charges	**(10 370)**	(16 098)
Loans granted under resale agreements (carries) (refer to note 42)	**1 988**	7 072
Loans to associates and joint ventures (refer to note 13.2)	**7 878**	9 166
Microloans	**2 417**	3 423
Mortgages	**301 352**	299 450
Other advances[1]	**3 408**	4 627
Overnight finance	**9 807**	11 146
Personal and term loans	**20 776**	18 154
Preference shares	**7 967**	9 375
Wholesale overdrafts	**25 551**	30 414
	499 686	521 154
Impairment losses on loans and advances (refer to note 10)	**(12 014)**	(8 497)
	487 672	512 657
Portfolio analysis		
Financial assets designated at fair value through profit or loss	**8 462**	8 737
Corporate overdrafts and specialised finance loans	**711**	915
Foreign currency loans	**884**	—
Loans granted under resale agreements (Carries)	**1 988**	1 543
Loans to associates and joint ventures	**—**	1 017
Mortgages	**1 388**	1 673
Wholesale overdrafts	**3 491**	3 589
Amortised cost items held in a fair value hedging relationship	**646**	565
Corporate overdrafts and specialised finance loans	**24**	—
Wholesale overdrafts	**622**	565
Loans and receivables	**490 578**	511 852
	499 686	521 154

Comparatives have been restated, refer to note 1.23.

Included above are loans and advances to customers with a carrying value of R989 million (2008: Rnil million) that have been pledged as security, which excludes reverse repurchase agreements as disclosed in note 42. The amount 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.

Note

[1]Other advances include client liabilities under acceptances of R3 million (2008: R121 million), working capital solutions of R1 862 million (2008: R2 247 million), bridging finance of R74 million (2008: R411 million) and Abacas promissory notes of R1 002 million (2008: R1 012 million).

9. Loans and advances to customers *(continued)*

9.1 Instalment credit agreements

Maturity analysis

	Bank 2009 Gross investment in finance leases Rm	Bank 2009 Unearned finance charges Rm	Bank 2009 Net investment in finance leases Rm
Less than one year	**20 288**	**(3 035)**	**17 253**
Between one and five years	**46 035**	**(7 087)**	**38 948**
More than five years	**1 458**	**(248)**	**1 210**
	67 781	**(10 370)**	**57 411**

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

The Bank enters into instalment credit agreements for motor vehicles, equipment and medical equipment.
All leases are denominated in South African rand. The average term of finance leases entered into is five years.
Under the terms of the lease agreements no contingent rentals are payable.
Unguaranteed residual values of instalment credit agreements at the statement of financial position date are R4 632 million (2008: R5 768 million).
The accumulated allowance for uncollectable lease payments receivable included in the allowance for impairments at the statement of financial position date is R1 691 million (2008: R861 million).

	Bank 2009 Rm	Bank 2008 Rm
10. Impairment losses on loans and advances		
Balance at the beginning of the year	**8 497**	5 481
Amounts written off during the year	**(4 363)**	(2 574)
Exchange differences	**(3)**	—
Interest on impaired assets (refer to note 28)	**(936)**	(521)
	3 195	2 386
Impairments raised during the year (refer to note 10.1)	**8 819**	6 111
Balance at the end of the year (refer to note 9)	**12 014**	8 497
Comprising:		
Identified impairments	**10 977**	7 215
Unidentified impairments	**1 037**	1 282
	12 014	8 497
10.1 Statement of comprehensive income charge for impairment losses on loans and advances		
Impairments raised during the year	**8 819**	6 111
Identified impairments	**9 061**	6 792
Unidentified impairments	**(242)**	(681)
Recoveries of loans and advances previously written off	**(427)**	(484)
	8 392	5 627

	Bank 2009 Rm	Bank 2008 Rm
11. Loans to Absa Group companies		
Fellow subsidiaries	**16 215**	17 200
Holding company	**17**	1 790
	16 232	18 990
Portfolio analysis		
Loans and receivables	**16 232**	18 990
12. Investments		
Debt instruments	**9 236**	7 709
Listed equity instruments	**1 652**	1 723
Unlisted equity and hybrid instruments	**5 961**	5 759
	16 849	15 191
Market value and directors' valuation		
Market value of debt instruments	**9 236**	7 709
Market value of listed equity instruments	**1 652**	1 723
Directors' valuation of unlisted equity and hybrid instruments	**5 961**	5 759
	16 849	15 191
Portfolio analysis		
Available-for-sale financial assets (refer to note 12.1)	**1 977**	2 457
Debt instruments	**1 744**	1 625
Listed equity instruments	**73**	422
Unlisted equity and hybrid instruments	**160**	410
Financial assets designated at fair value through profit or loss	**14 872**	12 734
Debt instruments	**7 492**	6 084
Listed equity instruments	**1 579**	1 301
Unlisted equity and hybrid instruments	**5 801**	5 349
	16 849	15 191

Included above are investments with the Bank's ultimate parent company of R369 million (2008: R435 million). Refer to note 44 for the full disclosure of related party transactions.

	Bank 2009 Rm	Bank 2008 Rm
12.1 Available-for-sale financial assets		
Carrying value at the beginning of the year	**2 457**	494
Cost plus fair value movements	**2 501**	537
Impairments[1]	**(44)**	(43)
Movement in investments	**(444)**	1 964
Net acquisitions and disposals	**(195)**	1 588
Fair value movements	**(249)**	376
Movement in impairments (refer to note 35)	**(36)**	(1)
Carrying value at the end of the year	**1 977**	2 457
Cost plus fair value movements	**2 057**	2 501
Impairments[1]	**(80)**	(44)

Note

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

	Bank 2009 Rm	Bank 2008 Rm
13. Investments in associates and joint ventures		
Listed investments	**100**	1 704
Unlisted investments	**373**	367
	473	2 071
13.1 Movement in carrying value		
Balance at the beginning of the year	**2 071**	905
Share of current year's retained (losses)/earnings	**(50)**	65
Share of current year's (losses)/earnings before taxation	**(7)**	121
Taxation on current year's losses/(earnings)	**2**	(56)
Dividends received	**(45)**	—
Net movement in the carrying value of investments in associates and joint ventures (refer to note 13.4)	**(228)**	1 087
Impairment charge (refer to note 35)	**(1 328)**	—
Movement in amount recognised in other liabilities for the Bank's share of losses	**8**	14
Balance at the end of the year	**473**	2 071
13.2 Analysis of carrying value		
Listed investments		
Shares at book value	**112**	1 635
Shares at cost	**1 440**	1 635
Impairments	**(1 328)**	—
Share of post-acquisition reserves	**(12)**	69
	100	1 704
Unlisted investments		
Shares at cost	**132**	94
Share of post-acquisition reserves	**240**	273
Share of non-distributable reserves	**201**	242
Amount recognised in other liabilities for the Bank's share of losses	**39**	31
Loans to associates and joint ventures	**1**	—
	373	367

Other commercial loans to associates and joint ventures included in 'Loans and advances to customers' amounted to R7 878 million (2008: R9 166 million). Refer to note 9 for further details.

A register of investments in associates and joint ventures is available for inspection at the registered office of the Company.

	Bank 2009 Rm	Bank 2008 Rm
13.3 Valuation		
Market value of listed investments	**188**	1 576
Directors' valuation of unlisted investments	**373**	367
	561	1 943

	Bank 2009 Rm	Bank 2008 Rm
13. Investments in associates and joint ventures *(continued)*		
13.4 Net movement in the carrying value of investments in associates and joint ventures		
The following associate was transferred from investments during the current year, at cost:		
Blue Financial Services Limited	**451**	n/a
During May 2009, the Bank acquired a further 2,2% interest in Blue Financial Services Limited. The Bank's shareholding is now 20,2%.		
The following associate was transferred from investments during the previous year, at cost:		
Sekunjalo Investments Limited	**n/a**	59
On 11 December 2008, the Bank acquired an additional 17,2% interest in Sekunjalo Investments Limited at a cost of R39 million. Sekunjalo Investments Limited was previously recognised as an investment at a carrying amount of R20 million. The Bank's shareholding is now 27,2%.		
The following acquisitions were concluded during the current year, at cost:		
Kilkishen Investments (Proprietary) Limited	**31**	n/a
On obtaining control of Abseq Properties (Proprietary) Limited on 31 January 2009, the Bank indirectly acquired a 50,0% interest in Kilkishen Investments (Proprietary) Limited.		
Meadowood Investments 8 (Proprietary) Limited	**0**	n/a
On 1 January 2009, the Bank acquired a 50,0% interest in Meadowood Investments 8 (Proprietary) Limited. The acquisition resulted from the Bank exercising its rights in terms of a collateral agreement upon default by a client on loans.		
Stand 1135 Houghton (Proprietary) Limited	**8**	n/a
On obtaining control of Abseq Properties (Proprietary) Limited on 31 January 2009, the Bank indirectly acquired a 50,0% interest in Stand 1135 Houghton (Proprietary) Limited.		
The following acquisitions were concluded during the previous year, at cost:		
Ambit Properties Limited	**n/a**	90
In 2008, the Bank acquired an additional 4,0% interest in Ambit Properties Limited.		
Integrated Processing Solutions (Proprietary) Limited	**n/a**	11
On 1 November 2008, the Bank made an additional contribution to maintain its 50,0% interest in Integrated Processing Solutions (Proprietary) Limited.		
Pinnacle Point Group Limited	**n/a**	931
On 9 December 2008, the Bank acquired a 27,5% interest in Pinnacle Point Group Limited.		
The following disposals were concluded during the current year:		
Ambit Properties Limited	**(718)**	n/a
On 30 June 2009, ApexHi Limited acquired the Bank's 34,5% interest in Ambit Properties Limited in exchange for shares in ApexHi Limited.		
The following disposals were concluded during the previous year:		
Maravedi Group (Proprietary) Limited	**n/a**	(4)
During 2008, the Bank sold its share in Maravedi Group (Proprietary) Limited.		
Net movement in the carrying value of investments in associates and joint ventures (refer to note 13.1)	**(228)**	1 087

	Bank 2009 Rm	Bank 2008 Rm
13. Investments in associates and joint ventures *(continued)*		
13.5 Details of the purchase consideration on net assets acquired on the aforementioned acquisitions are as follows:		
Cash paid	**61**	1 060
Property and equipment	**—**	11
Purchase as part of business combination	**39**	—
Transfer from investments	**390**	20
	490	1 091
13.6 Details of the consideration received on net assets disposed of on the aforementioned disposals are as follows:		
Consideration in shares	**(660)**	—
Loss on disposal	**(58)**	—
Transfer to parent company	**—**	(4)
	(718)	(4)

Refer to note 44 for the full disclosure of the Bank's investments in associates and joint ventures.

14. Goodwill and intangible assets

	Bank 2009 Cost Rm	Bank 2009 Accumulated amortisation and/or impairments Rm	Bank 2009 Carrying value Rm	Bank 2008 Cost Rm	Bank 2008 Accumulated amortisation and/or impairments Rm	Bank 2008 Carrying value Rm
Computer software development costs	**759**	**(392)**	**367**	460	(330)	130
Goodwill	**196**	**(41)**	**155**	171	(4)	167
	955	**(433)**	**522**	631	(334)	297

Reconciliation of goodwill and intangible assets

	2009 Opening balance Rm	Additions Rm	Additions through business combinations Rm	Amortisation Rm	Impairment charge Rm	Closing balance Rm
Computer software development costs	**130**	**299**	**—**	**(62)**	**—**	**367**
Goodwill	**167**	**—**	**25**	**—**	**(37)**	**155**
	297	**299**	**25**	**(62)**	**(37)**	**522**

14. Goodwill and intangible assets *(continued)*

	Bank					
	2008					
	Opening balance Rm	Additions Rm	Additions through business combi-nations Rm	Amorti-sation Rm	Impairment charge Rm	Closing balance Rm
Computer software development costs	101	133	—	(103)	(1)	130
Goodwill	127	—	40	—	—	167
	228	133	40	(103)	(1)	297

Refer to note 1.11 for useful lives, amortisation methods and amortisation rates. The majority of computer software development costs were internally generated. The remainder were acquired.

Included in computer software development costs is R31 million relating to assets still under construction.

	Bank	
	2009 Rm	2008 Rm
Composition of goodwill		
Abseq Properties (Proprietary) Limited	**25**	—
Absa Vehicle Management (Proprietary) Limited	**112**	112
Ambit Management Services (Proprietary) Limited	**—**	37
Ngwenya River Estate (Proprietary) Limited	**18**	18
	155	167

Comparatives have been restated, refer to notes 1.23 and 51.2 for further information.

Significant assumptions made in reviewing impairments

Management has to consider at least annually whether the current carrying value of goodwill is impaired. This calculation is based on discounting expected risk adjusted pretax cash flows at a risk adjusted pretax interest rate appropriate to the operating unit, the determination of which requires the exercise of judgement. The estimation of pretax cash flows is sensitive to the periods for which detailed forecasts are available, normally capped at five years, and to assumptions regarding the growth rate, although this is usually capped at inflation growth where higher growth is forecast by the CGU. While forecasts are compared with actual performance and external sources of data, expected cash flows naturally reflect management's best estimate of future performance. The discount rate used in the impairment calculations is 14,0%. Growth rates used in the impairment calculations range between 3,0% and 7,0%.

Disposal of Ambit Management Services (Proprietary) Limited

During the current year the Bank sold contractual rights it had generated in Ambit Management Services (Proprietary) Limited to a third party. The company is now dormant and the goodwill was impaired as there is no future economic benefits expected to arise from this investment.

15. Investment property

	Bank	
	2009 Rm	2008 Rm
Balance at the beginning of the year	**379**	—
Additions through business combinations (refer to note 51)	**1 352**	386
Additions to property under construction	**35**	—
Change in fair value (refer to notes 33 and 34)	**12**	(7)
Foreign exchange movements	**(73)**	—
Balance at the end of the year	**1 705**	379

Comparatives have been restated, refer to note 1.23.

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 3 to 10 years, depending on the use of the building being leased. Subsequent renewals are negotiated with the lessee. No contingent rentals are charged.

16. Property and equipment

Bank

	2009 Cost Rm	2009 Accumulated depreciation and/or impairments Rm	2009 Carrying value Rm	2008 Cost Rm	2008 Accumulated depreciation and/or impairments Rm	2008 Carrying value Rm
Computer equipment	**4 724**	**(3 162)**	**1 562**	3 951	(2 585)	1 366
Freehold property	**2 317**	**(180)**	**2 137**	1 672	(172)	1 500
Furniture and other equipment	**4 266**	**(2 044)**	**2 222**	4 186	(1 735)	2 451
Leasehold property	**500**	**(411)**	**89**	491	(377)	114
Motor vehicles	**4**	**(4)**	**—**	3	(3)	—
	11 811	**(5 801)**	**6 010**	10 303	(4 872)	5 431

Reconciliation of property and equipment

2009

	Opening balance Rm	Additions Rm	Additions through business combinations[1] Rm	Disposals Rm	Foreign exchange movements Rm	Depreciation Rm	Impairment charge Rm	Closing balance Rm
Computer equipment	**1 366**	**854**	**—**	**(29)**	**—**	**(629)**	**—**	**1 562**
Freehold property	**1 500**	**690**	**8**	**(42)**	**(1)**	**(18)**	**—**	**2 137**
Furniture and other equipment	**2 451**	**447**	**4**	**(292)**	**—**	**(379)**	**(9)**	**2 222**
Leasehold property	**114**	**—**	**1**	**—**	**—**	**(26)**	**—**	**89**
	5 431	**1 991**	**13**	**(363)**	**(1)**	**(1 052)**	**(9)**	**6 010**

2008

	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Foreign exchange movements Rm	Depreciation Rm	Impairment charge Rm	Closing balance Rm
Computer equipment	1 397	443	—	(13)	—	(461)	—	1 366
Freehold property	1 480	132	—	(83)	—	(29)	—	1 500
Furniture and other equipment	1 241	1 544	4	(64)	—	(274)	—	2 451
Leasehold property	140	—	—	—	—	(26)	—	114
	4 258	2 119	4	(160)	—	(790)	—	5 431

Comparatives have been restated, refer to note 1.23.

The fair value of freehold property is determined by both external and internal valuers. The most recent valuation was performed during 2009 and indicated that the fair value of the freehold property amounts to R2 714 million.

The previous valuation was performed during December 2007 and indicated that the fair value of the freehold property amounted to R1 712 million.

Leasehold property and computer equipment with a carrying value of R228 million (2008: R160 million) are encumbered under finance leases (refer to note 20).

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.

Included in the above additions is R609 million that relates to expenditure capitalised to the cost of the asset during the course of its construction. This asset is disclosed under freehold property and the total carrying amount is R1 162 million.

Note

[1] *The values reflected are at net asset value at the date of acquisition and relate to the acquisition of the assets of Meeg Bank Limited as a going concern, a subsidiary of Absa Group Limited. The values reflected in the cost and accumulated depreciation table above are at gross amounts.*

	Bank		
	2009 Rm	2008 Rm	2007 Rm

17. Deferred tax

17.1 Reconciliation of net deferred tax liabilities

	2009 Rm	2008 Rm	2007 Rm
Balance at the beginning of the year	**2 657**	2 240	2 070
Deferred tax asset (raised)/released on STC credits (refer to note 17.4)	**(28)**	(31)	12
Acquisitions/disposals of subsidiaries (refer to note 51)	**159**	(18)	—
Deferred tax on amounts charged directly to other comprehensive income	**(310)**	1 037	(159)
Available-for-sale investments	**(81)**	(66)	33
Fair value measurement	**(52)**	(90)	15
Transfer to the profit and loss component of the statement of comprehensive income	**(29)**	24	18
Cash flow hedges	**(258)**	1 032	(221)
Fair value measurement	**(475)**	574	(530)
Transfer to the profit and loss component of the statement of comprehensive income	**217**	458	309
Retirement benefit asset	**29**	71	29
Charge to the profit and loss component of the statement of comprehensive income (refer to note 37)	**(707)**	(519)	331
Tax effect of translation and other differences	**58**	(52)	(14)
Balance at the end of the year	**1 829**	2 657	2 240

17.2 Deferred tax liabilities/(assets)

	2009 Rm	2008 Rm	2007 Rm
Tax effects of temporary differences between tax and book value for:			
Accruals and provisions	**2 414**	3 416	2 262
Retirement benefit asset	**172**	121	29
Gains on investments	**(467)**	(252)	(161)
Impairment of advances	**(727)**	(962)	(447)
Lease and rental debtor allowances	**463**	512	559
Other	**—**	—	(6)
Property allowances	**60**	(100)	52
Deferred tax liabilities	**1 915**	2 735	2 288
Deferred tax assets	**(86)**	(78)	(48)
Deferred tax asset – normal	**(17)**	(37)	(38)
Deferred tax asset – STC (refer to note 17.4)	**(69)**	(41)	(10)
Net deferred tax liabilities	**1 829**	2 657	2 240

Comparatives have been restated, refer to note 1.23.

	Bank 2009 Rm	2008 Rm	2007 Rm
17. Deferred tax *(continued)*			
17.3 Future tax relief			
The Bank has no estimated tax losses (2008: R1 million). The above figures exclude tax losses and reversing temporary differences of Rnil million (2008: R4 million) for which deferred tax assets have been raised.			
Balance at the beginning of the year	**1**	—	6
Movement in temporary differences	**(1)**	(4)	—
Operating losses incurred	**—**	5	(6)
Balance at the end of the year	**—**	1	—
17.4 Secondary tax on companies (STC)			
Accumulated STC credits	**688**	410	92
Deferred tax asset raised (refer to note 17.2)	**69**	41	10
Raised at 10,0%	**69**	41	6
Raised at 12,5%	**—**	—	4
Movement in deferred tax asset for the year (refer to note 17.1)	**28**	31	(12)

If the total reserves of R31 906 million (2008: R30 609 million) as at the statement of financial position date were to be declared as dividends, the secondary tax impact at a rate of 10,0% (2008: 10,0%) would be R3 191 million (2008: R3 061 million).

	Bank 2009 Rm	2008 Rm	2007 Rm
18. Deposits from banks			
Call deposits	**4 065**	7 299	
Fixed deposits	**3 933**	2 228	
Foreign currency deposits	**1 882**	6 119	
Other deposits	**9 144**	16 623	
Repurchase agreements (refer to note 42)	**24 211**	27 774	
	43 235	60 043	
Portfolio analysis			
Financial liabilities at amortised cost	**35 221**	51 041	
Financial liabilities designated at fair value through profit or loss	**8 014**	9 002	
	43 235	60 043	

Deposits with variable rates are R14 873 million (2008: R30 041 million) and fixed rates are R28 362 million (2008: R30 002 million).

Included above are deposits with the Bank's ultimate parent company of R8 246 million (2008: R14 616 million). Refer to note 44 for the full disclosure of related party transactions.

	Bank 2009 Rm	Bank 2008 Rm
19. Trading and hedging portfolio liabilities		
Derivative liabilities (refer to note 59.3)	**36 957**	67 838
Commodity derivatives	**2 898**	4 619
Credit derivatives	**246**	322
Equity derivatives	**6 130**	4 116
Foreign exchange derivatives	**9 529**	31 492
Interest rate derivatives	**18 154**	27 289
Short positions	**—**	282
Total trading portfolio liabilities	**36 957**	68 120
Hedging portfolio liabilities (refer to note 59.3)	**565**	1 080
	37 522	69 200
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**132**	285
Derivatives designated as fair value hedging instruments	**433**	795
Financial liabilities held for trading	**36 957**	68 120
Derivative liabilities	**36 957**	67 838
Short positions	**—**	282
	37 522	69 200

Included above are derivative positions with the Bank's ultimate parent company of R8 450 million (2008: R15 373 million). Refer to note 44 for the full disclosure of related party transactions.

Included in the financial liabilities held for trading are financial instruments related to the Bank's economic hedging programme with a notional value of R1 851 million (2008: R4 286 million) and a fair value of R169 million (2008: R824 million).

	Bank 2009 Rm	Bank 2008 Rm	Bank 2007 Rm
20. Other liabilities			
Accruals	**493**	519	509
Audit fee accrual	**39**	26	23
Creditors	**5 353**	4 515	4 512
Deferred income	**365**	378	587
Liabilities under finance leases (refer to note 20.1)	**800**	828	884
Settlement balances	**1 899**	906	1 217
Share-based payment liability (refer to note 50)	**140**	304	195
	9 089	7 476	7 927
Portfolio analysis			
Financial liabilities at amortised cost	**7 778**	6 249	6 575
Creditors	**5 079**	4 515	4 474
Liabilities under finance leases	**800**	828	884
Settlement balances	**1 899**	906	1 217
Financial liabilities designated at fair value through profit or loss	**274**	—	38
Non-financial liabilities	**1 037**	1 227	1 314
	9 089	7 476	7 927

Comparatives have been restated, refer to note 1.23.

Included above are settlement accounts with the Bank's ultimate parent company of R127 million (2008: R284 million). Refer to note 44 for the full disclosure of related party transactions.

20. Other liabilities *(continued)*

20.1 Liabilities under finance leases

	Bank 2009 Minimum lease payments due Rm	Interest Rm	Principal Rm
Less than one year	**297**	**(117)**	**180**
Between one and two years	**261**	**(90)**	**171**
Between two and three years	**275**	**(58)**	**217**
Between three and four years	**208**	**(22)**	**186**
Between four and five years	**47**	**(1)**	**46**
	1 088	**(288)**	**800**

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

Under the terms of the leases, no contingent rentals are payable. Refer to note 16 for details of property and equipment subject to finance leases.

20.1.1 Terms and conditions of finance leases

Building	Address	Details
Absa Towers	180 Main Street, Johannesburg 170 Main Street, Johannesburg 10 Troy Street, Johannesburg	Original term of 18 years with negotiable escalation clauses and a renewal date of 31 March 2014.
Bankorp	270 Republic Road, Johannesburg 194 Main Reef Road, Johannesburg 200 Gale Street, Durban 1 Wallace Street, Cape Town 10 Oswald Pirow Street, Cape Town	Original term of 20 years with negotiable escalation clauses and a renewal date of 31 March 2010.
Centro City	11 Trump Street, Johannesburg	Original term of 20 years with negotiable escalation clauses and a renewal date of 31 October 2013.
Roggebaai	31 Lower Long Street, Cape Town	Original term of 20 years with negotiable escalation clauses and a renewal date of 28 February 2014.
Volkskas Centre	230 Van der Walt Street, Pretoria	Original term of 20 years with negotiable escalation clauses and a renewal date of 31 March 2013.

20. Other liabilities *(continued)*

20.1 Liabilities under finance leases *(continued)*

20.1.2 Minimum future income receivable from subleasing

	Bank 2009 Rm	Bank 2008 Rm
Receivable within one year	**40**	25
Receivable within two to five years	**2**	25
	42	50

21. Provisions

Bank

2009

	Redundancy and restructuring provision Rm	Staff bonus and incentive provision Rm	Sundry provisions Rm	Total Rm
Balance at the beginning of the year	**3**	**1 274**	**616**	**1 893**
Additions	**—**	**518**	**399**	**917**
Amounts used	**(3)**	**(930)**	**(279)**	**(1 212)**
Release of provision subject to share-based payment arrangement	**—**	**(112)**	**—**	**(112)**
Balance at the end of the year	**—**	**750**	**736**	**1 486**

2008

	Redundancy and restructuring provision Rm	Staff bonus and incentive provision Rm	Sundry provisions Rm	Total Rm
Balance at the beginning of the year	—	1 512	741	2 253
Additions	3	1 417	216	1 636
Amounts used	—	(1 655)	(341)	(1 996)
Balance at the end of the year	3	1 274	616	1 893

2007

	Redundancy and restructuring provision Rm	Staff bonus and incentive provision Rm	Sundry provisions Rm	Total Rm
Balance at the beginning of the year	—	1 224	491	1 715
Additions	—	1 422	368	1 790
Amounts used	—	(1 134)	(118)	(1 252)
Balance at the end of the year	—	1 512	741	2 253

Comparatives have been reclassified, refer to note 1.23.

Provisions expected to be recovered or settled within no more than 12 months after the statement of financial position date were R846 million (2008: R1 415 million). Sundry provisions are made with respect to fraud cases and litigation claims.

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

		Bank 2009 Rm	Bank 2008 Rm
22.	**Deposits due to customers**		
	Call deposits	**56 372**	62 055
	Cheque account deposits	**89 630**	96 311
	Credit card deposits	**1 868**	2 051
	Fixed deposits	**105 928**	123 752
	Foreign currency deposits	**7 211**	10 034
	Liabilities to clients under acceptances	**3**	121
	Notice deposits	**10 293**	7 148
	Other deposits[1]	**8 066**	12 504
	Repurchase agreements with non-banks (refer to note 42)	**1 712**	2 217
	Savings and transmission deposits	**62 680**	56 983
		343 763	373 176
	Portfolio analysis		
	Financial liabilities at amortised cost	**331 210**	361 757
	Call deposits	**56 372**	62 055
	Cheque account deposits	**89 630**	96 311
	Credit card deposits	**1 868**	2 051
	Fixed deposits	**97 137**	114 550
	Foreign currency deposits	**7 211**	10 034
	Liabilities to clients under acceptances	**3**	121
	Notice deposits	**10 293**	7 148
	Other deposits[1]	**6 016**	12 504
	Savings and transmission deposits	**62 680**	56 983
	Financial liabilities designated at fair value through profit or loss	**12 553**	11 419
	Fixed deposits	**8 791**	9 202
	Other deposits	**2 050**	—
	Repurchase agreements with non-banks	**1 712**	2 217
		343 763	373 176

Note

[1]*Included in other deposits are partnership contributions received, deposits due on structured deals, preference investments on behalf of clients and unclaimed deposits.*

		Bank 2009 Rm	Bank 2008 Rm
23.	**Debt securities in issue**		
	Abacas – Commercial paper issued and floating rate notes	**4 936**	6 640
	Credit linked notes	**8 025**	6 962
	Floating rate notes	**84 925**	63 906
	Negotiable certificates of deposit	**59 690**	69 364
	Other debt securities in issue	**15**	—
	Promissory notes	**4 741**	3 823
	Replica bonds	**1 534**	5 740
	Senior notes	**5 922**	2 607
		169 788	159 042

	Bank 2009 Rm	Bank 2008 Rm
23. Debt securities in issue *(continued)*		
Portfolio analysis		
Amortised cost items held in a fair value hedging relationship	**6 046**	8 322
Floating rate notes	**5 959**	8 074
Negotiable certificates of deposit	**87**	248
Financial liabilities at amortised cost	**159 094**	144 651
Abacas – Commercial paper issued and floating rate notes	**4 936**	6 640
Credit linked notes	**7 833**	6 633
Floating rate notes	**78 966**	55 832
Negotiable certificates of deposit	**59 596**	69 116
Promissory notes	**1 841**	3 823
Senior notes	**5 922**	2 607
Financial liabilities designated at fair value through profit or loss	**4 648**	6 069
Credit linked notes	**192**	329
Negotiable certificates of deposit	**7**	—
Other debt securities in issue	**15**	—
Promissory notes	**2 900**	—
Replica bonds	**1 534**	5 740
	169 788	159 042

24. Loans from Absa Group companies

	Bank 2009 Rm	Bank 2008 Rm
Fellow subsidiaries	**3 464**	3 946
Portfolio analysis		
Financial liabilities at amortised cost	**3 464**	3 946

25. Borrowed funds

Subordinated callable notes

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

Interest rate	*Final maturity date*	*Note*	Bank 2009 Rm	Bank 2008 Rm
14,25%	22 March 2014	i	**—**	3 100
10,75%	26 March 2015	ii	**1 100**	1 100
8,75%	1 September 2017	iii	**1 500**	1 500
8,10%	27 March 2020	iv	**2 000**	2 000
8,80%	7 March 2019	v	**1 725**	1 725
Three-month JIBAR + 0,75%	26 March 2015	vi	**400**	400
CPI-linked notes, fixed at the following coupon rates:				
6,25%	31 March 2018	vii	**1 886**	1 886
6,00%	20 September 2019	viii	**3 000**	—
5,50%	7 December 2028	ix	**1 500**	—
Accrued interest			**575**	378
Fair value adjustment			**(156)**	54
			13 530	12 143
Portfolio analysis				
Subordinated callable notes designated at fair value through profit or loss			**718**	671
Subordinated callable notes held at amortised cost			**7 221**	4 917
Subordinated callable notes in a fair value hedging relationship			**5 591**	6 555
			13 530	12 143

25. Borrowed funds *(continued)*

i The 14,25% fixed rate notes were redeemed in full on 22 March 2009. Interest was paid semi-annually in arrear on 22 March and 22 September of each year.

ii 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.

iii 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.

iv 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.

v 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.

vi 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%.

vii The 6,25% CPI-linked notes may be redeemed at the option of Absa Bank Limited on 31 March 2013. Interest is paid semi-annually in arrear on 31 March and 30 September 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 CPI-linked rate payable will convert to JIBAR plus a spread which will be payable quarterly in arrear on 31 March, 30 June, 30 September and 31 December.

viii The 6,00% CPI-linked notes, may be redeemed in full at the option of Absa Bank Limited on 20 September 2014. Interest is paid semi-annually in arrear on 20 March and 20 September of each year, provided that the last date of payment shall be 20 September 2014. If Absa Bank Limited does not exercise the redemption option, a coupon step-up of 150 basis points shall apply.

ix The 5,50% CPI-linked notes may be redeemed in full option of Absa Bank Limited on 7 December 2023. Interest is paid semi-annually in arrear on 7 June and 7 December each year, provided that the last date for payment shall be 7 December 2023. If Absa Bank Limited does not exercise the redemption option, a coupon step-up of 150 basis points shall apply.

All the above notes are listed on the Bond Exchange of South Africa.

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

	Bank 2009 Rm	Bank 2008 Rm
26. Share capital and premium		
26.1 Ordinary share capital		
Authorised		
320 000 000 (2008: 320 000 000) ordinary shares of R1,00 each	**320**	320
250 000 000 (2008: 250 000 000) 'A' ordinary shares of R0,01 each	**3**	3
	323	323
Issued		
302 609 359 (2008: 302 609 359) ordinary shares of R1,00 each	**303**	303
65 066 161 (2008: 56 444 764) 'A' ordinary shares of R0,01 each	**0**	0
	303	303
Total issued capital		
Share capital	**303**	303
Share premium	**10 465**	9 415
	10 768	9 718

Unissued shares

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

Shares issued during the current year

On 1 September 2009, 8 621 397 'A' ordinary shares were issued at R121,79 per share, being R0,01 par value and R121,78 share premium to Absa Group Limited.

Shares issued during the previous year

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

All shares issued by the Company were paid in full.

	Bank 2009 Rm	Bank 2008 Rm
26.2 Preference share capital – listed		
Authorised		
30 000 000 (2008: 30 000 000) non-cumulative non-redeemable preference shares of R0,01 each	**1**	1
Issued		
4 944 839 (2008: 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 63,0% 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 by the Company is proposed which directly affects the rights attached to the non-redeemable preference shares or the interest of the holders thereof.

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 other comprehensive income is released to the profit and loss component of the statement of comprehensive income.

Cash flow hedging reserve

The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Associates' and joint ventures' reserves

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

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. No reserve is currently recognised as there is no shortfall in the Company.

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 profit and loss component of the statement of comprehensive income, 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 profit and loss component of the statement of comprehensive income.

	Bank 2009 Rm	Bank 2008 Rm

28. Interest and similar income

	2009 Rm	2008 Rm
Interest and similar income is earned from:		
Fair value adjustments on financial instruments used for interest rate management	**781**	(1 923)
Investments	**499**	593
Loans and advances to banks	**2 339**	4 024
Other loans and advances to banks	**1 265**	2 393
Reverse repurchase agreements	**1 074**	1 631
Loans and advances to customers	**56 452**	66 116
Cheque accounts	**3 057**	3 575
Corporate overdrafts and specialised finance loans	**1 102**	1 102
Credit cards	**2 395**	2 772
Foreign currency loans	**542**	745
Instalment credit agreements	**7 497**	9 384
Interest on impaired financial assets (refer to note 10)	**936**	521
Loans granted under resale agreements	**258**	662
Loans to associates and joint ventures	**645**	756
Microloans	**891**	1 029
Mortgages	**30 736**	37 588
Other advances[1]	**562**	852
Overnight finance	**1 108**	1 438
Personal and term loans	**2 789**	3 044
Preference shares	**910**	1 118
Wholesale overdrafts	**3 024**	1 530
Other interest	**681**	600
Statutory liquid asset portfolio	**1 781**	4 065
	62 533	73 475
Portfolio analysis		
Fair value adjustments on amortised cost and available-for-sale items held in a fair value hedging relationship (refer to note 59.2)	**(734)**	1 156
Loans and advances to customers	**34**	—
Statutory liquid asset portfolio	**(768)**	1 156
Fair value adjustments on derivatives	**781**	(1 923)
Cash flow hedges (refer to note 59.2)	**244**	(1 301)
Fair value hedges (refer to note 59.2)	**690**	(933)
Economic hedges	**(153)**	311
Interest on financial assets held at amortised cost and available-for-sale	**61 318**	73 355
Interest on financial assets designated at fair value through profit or loss	**1 168**	887
Debt instruments	**499**	299
Loans and advances	**423**	299
Statutory liquid asset portfolio	**246**	289
	62 533	73 475

Comparatives have been reclassified, refer to note 1.23.

Included above is interest received from the Bank's ultimate parent company of R215 million (2008: R1 018 million). Refer to note 44 for the full disclosure of related party transactions.

Note

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

	Bank 2009 Rm	Bank 2008 Rm
29. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	**1 015**	1 789
Debt securities in issue	**15 976**	18 506
Deposits due to customers	**24 978**	31 834
Call deposits	**4 649**	7 095
Cheque account deposits	**4 062**	5 695
Credit card deposits	**30**	75
Fixed deposits	**10 629**	13 010
Foreign currency deposits	**534**	965
Notice deposits	**582**	585
Other deposits	**1 416**	1 299
Savings and transmission deposits	**3 076**	3 110
Deposits from banks	**701**	1 100
Call deposits	**535**	658
Fixed deposits	**131**	160
Other	**35**	282
Fair value adjustments on hedging instruments	**(222)**	(467)
Interest incurred on finance leases	**130**	148
Other interest	**67**	15
	42 645	52 925
Portfolio analysis		
Fair value adjustments on amortised cost items held in a fair value hedging relationship (refer to note 59.2)	**(410)**	818
Borrowed funds	**(223)**	368
Debt securities in issue	**(187)**	450
Fair value adjustments on hedging instruments	**(222)**	(467)
Cash flow hedges (refer to note 59.2)	**(512)**	363
Fair value hedges (refer to note 59.2)	**290**	(830)
Interest on financial liabilities designated at fair value through profit or loss	**1 589**	1 666
Debt securities in issue	**786**	706
Deposits due to customers	**803**	960
Interest on financial liabilities held at amortised cost	**41 688**	50 908
	42 645	52 925

Included above is interest paid to the Bank's ultimate parent company of R54 million (2008: R259 million). Refer to note 44 for the full disclosure of related party transactions.

	Bank 2009 Rm	Bank 2008 Rm
30. Net fee and commission income		
Fee and commission income		
Asset management and other related fees	**100**	72
Consulting and administration fees	**127**	163
Credit-related fees and commissions	**12 061**	11 151
Credit cards[1]	**1 710**	1 570
Cheque accounts	**3 168**	2 990
Electronic banking	**3 490**	3 013
Other	**1 405**	1 473
Savings accounts	**2 288**	2 105
Insurance commission received	**323**	384
Other fees and commissions	**88**	98
Project finance fees	**268**	474
Trust and other fiduciary services	**26**	25
Portfolio and other management fees	**10**	17
Trust and estate income	**16**	8
	12 993	12 367
Fee and commission expense	**(746)**	(647)
	12 247	11 720

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

Note

[1]*Includes merchant, acquiring and issuing fees.*

30.1 Included above are net fees and commissions linked to financial instruments not at fair value

	Bank 2009 Rm	Bank 2008 Rm
Fee and commission income		
Credit cards	**811**	724
Cheque accounts	**3 168**	2 990
Electronic banking	**3 490**	3 013
Other	**1 029**	651
Savings accounts	**2 288**	2 105
	10 786	9 483
Fee and commission expense	**(193)**	(168)
	10 593	9 315

	Bank 2009 Rm	Bank 2008 Rm
31. Gains and losses from banking and trading activities		
Associates and joint ventures	**(13)**	—
Dividends received	**45**	—
Loss realised on disposal	**(58)**	—
Available-for-sale unwind from reserve	**115**	(85)
Equity instruments	**219**	—
Statutory liquid asset portfolio	**(104)**	(85)
Financial instruments designated at fair value through profit or loss	**91**	(940)
Debt instruments	**(31)**	138
Debt securities in issue	**(125)**	(765)
Deposits from banks and due to customers	**(434)**	(3 400)
Equity instruments	**59**	1 241
Loans and advances to banks and customers	**610**	1 852
Statutory liquid asset portfolio	**12**	(6)
Financial instruments held for trading		
Derivatives and trading instruments	**2 373**	4 032
Ineffective hedges	**(19)**	89
Cash flow hedges (refer to note 59.2)	**(3)**	(18)
Fair value hedges (refer to note 59.2)	**(16)**	107
	2 547	3 096

Comparatives have been reclassified, refer to note 1.23.

	Bank 2009 Rm	Bank 2008 Rm
32. Gains and losses from investment activities		
Available-for-sale unwind from reserves		
Equity instruments	**1**	—
Financial instruments designated at fair value through profit or loss		
Equity instruments	**66**	37
Subsidiaries	**1**	54
Dividends received	**1**	1
Profit realised on disposal	**—**	53
	68	91

	Bank 2009 Rm	Bank 2008 Rm
33. Other operating income		
Exchange differences	**6**	125
Income from investment property	**20**	22
Change in fair value of investment property (refer to note 15)	**12**	—
Investment property rentals	**8**	22
Income from maintenance contracts	**26**	48
Profit on disposal of intangible assets	**65**	740
Profit on disposal of property and equipment	**55**	48
Profit on sale of repossessed properties	**8**	8
Gross sales	**107**	135
Cost of sales	**(99)**	(127)
Rental income	**215**	108
Sundry income[1]	**341**	71
	736	1 170

Comparatives have been restated, refer to note 1.23.

Included above is income received from the Bank's ultimate parent company of R37 million (2008: R211 million). Refer to note 44 for the full disclosure of related party transactions.

Note

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

	Bank 2009 Rm	Bank 2008 Rm
34. Operating expenses		
Amortisation of intangible assets (refer to note 14)	**62**	103
Auditors' remuneration	**113**	88
Audit fees	**77**	56
Audit fees – underprovision from prior periods	**8**	6
Other fees	**28**	26
Cash transportation	**371**	320
Depreciation (refer to note 16)	**1 052**	790
Equipment costs	**199**	207
Rentals	**121**	135
Maintenance	**78**	72
Information technology	**1 592**	1 373
Investment property charges	**4**	13
Change in fair value of investment property (refer to note 15)	**—**	7
Operating expenses	**4**	6
Marketing costs	**799**	896
Operating lease expenses on property	**815**	987
Other operating costs[1]	**1 615**	1 549
Printing and stationery	**239**	225
Professional fees	**710**	821
Research and development cost	**146**	114
Staff costs	**9 242**	10 268
Bonuses	**518**	1 440
Current service costs on post-retirement benefits	**542**	529
Other staff costs[2]	**287**	487
Salaries	**7 523**	7 505
Share-based payments (refer to note 50)	**211**	120
Training costs	**161**	187
Telephone and postage	**676**	744
	17 635	18 498
Average number of employees employed by the Bank	**31 851**	32 959
Number of employees employed by the Bank at year-end	**30 627**	33 074

Comparatives have been restated, refer to note 1.23.

Notes

[1]Other operating costs include accommodation, travel and entertainment costs.

[2]Other staff costs include recruitment costs, membership fees to professional bodies, staff parking, redundancy fees, study assistance, staff relocation and refreshments costs.

	Bank 2009 Rm	Bank 2008 Rm
35. Other impairments		
Financial instruments		
Available-for-sale instruments (refer to note 12.1)	**36**	1
Other	**1 400**	(12)
Computer software development costs (refer to note 14)	**—**	1
Equipment (refer to note 16)	**9**	—
Goodwill (refer to note 14)	**37**	—
Investments in associates and joint ventures (refer to note 13.1)	**1 328**	—
Repossessed properties	**26**	(13)
	1 436	(11)

During the year the Bank sold contractual rights it had generated in Ambit Management Services (Proprietary) Limited. The company is now dormant and consequently the goodwill previously recognised on this investment has been written off.

During the year under review, indications existed that the carrying amount of the investments in associates, that arose as a result of client defaults on single stock futures within Absa Capital, would not be recoverable. The recoverable amount is the fair value less costs to sell and was based on the Bank's best estimate of the price the Bank would achieve in a sale transaction of these investments. These investments have consequently been impaired.

35. 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 'Absa Capital' segment.
- Impairments on equipment are reported in the 'Business Bank' segment.
- Impairments on goodwill is reported in the 'Other' segment.
- Impairments on investments in associates and joint ventures are reported in the 'Absa Capital' segment.
- The impairment of repossessed properties is reported in the 'Retail banking' segment.

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

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

	Bank	
	2009 Rm	2008 Rm
36. Indirect taxation		
Payments to third parties	**1**	46
Training levy	**75**	75
Value added tax net of input credits	**688**	509
	764	630
37. Taxation expense		
Current		
Foreign taxation	**800**	413
Secondary taxation on companies (STC)	**62**	119
South African current taxation	**1 210**	3 025
South African current taxation – prior year	**104**	(11)
	2 176	3 546
Deferred		
Deferred taxation (refer to note 17.1)	**(707)**	(519)
Accelerated tax depreciation	**(117)**	(149)
Retirement benefit asset	**21**	22
Allowances for loan losses	**(231)**	(547)
Other provisions	**129**	14
Other temporary differences	**(509)**	141
	1 469	3 027
Reconciliation between accounting profit and the tax expense		
Operating profit before income tax	**7 209**	11 948
Share of retained losses/(earnings) of associates and joint ventures	**50**	(65)
	7 259	11 883
Tax calculated at a tax rate of 28,0%	**2 033**	3 327
Effect of different tax rates in other countries	**(300)**	(33)
Effect on opening deferred taxes resulting from the reduction in the income tax rate	**—**	(27)
Expenses not deductible for tax purposes	**83**	145
Income not subject to tax	**(409)**	(496)
Other	**—**	(8)
Secondary taxation on companies	**62**	119
	1 469	3 027

Comparatives have been restated, refer to note 1.23.

The effective STC rate is lower than the statutory rate of 10,0% due to STC being provided for dividends declared net of dividends received and unutilised STC credits from prior years.

	Bank	
	2009 Rm	2008 Rm

38. Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the ordinary equity holder of the Bank, obtained from the profit and loss component of the statement of comprehensive income, by the weighted average number of ordinary shares outstanding during the year.

	2009 Rm	2008 Rm
Profit attributable to the ordinary equity holder of the Bank	**5 315**	8 464
Weighted average number of ordinary shares in issue (millions)	**362,1**	354,6
Issued shares at the beginning of the year (millions)	**359,1**	337,3
Effect of shares issued during the year (weighted millions)	**3,0**	17,3
Basic earnings per share (cents)	**1 467,8**	2 386,9
Diluted earnings per share (cents)	**1 467,8**	2 386,9

Comparatives have been restated, refer to note 1.23.

39. Headline earnings

	Bank			
	2009		2008	
	Gross Rm	**Net[1] Rm**	Gross Rm	Net[1] Rm
Headline earnings is determined as follows:				
Net profit attributable to the ordinary equity holder of the Bank		**5 315**		8 464
Adjustments for:				
IFRS 3 – Business combinations (goodwill) (refer to notes 35 and 51)	**(113)**	**(113)**	(17)	(17)
IAS 16 – Net profit on disposal of property and equipment (refer to note 33)	**(55)**	**(49)**	(48)	(35)
IAS 21 – Recycled foreign currency translation reserve, disposal of investments in foreign operations	**(25)**	**(25)**	(8)	(8)
IAS 27 – Net profit on disposal of subsidiaries (refer to note 32)	**—**	**—**	(53)	(45)
IAS 28 – Headline earnings component of associates' and joint ventures' earnings	**10**	**11**	(58)	(53)
IAS 28 and 31 – Net loss on disposal of associates and joint ventures (refer to note 31)	**58**	**50**	—	—
IAS 28 and 31 – Impairment of investments in associates and joint ventures (refer to note 35)	**1 328**	**956**	—	—
IAS 36 – Impairment of equipment (refer to note 35)	**9**	**6**	—	—
IAS 38 – Net profit on disposal and impairment of intangible assets (refer to notes 33 and 35)	**(65)**	**(56)**	(739)	(636)
IAS 39 – Release of available-for-sale reserves	**(105)**	**(115)**	85	61
IAS 39 – Net profit on disposal and impairment of available-for-sale assets	**25**	**16**	43	32
IAS 40 – Change in fair value of investment property (refer to notes 33 and 34)	**(12)**	**(10)**	7	7
Headline earnings		**5 986**		7 770
Diluted headline earnings		**5 986**		7 770
Headline earnings per share (cents)		**1 653,1**		2 191,2
Diluted headline earnings per share (cents)		**1 653,1**		2 191,2

Comparatives have been restated, refer to note 1.23.

Note

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

	Bank 2009 Rm	2008 Rm	2007 Rm
40. Retirement benefit obligations			
Statement of financial position obligation disclosed in other liabilities (refer to note 20)			
Other post-retirement benefits	**—**	1	1
Statement of comprehensive income charge included in staff costs			
Pension benefits – Absa Group Pension Fund (refer to note 40.1)	**(76)**	(78)	(135)
Comparatives have been restated, refer to note 1.23.			
40.1 Defined benefit plan			
Funded obligation			
Present value of funded obligations	**(4 900)**	(4 833)	(4 497)
Fair value of plan assets	**5 853**	5 659	5 765
Net assets before statutory surplus and investment reserve account	**953**	826	1 268
Investment reserve account	**—**	—	(864)
Statutory surplus as per the rules of the fund	**(337)**	(391)	(299)
Net surplus (refer to note 6)	**616**	435	105
Reconciliation of movement in obligation			
Balance at the beginning of the year	**4 833**	4 497	3 928
Actuarial losses	**95**	358	630
Benefits paid	**(422)**	(389)	(355)
Current service costs	**1**	1	1
Interest expense	**393**	366	293
Balance at the end of the year	**4 900**	4 833	4 497
Reconciliation of movement in plan assets			
Balance at the beginning of the year	**5 659**	5 765	5 511
Actuarial gains/(losses)	**145**	(163)	179
Benefits paid	**(422)**	(389)	(355)
Employer contributions	**1**	1	1
Expected return on plan assets	**470**	445	429
Balance at the end of the year	**5 853**	5 659	5 765
Pension fund plan assets			
Debt instruments	**2 272**	2 252	2 294
Equity instruments	**2 348**	3 197	3 257
Other assets	**1 233**	210	214
	5 853	5 659	5 765

Pension fund assets include ordinary shares with a fair value of R23 million (2008: R219 million) and interest-bearing instruments issued by the Bank with a fair value of R240 million (2008: R52 million). Refer to note 44 for the full disclosure of related party transactions.

The Bank expects to contribute R1 million (2009: R1 million) to its defined benefit plan in 2010.

There was a return on assets of R365 million (2008: negative return of R360 million).

The expected return on assets is determined by calculating a total return estimate based on weighted average returns for each class. Asset class returns are estimated using current and projected economic and market factors such as inflation, credit spreads and equity risk premiums.

	Bank 2009 Rm	2008 Rm	2007 Rm
Total expenses/(income) comprises:			
Current service costs (included in staff costs)	**1**	1	1
Expected return on plan assets	**(470)**	(445)	(429)
Interest expense	**393**	366	293
Total income	**(76)**	(78)	(135)
Recognised in other comprehensive income			
Actuarial (gains)/losses	**(53)**	521	466
Application of the asset ceiling adjustment	**(52)**	(773)	(436)
	(105)	(252)	30

40. Retirement benefit obligations *(continued)*

40.1 Defined benefit plan *(continued)*

	Bank			
	2009 Rm	2008 Rm	2007 Rm	2006 Rm
Historical information as at the statement of financial position date				
Present value of defined benefit obligation	**(4 900)**	(4 833)	(4 497)	(3 928)
Fair value of plan assets	**5 853**	5 659	5 765	5 511
Net assets before statutory surplus and investment reserve account	**953**	826	1 268	1 583
Investment reserve account	**—**	—	(864)	(1 377)
Statutory surplus as per the rules of the fund	**(337)**	(391)	(299)	(100)
Net surplus	**616**	435	105	106
Experience adjustments on plan assets	**145**	(163)	179	747
Experience adjustments on plan liabilities	**95**	358	630	239

	Bank		
	2009	2008	2007
The principal actuarial assumptions used for the defined benefit plan were as follows:			
Discount rate (%)	**9,5**	7,5	8,5
Expected return on plan assets (%)	**8,0**	8,0	8,0
Future salary increases	**7,0% + merit**	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	**20,6**	20,4	20,4
Female	**25,5**	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.

40.2 Post-retirement benefits

All permanent employees are members of the Absa Group Pension Fund (the fund), with the exception of employees that have commenced employment within the Bank at the age of 55 or older. All members, at 31 March 1997, had the option to convert to the defined contribution structure of which the majority did. Members joining the fund on or after 1 April 1997 are only entitled to benefits under the defined contribution structure.

Of the employees belonging to the fund, 35 827 (2008: 37 666) were members of the defined contribution structure, while 43 (2008: 44) were members of the defined benefit structure.

The value of defined contribution assets at the statement of financial position date amounted to R11 363 million (2008: R10 405 million). Current service costs for the year amounted to R617 million (2008: R608 million).

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. The expense or income recorded in the profit and loss component of the statement of comprehensive income is determined by the sum of the current service cost, expected return on plan assets and interest expense. It is the Bank's policy to ensure that the fund is adequately funded to provide for the benefits of members, and particularly to ensure that any shortfall with regard to the defined benefit structure will be met by way of additional contributions.

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

40. Retirement benefit obligations *(continued)*

40.2 Post-retirement benefits *(continued)*

The fund is governed by the Pension Funds Act of 1956, which requires that an actuarial valuation be carried out at least every three years. The most recent statutory valuation of the fund was effected on 1 April 2008 and confirmed that the fund was in a sound financial position. This valuation was in accordance with the Pension Funds Second Amendment Act of 2001 (the Act). This Act facilitates the determination of the surplus apportionment to members, while avoiding the inappropriate distribution of surpluses. The Act requires that a fund explicitly establish additional contingency reserves to ensure the financial soundness of the fund going forward. The valuation has been performed using the 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.

	Bank	
	2009 Rm	2008 Rm
41. Dividends per share		
Dividends paid to the ordinary equity holder during the year		
9 February 2009 final dividend number 45 of 429,6 cents per ordinary share (19 February 2008: 323,8 cents)	**1 300**	980
3 August 2009 interim dividend number 46 of 139,3 cents per ordinary share (7 August 2008: 322,2 cents)	**500**	975
1 September 2009 special dividend of R121,79 per 'A' ordinary share (17 March 2008: R183,75)	**1 050**	4 000
	2 850	5 955
Dividends paid to the ordinary equity holder relating to income for the year		
3 August 2009 interim dividend number 46 of 139,3 cents per ordinary share (7 August 2008: 322,2 cents)	**500**	975
1 September 2009 special dividend of R121,79 per 'A' ordinary share (17 March 2008: R183,75)	**1 050**	4 000
16 February 2010 final dividend number 47 of 244,8 cents per ordinary share (9 February 2009: 429,6 cents)	**900**	1 300
	2 450	6 275
The STC payable by the Bank in respect of the dividend approved and declared subsequent to the statement of financial position date, amounts to R90 million (2008: R130 million).		
No provision has been made for this dividend and the related STC in the financial statements at the statement of financial position date.		
Dividends paid to preference equity holders during the year		
9 February 2009 final dividend number 6 of 4 734,5 cents per preference share (19 February 2008: 4 436,0 cents)	**234**	219
3 August 2009 interim dividend number 7 of 3 799,0 cents per preference share (7 August 2008: 4 797,5 cents)	**187**	238
	421	457

	Bank 2009 Rm	Bank 2008 Rm
41. Dividends per share *(continued)*		
Dividends paid to preference equity holders relating to income for the year		
3 August 2009 interim dividend number 7 of 3 799,0 cents per preference share (7 August 2008: 4 797,5 cents)	**187**	238
16 February 2010 final dividend number 8 of 3 280,3 cents per preference share (9 February 2009: 4 734,5 cents)	**162**	234
	349	472

The STC payable by the Bank in respect of the dividend approved and declared subsequent to the statement of financial position date amounts to R16 million (2008: R24 million). No provision has been made for this dividend and the related STC in the financial statements at the statement of financial position date.

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

Reverse repurchase agreements and cash collateral on securities borrowed

Reverse repurchase agreements are accounted for as collateralised loans under loans and advances. No cash collateral on securities borrowed was held during the year (2008: Rnil).

	Bank	
	Reverse purchase agreements 2009 Rm	Reverse purchase agreements 2008 Rm
Assets		
Banks (refer to note 4)	**8 932**	17 247
Customers (refer to note 9)	**1 988**	7 072
Statutory liquid assets (refer to note 3)	**1 941**	4 100
	12 861	28 419

As part of the reverse repurchase agreements, the Bank has received securities as collateral that are allowed to be sold or repledged. The fair value of these securities at the statement of financial position date amounts to R10 920 million (2008: R24 261 million) of which R6 306 million (2008: R18 636 million) have been sold or repledged.

Repurchase agreements

Securities lent or sold subject to a commitment to repurchase them are retained in the statement of financial position where substantially all the risks and rewards remain with the Bank. Amounts received from the counterparty are treated as deposits.

	Bank Repurchase agreements	
	2009 Rm	2008 Rm
Liabilities		
Banks (refer to note 18)	**24 211**	27 774
Customers (refer to note 22)	**1 712**	2 217
	25 923	29 991

The assets transferred and not derecognised in the above repurchase agreements are valued at R10 297 million (2008: R5 178 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 and advances to banks' of R9 320 million (2008: R6 177 million), refer to note 4.

	Bank	
	2009 Rm	2008 Rm
43. Securitisations		
In the ordinary course of business, the Bank enters into transactions that result in the transfer of assets to third parties or SPEs. The information below sets out the extent of such transfers.		
Transferred assets		
Cars securitisation	**1 109**	2 913
Homes securitisation	**3 204**	3 335
	4 313	6 248

Cars securitisation

The Bank has transferred instalment credit agreements to Collateralised Auto Receivables Securitisation (Proprietary) Limited (Cars). This entity is consolidated by Absa Group Limited based on the following conclusions reached in terms of SIC-12:

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

Accordingly, the instalment credit agreements are included in the statement of financial position under 'Loans and advances to customers'.

Refer to note 23 for further details on the related liabilities.

Homes securitisation

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

- Absa Group Limited bears credit risk through a subordinated loan advanced to Homes.
- Absa Group Limited receives a return on the subordinated loan, a service fee and the residual income in Homes.
- Absa Group Limited retains the majority of the residual or ownership risks relating to Homes through the subordinated loan.
- Accordingly the retail mortgages are included in the statement of financial position under 'Loans and advances to customers'.

Refer to note 23 for further details on the related liabilities.

44. Related parties

The Bank's ultimate parent company is Barclays PLC (incorporated in the United Kingdom), which owns 55,5% (2008: 58,6%) of the ordinary shares of Absa Group Limited. The remaining 44,5% (2008: 41,4%) of the shares are widely held on the JSE.

The following are defined as related parties of the Bank:

- Key management personnel (refer to notes 44.1 and 44.2).
- The ultimate parent, Barclays Bank PLC (refer to note 44.3).
- The parent company, Absa Group Limited (refer to note 44.4).
- Subsidiaries (refer to note 44.5).
- Associates, joint ventures and retirement benefit funds (refer to note 44.6).
- An entity controlled/jointly controlled or significantly influenced by any individual referred to above.
- Post-employment benefit plans for the benefit of employees or any entity that is a related party of the Bank.
- Children or dependants of the individuals referred to above or the spouses of the individuals referred to above.

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

44. Related parties *(continued)*

44.1 Transactions with key management personnel

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

	Bank			
	Transactions with key management 2009 Rm	**Transactions with entities controlled by key management 2009 Rm**	Transactions with key management 2008 Rm	Transactions with entities controlled by key management 2008 Rm
Loans				
Loans outstanding at the beginning of the year	**18**	**59**	19	47
Loans issued	**39**	**27**	88	65
Loans repaid	**(46)**	**(56)**	(86)	(16)
(Discontinuance)/inception of related party relationships and other	**—**	**(20)**	(3)	(37)
Loans outstanding at the end of the year	**11**	**10**	18	59
Interest income earned	**2**	**2**	2	1

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

	Bank			
	Transactions with key management 2009 Rm	**Transactions with entities controlled by key management 2009 Rm**	Transactions with key management 2008 Rm	Transactions with entities controlled by key management 2008 Rm
Deposits				
Deposits at the beginning of the year	**7**	**10**	27	11
Deposits received	**168**	**160**	100	102
Deposits repaid	**(157)**	**(189)**	(95)	(96)
(Discontinuance)/inception of related party relationships and other	**1**	**24**	(25)	(7)
Deposits at the end of the year	**19**	**5**	7	10
Interest expense on deposits	**1**	**1**	1	1
Guarantees issued by the Bank	**52**	**5**	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.

44. Related parties *(continued)*

44.1 Transactions with key management personnel *(continued)*

	Bank			
	Transactions with key management 2009 Rm	**Transactions with entities controlled by key management 2009 Rm**	Transactions with key management 2008 Rm	Transactions with entities controlled by key management 2008 Rm
Other investments				
Opening balance at the beginning of the year	**136**	**49**	110	19
Value of new investments/contributions made	**101**	**2**	52	33
Value of withdrawals/disinvestments/ repurchases made	**(123)**	**(4)**	(24)	(5)
Fees and charges	**(1)**	**0**	0	0
Investment return	**28**	**7**	2	(1)
(Discontinuance)/inception of related party relationships and other	**(57)**	**(12)**	(4)	3
Closing balance at the end of the year	**84**	**42**	136	49

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.

Insurance premiums paid and claims received

Key management personnel paid insurance premiums of R0,4 million (2008: R0,5 million). Key management personnel received claims which in total were R0,03 million (2008: R0,2 million). These transactions are entered into in the normal course of business, under terms that are no more favourable than those arranged with third parties.

	Bank 2009 Rm	Bank 2008 Rm
44. Related parties *(continued)*		
44.2 Key management personnel compensation		
Directors		
Post-employment benefits	**1**	1
Salaries and other short-term benefits	**28**	49
Share-based payments	**26**	11
Termination benefits	**22**	—
	77	61
Other key management personnel		
Post-employment benefits	**1**	1
Salaries and other short-term benefits	**19**	33
Share-based payments	**17**	11
Termination benefits	**9**	—
	46	45
44.3 Transactions with ultimate parent company		
The following are balances with, and transactions entered into with, the ultimate parent company:		
Balances		
Loans and advances (refer to note 4)	**10 433**	13 636
Derivative assets (refer to note 5)	**6 936**	15 672
Nominal value of derivative assets	**341 406**	363 956
Other assets (refer to note 6)	**196**	228
Investments (refer to note 12)	**369**	435
Deposits (refer to note 18)	**(8 246)**	(14 616)
Derivative liabilities (refer to note 19)	**(8 450)**	(15 373)
Nominal value of derivative liabilities	**(318 237)**	(379 349)
Other liabilities (refer to note 20)	**(127)**	(284)
Transactions		
Interest received (refer to note 28)	**(215)**	(1 018)
Interest paid (refer to note 29)	**54**	259
Other operating income (refer to note 33)	**(37)**	(211)
All transactions entered into are on the same commercial terms and conditions as in the normal course of business.		
44.4 Transactions with parent company		
The following are balances with and transactions entered into with the parent company:		
Balances		
Loans and advances	**205**	625
Other liabilities	**(637)**	(1 767)
Transactions		
Interest received	**(8)**	(15)

44. Related parties *(continued)*

44.5 Subsidiaries

Details of the material subsidiaries are as follows:

			Bank					
			Issued capital	**Direct/ indirect holding**	Issued capital	Direct/ indirect holding	Shares at book value	
Entity	**Nature of business**	**Country of incorporation**	**2009 Rm**	**2009 %**	2008 Rm	2008 %	**2009 Rm**	2008 Rm
Absa Debtor Finance Company (Proprietary) Limited	Provides debtor financing to business customers.	South Africa	**0**	**100**	0	100	**0**	0
Abseq Properties (Proprietary) Limited[1]	Property development and investment company.	South Africa	**336**	**85**	—	—	**301**	—
Ambit Management Services (Proprietary) Limited	Property management company.	South Africa	**0**	**100**	0	100	**38**	15
Ngwenya River Estate (Proprietary) Limited	Residential property development.	South Africa	**0**	**100**	0	50	**131**	96
The Ballito Junction Development (Proprietary) Limited	Retail property development company.	South Africa	**35**	**100**	35	100	**161**	28
Special purpose entities								
Absa Property Equity Fund	Unit trust.	South Africa	**—**	**75**	—	91	**160**	160
Asset Backed Collateralised Securities (Proprietary) Limited (Abacas)	Special purpose vehicle for Absa Capital division.	South Africa	**0**	**n/a**	0	n/a	**n/a**	n/a
IFU Property Fund	Unit trust.	United Kingdom	**n/a**	**100**	n/a	93	**126**	118

	2009 Rm	2008 Rm
Subsidiaries' aggregate profits and losses after taxation[2]	**153**	(310)

Notes

[1]*Previously disclosed as an associate designated at fair value through profit or loss, became a subsidiary during 2009.*

[2]*Profit for the year attributable to ordinary equity holders excluding share of retained earnings from associates and joint ventures.*

44. Related parties *(continued)*

44.6 Associates, joint ventures and retirement benefit funds

At the statement of financial position date, the Absa Group Pension Fund held shares to the value of R69 million (2008: R219 million) and other securities to the value of R876 million (2008: R52 million) in Absa Group Limited.

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

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

	Bank		
	2009		
	Associates and joint ventures Rm	**Retirement benefit funds Rm**	**Total Rm**
Deposits	**(177)**	**(45)**	**(222)**
Interest and similar income	**(1 026)**	**—**	**(1 026)**
Interest expense and similar charges	**41**	**1**	**42**
Fees received	**(117)**	**(17)**	**(134)**
Fees paid	**4**	**639**	**643**
Loans and advances	**8 411**	**—**	**8 411**
Other assets	**2 218**	**—**	**2 218**
Other liabilities	**(127)**	**—**	**(127)**
Value of investments managed by the Bank	**—**	**1 545**	**1 545**

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

44. Related parties *(continued)*

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

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

Name	Nature of business
Equity-accounted associates	
Ambit Properties Limited	Property loan stock company (sold during 2009).
Blue Financial Services Limited	Financial services provider, specifically micro-finance in Africa (transferred from investments during 2009).
Pinnacle Point Group Limited	Property development company.
Sekunjalo Investments Limited	Investment holding company.
Unitrans Finance (Proprietary) Limited	Strategic alliance between Absa Bank Limited and Unitrans Motors (Proprietary) Limited (deregistered during 2009).
Equity-accounted joint ventures	
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.
Kilkishen Investments (Proprietary) Limited	Property development (acquired during 2009).
MAN Financial Services (S.A.) (Proprietary) Limited	Joint venture between Absa Bank Limited and MAN Financial Services GmbH for financing of trucks and buses.
Meadowood Investments 8 (Proprietary) Limited	Security special purpose vehicle (acquired during 2009).
Sanlam Home Loans (Proprietary) Limited	Manages and administers the granting of loans as well as secure funding for these loans.
Stand 1135 Houghton (Proprietary) Limited	Property development (acquired during 2009).
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.
Associates and joint ventures designated at fair value through profit or loss	
Absa Corob Trust Joint Venture	Acquires immovable property for investment.
Abseq Properties (Proprietary) Limited	Property development and investment company (became a subsidiary during 2009).
African Spirit Trading 309 (Proprietary) Limited	Property development.
Agrista (Proprietary) Limited	Agricultural consultants.
Barrie Island Property Investments (Proprietary) Limited	Investment in mixed use property.
Cherry Vanilla Investments (Proprietary) Limited	Retirement village development.
Culemborg Investment Properties (Proprietary) Limited	Residential property development.
Mall on 14th Avenue (Proprietary) Limited	Property development.
Maxcity Properties (Proprietary) Limited	Investment in mixed use property.
Maxcity Homes (Proprietary) Limited	Property development (acquired during 2009).
Blue Nightingale 608 (Proprietary) Limited (previously Mogale City Mall (Proprietary) Limited)	Investment in commercial property.
Northern Lights Trading 197 (Proprietary) Limited	Investment in commercial property.
Pacific Heights Investments 196 (Proprietary) Limited	Property development.
Palm Hill Property Investments (Proprietary) Limited	Property development.
Parsons Vlei Development (Proprietary) Limited (previously RZT Zelpy 4809 (Proprietary) Limited)	Investment in residential property.
Persistent Properties (Proprietary) Limited	Investment in residential property.
Retail Africa Wingspan Investments (Proprietary) Limited	Property fund.
Somerset West Auto Park (Proprietary) Limited	Investment in auto dealers and fitment centres.
Tembisa Mall (Proprietary) Limited	Property development (acquired during 2009).
The Racing Investment Trust	Property development.

44. Related parties *(continued)*

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

		Bank 2009					
Name	Country of incorporation	Carrying value Rm	Total assets[2] Rm	Total liabilities[2] Rm	Equity-accounted earnings Rm	Loans (from)/to entities Rm	Ownership %
Equity-accounted associates							
Ambit Properties Limited[1, 3]	South Africa	—	—	—	4	—	—
Blue Financial Services Limited[1, 4, 5]	South Africa	58	2 459	1 552	—	—	20
Pinnacle Point Group Limited[1, 5]	South Africa	—	1 685	970	—	—	23
Sekunjalo Investments Limited[1, 5]	South Africa	41	723	331	(13)	—	26
Unitrans Finance (Proprietary) Limited	South Africa	0	0	0	—	—	35
Equity-accounted joint ventures							
FFS Finance South Africa (Proprietary) Limited	South Africa	258	8 337	7 820	(41)	4 619	50
Integrated Processing Solutions (Proprietary) Limited[4]	South Africa	19	85	33	8	—	50
Kilkishen Investments (Proprietary) Limited[1, 4]	South Africa	32	107	52	(0)	—	50
MAN Financial Services (S.A.) (Proprietary) Limited	South Africa	57	2 065	1 952	0	1 181	50
Meadowood Investments 8 (Proprietary) Limited	South Africa	0	513	722	—	356	50
Sanlam Home Loans (Proprietary) Limited	South Africa	—	4 978	5 006	—	1 569	50
Stand 1135 Houghton (Proprietary) Limited[1, 4]	South Africa	8	20	10	(0)	—	50
Virgin Money South Africa (Proprietary) Limited	South Africa	0	30	106	(8)	0	50

Notes

[1] *The financial statements have different reporting dates to that of the Bank, as these were the financial reporting dates established when the entities were incorporated. The impact is not considered to be material.*
[2] *The summary financial information includes 100% of the equity-accounted investees' total assets and total liabilities.*
[3] *Disposed during the year.*
[4] *Acquired during the year.*
[5] *Impaired during the year.*

44. Related parties *(continued)*

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

	Bank 2009						
Name	Country of incorporation	Carrying value Rm	Total assets[2] Rm	Total liabilities[2] Rm	Equity-accounted earnings Rm	Loans (from)/to entities Rm	Ownership %
Associates and joint ventures designated at fair value through profit or loss							
Absa Corob Trust Joint Venture[1]	South Africa	n/a	10	—	n/a	—	50
African Spirit Trading 309 (Proprietary) Limited[1, 4]	South Africa	n/a	695	362	n/a	79	50
Agrista (Proprietary) Limited[1]	South Africa	n/a	—	—	n/a	—	47
Barrie Island Property Investments (Proprietary) Limited[1]	South Africa	n/a	42	45	n/a	—	40
Cherry Vanilla Investments (Proprietary) Limited	South Africa	n/a	150	49	n/a	22	30
Culemborg Investment Properties (Proprietary) Limited	South Africa	n/a	273	193	n/a	120	50
Mall on 14th Avenue (Proprietary) Limited[1]	South Africa	n/a	181	157	n/a	—	30
Maxcity Properties (Proprietary) Limited[1]	South Africa	n/a	125	248	n/a	212	40
Maxcity Homes (Proprietary) Limited[1]	South Africa	n/a	52	18	n/a	—	50
Mogale City Mall (Proprietary) Limited (previously Blue Nightingale 608 (Proprietary) Limited)[1]	South Africa	n/a	95	39	n/a	—	30
Northern Lights Trading 197 (Proprietary) Limited	South Africa	n/a	230	86	n/a	—	50
Pacific Heights Investments 196 (Proprietary) Limited[1]	South Africa	n/a	328	182	n/a	—	50
Palm Hill Property Investments (Proprietary) Limited[1]	South Africa	n/a	41	21	n/a	(3)	40
Parsons Vlei Development (Proprietary) Limited (previously RZT Zelpy 4809 (Proprietary) Limited)[1]	South Africa	n/a	176	183	n/a	120	25
Persistent Properties (Proprietary) Limited[1]	South Africa	n/a	26	33	n/a	19	50
Retail Africa Wingspan Investments (Proprietary) Limited	South Africa	n/a	2 666	2 107	n/a	283	30
Somerset West Auto Park (Proprietary) Limited[1]	South Africa	n/a	71	31	n/a	18	33
Tembisa Mall (Proprietary) Limited[1, 3]	South Africa	n/a	0	0	n/a	—	50
The Racing Investment Trust	South Africa	n/a	77	26	n/a	23	20

Notes

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

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

[3] *Acquired during the year.*

[4] *Loans to entities of R79 million relates to Menlyn Maine Investment Holdings (Proprietary) Limited which is an associate of African Spirit Trading 309 (Proprietary) Limited.*

44. Related parties *(continued)*

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

		Bank 2008					
Name	Country of incorporation	Carrying value Rm	Total assets[2] Rm	Total liabilities[2] Rm	Equity-accounted earnings Rm	Loans (from)/to entities Rm	Ownership %
Equity-accounted associates							
Ambit Properties Limited[1]	South Africa	714	2 758	2 208	30	136	35
Pinnacle Point Group Limited[1, 3]	South Africa	931	583	298	—	—	28
Sekunjalo Investments Limited[1, 3]	South Africa	59	886	437	—	—	27
Unitrans Finance (Proprietary) Limited	South Africa	0	0	0	—	—	35
Equity-accounted joint ventures							
FFS Finance South Africa (Proprietary) Limited	South Africa	300	9 650	9 051	38	4 846	50
Integrated Processing Solutions (Proprietary) Limited[3]	South Africa	11	22	0	—	—	50
MAN Financial Services (S.A.) (Proprietary) Limited	South Africa	56	2 569	2 456	11	1 659	50
Sanlam Home Loans (Proprietary) Limited	South Africa	—	4 866	4 863	—	1 695	50
Virgin Money South Africa (Proprietary) Limited	South Africa	0	24	84	(14)	65	50

Notes

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

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

[3] *Acquired during the year.*

44. Related parties *(continued)*

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

				Bank 2008			
Name	Country of incorporation	Carrying value Rm	Total assets[2] Rm	Total liabilities[2] Rm	Equity-accounted earnings Rm	Loans (from)/to entities Rm	Ownership %
Associates and joint ventures designated at fair value through profit or loss							
Absa Corob Trust Joint Venture[1]	South Africa	n/a	46	23	n/a	18	50
Abseq Properties (Proprietary) Limited[1]	South Africa	n/a	808	564	n/a	385	50
African Spirit Trading 309 (Proprietary) Limited[1]	South Africa	n/a	62	62	n/a	—	24
Agrista (Proprietary) Limited[1]	South Africa	n/a	—	—	n/a	—	47
Barrie Island Property Investments (Proprietary) Limited[1]	South Africa	n/a	41	36	n/a	38	40
Blue Nightingale 608 (Proprietary) Limited[1]	South Africa	n/a	0	0	n/a	36	30
Cherry Vanilla Investments (Proprietary) Limited[3]	South Africa	n/a	57	0	n/a	30	30
Culemborg Investment Properties (Proprietary) Limited[3]	South Africa	n/a	121	120	n/a	177	33
Mall on 14th Avenue (Proprietary) Limited[1, 3]	South Africa	n/a	—	—	n/a	44	30
Maxcity Properties (Proprietary) Limited[1]	South Africa	n/a	—	—	n/a	214	40
Northern Lights Trading 197 (Proprietary) Limited	South Africa	n/a	—	—	n/a	—	50
Pacific Heights Investments 196 (Proprietary) Limited[1, 3]	South Africa	n/a	—	—	n/a	—	50
Palm Hill Property Investments (Proprietary) Limited[1]	South Africa	n/a	113	97	n/a	73	40
Persistent Properties (Proprietary) Limited[1]	South Africa	n/a	32	32	n/a	30	50
Retail Africa Wingspan Investments (Proprietary) Limited[3]	South Africa	n/a	0	0	n/a	—	33
RZT Zelpy 4809 (Proprietary) Limited[1]	South Africa	n/a	0	0	n/a	—	25
Somerset West Auto Park (Proprietary) Limited[1]	South Africa	n/a	0	0	n/a	17	33
The Racing Investment Trust	South Africa	n/a	42	40	n/a	26	20

Notes

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

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

[3]Acquired during the year.

	Bank 2009 Rm	Bank 2008 Rm
45. Managed funds		
Other	**959**	2 237
Portfolio management	**2 917**	1 955
Unit trusts	**122**	133
	3 998	4 325
46. Financial guarantee contracts		
Financial guarantee contracts	**1 007**	1 001

Financial guarantee contracts represent contracts where the Bank undertakes to make specified payments to a counterparty, should the counterparty suffer a loss as a result of a specified debtor failing to make payment when due in accordance with the terms of a debt instrument.

This amount represents the maximum off-statement of financial position exposure.

47. Commitments

	Bank 2009 Rm	Bank 2008 Rm
Authorised capital expenditure		
Contracted but not provided for	**728**	455

The Bank has capital commitments in respect of computer equipment and property development. Management is confident that future net revenues and funding will be sufficient to cover these commitments.

	Bank 2009 Rm	Bank 2008 Rm
Operating lease payments due		
No later than one year	**1 150**	1 094
Later than one year and no later than five years	**2 132**	2 221
Later than five years	**307**	473
	3 589	3 788

The operating lease commitments comprise a number of separate operating leases in relation to properties and equipment, none of which is individually significant to the Bank. Leases are negotiated for an average term of three to five years and rentals are renegotiated annually.

48. Contingencies

	Bank 2009 Rm	Bank 2008 Rm
Guarantees	**9 829**	9 134
Irrevocable facilities	**54 346**	29 753
Letters of credit	**4 581**	6 069
Other contingencies	**5**	25
	68 761	44 981

Irrevocable facilities are commitments to extend credit where the Bank does not have the right to terminate the facilities by written notice. Commitments generally have fixed expiry dates. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Guarantees include performance guarantee contracts and payment guarantee contracts.

Legal proceedings

The Bank has been party in proceedings against it during the year, and as at year-end the following cases need further disclosure:

- During 2001 a US$100 million facility was granted to Trans Sahara Trading (IOM) Limited (TST). The Government of Zambia (GRZ) breached an undertaking it gave to the Bank and in addition interfered in the operations of TST leading to TST's inability to service the facility. The Bank contends that this conduct gives rise to liability on the part of TST, which the GRZ denies. MNB attorneys have obtained a charging order *nisi* over the deadstock belonging to TST, entitling them to dispose of such stocks in settlement of a judgement obtained for outstanding legal fees. Given that, in addition to the obvious prejudice resulting from such a disposal, these proceedings will inevitably involve a consideration of the deadstock ownership issue, as well as the enforceability of the Bank's floating charge. The Bank was compelled to intervene and has successfully sought the joinder of both itself and the Attorney General of the GRZ. These proceedings have been enrolled for trial on various occasions, most recently being postponed to 18 – 20 January 2010 shortly prior to which the GRZ delivered a letter expressing interest in settlement negotiations. A delegation immediately travelled to Lusaka and, after intensive consultation, the parties appear to be agreed in principle at a figure of US$ 27,36 million. A written settlement agreement has been submitted to the GRZ for consideration and although a tentative signature date of 1 February was agreed, the GRZ has yet to revert. In the interim, the matter has been adjourned to 1 – 3 March 2010 at the instance of the Solicitor General.

48. Contingencies *(continued)*

Legal proceedings *(continued)*

- A Bank employee has been accused of opening an incorrectly designated bank account within the Ovation Group of companies, which was subsequently used for fraudulent purposes. The Bank has received 22 letters of demand from persons who deposited money (approximately R3,5 million) into the incorrectly opened account. All these monies appear to have been lost. During the year a portion of these claimants have instituted claims, in respect of which the Bank has entered appearance to defend, and a summary judgement application is now pending. It is anticipated that the claim will be both legally and factually difficult. The curators of other entities within the Ovation Group are currently investigating its affairs from which further claims may conceivably flow. This matter is closely linked to the Fidentia group.
- Mr Bernert (acting in his personal and representative capacities) has made a claim against the Bank for withdrawing a guarantee, which was issued by the Bank in favour of Emirates Bank International for an amount of US$6 million. The guarantee however, was withdrawn by the Bank as it was issued under irregular circumstances. Mr Bernert claims that he has suffered damages and that the Bank is in breach of contract. The Bank has defended the matter, raising inter alia, prescription, lack of authority to represent Absa, invalidity on an oral cession, contravention of the Exchange Control Act and Prime Bank Instrument (PBI) fraud. The total claim value at the date of launching the action against the Bank was R188 million. It was agreed between the parties, that the quantum and merits of the action would be separately argued. On 15 October 2008, the court granted judgement in Mr Bernert's favour on the merits. The Bank's application for leave to appeal was finalised on 2 November 2008. The application for leave to appeal was argued and granted in the South Gauteng High Court on 13 February 2009. The Bank has finalised and filed appeal documents for argument in the Supreme Court of Appeal in Bloemfontein. The hearing of the appeal will take place on 18 February 2010.

	Bank 2009 Rm	Bank 2008 Rm
49. Cash and cash equivalents		
Cash, cash balances and balances with central banks	**4 543**	3 942
Loans and advances to banks	**860**	39
	5 403	3 981
50. Share-based payments		
During the year, R115 million (2008: R78 million) and R96 million (2008: R42 million) were charged to the statement of comprehensive income in respect of equity-settled and cash-settled share-based payment transactions, respectively.		
Staff costs		
The statement of comprehensive income charge for share-based payments is as follows (refer to note 34):		
Equity-settled arrangements:		
Absa Group Limited Executive Share Award Scheme	**75**	6
Absa Group Limited Performance Share Plan	**21**	39
Absa Group Limited Share Incentive Trust	**19**	33
Cash-settled arrangements:		
Absa Group Limited Phantom Executive Share Award Scheme	**41**	4
Absa Group Limited Phantom Joiners Share Award Plan	**47**	41
Absa Group Limited Phantom Performance Share Plan	**8**	(3)
	211	120
Total carrying amount of liabilities for cash-settled arrangements (refer to note 20)	**140**	304

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 R5 million (2008: Rnil).

50.1 Absa Group Limited Share Incentive Trust (Share Incentive Trust)

In terms of the rules of the Share Incentive Trust, the maximum number of shares of Absa Group Limited that may be issued or transferred and/or in respect of which options may be granted to the participants, shall be limited to shares representing 10% of the total number of issued shares from time to time. This scheme is an equity-settled share-based payment arrangement and options are allocated to employees according to the normal human resources talent management processes. The options issued up to August 2005 (issue 192) had no performance criteria linked to them and vested in equal tranches after three, four and five years respectively. No dividends accrue to the optionholder 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 Bank at the vesting date in order to be entitled to the options.

50. Share-based payments *(continued)*

50.1 Absa Group Limited Share Incentive Trust (Share Incentive Trust) *(continued)*

The number and weighted average exercise prices of share options are as follows:

	Bank	
	2009	
	Number of options '000	**Weighted exercise price R**
Outstanding at the beginning of the year	**8 546**	**72,96**
Exercised during the year	**(3 219)**	**65,29**
Forfeited during the year	**(99)**	**82,35**
Transfers to Group subsidiaries	**(64)**	**—**
Outstanding at the end of the year	**5 164**	**76,82**
Of which are exercisable	**4 225**	**70,42**
	2008	
	Number of options '000	Weighted exercise price R
Outstanding at the beginning of the year	12 555	67,30
Exercised during the year	(3 061)	49,50
Forfeited during the year	(391)	75,56
Transfers to Group subsidiaries	(557)	—
Outstanding at the end of the year	8 546	72,96
Of which are exercisable	5 174	59,38

Options exercised during the year resulted in 3 219 101 (2008: 3 060 806) shares being allocated at an average exercise price of R65,29 (2008: R49,50) each. The related weighted average share price at the time of exercise was R115,98 (2008: R102,89).

Share options outstanding at the end of the year in terms of the Share Incentive Trust have the following weighted average remaining contractual lives and exercise prices:

	Bank			
	2009			
Exercise price ranges (R)	**Average option exercise price R**	**Weighted average contractual remaining life Years**	**Weighted average fair value R**	**Number of options outstanding**
26,53 – 27,68	**26,65**	**0,50**	**10,14**	**125 739**
28,73 – 37,43	**37,43**	**1,47**	**14,26**	**280 411**
25,16 – 35,97	**33,31**	**2,44**	**11,60**	**415 253**
31,99 – 35,01	**35,01**	**3,43**	**12,14**	**344 834**
44,36 – 68,93	**49,52**	**4,47**	**26,64**	**1 535 389**
72,36 – 94,63	**90,59**	**5,60**	**29,26**	**2 106 817**
100,30 – 113,75	**106,77**	**6,28**	**40,61**	**355 834**

50. Share-based payments *(continued)*

50.1 Absa Group Limited Share Incentive Trust (Share Incentive Trust) *(continued)*

	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
27,68	27,68	0,78	n/a	171 106
26,53 – 27,68	26,58	1,47	10,15	171 732
28,73 – 37,43	37,38	2,46	14,18	418 072
25,16 – 35,97	33,29	3,45	11,64	718 743
31,99 – 35,01	34,99	4,42	12,45	777 408
44,36 – 68,93	49,47	5,46	23,28	2 853 553
72,36 – 94,63	90,57	6,60	29,06	3 043 369
100,30 –113,75	106,98	7,28	39,79	392 500

Note

[1] *There was no requirement under IFRS to value the options prior to 31 March 2005.*

The following shares and options are available for allocation by Absa Group Limited:

	2009	
	Percentage of total issued shares	**Number of shares ’000**
Maximum shares and options available	**10,0**	**71 821**
Shares and options subject to the trust	**(0,9)**	**(6 298)**
Balance of shares and options available	**9,1**	**65 523**

	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

50. Share-based payments *(continued)*

50.2 Absa Group Limited Employee Share Ownership Administrative Trust

As of the implementation date (1 July 2004), all employees of South African wholly owned subsidiaries of Absa Group Limited (excluding executive directors of Absa Group Limited and Absa Bank Limited) were eligible to participate in this one-off equity-settled share-based payment scheme. Each employee who elected to participate was issued and allotted 200 compulsory redeemable cumulative option-holding preference shares against a receipt of the R400,00 subscription price. A maximum of 7 315 200 preference shares were available for allocation to the trust.

On 1 July 2004, 6 085 200 preference shares were issued. The preference shares receive a dividend calculated on the par value of the preference shares at a rate of 72% of the prime overdraft rate. These dividends are compounded and paid semi-annually in arrear on 30 September and 31 March each year. Absa Group Limited will redeem the preference shares on exercise of the options by the employee or on forfeiture of the options on the final option exercise date. Options vest after three years from the date of issue and are forfeited after five years from the date of issue. Options can be exercised on 1 March, 1 June, 1 September or 1 December each year. Exercise may occur in lots of 100 only and on payment of the option strike price, which will vary between R48,00 and R69,00 dependent on the 30-day volume weighted trading price on the JSE.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price R	**Bank** Number of options **2009 '000**	2008 '000
Outstanding at the beginning of the year	48 – 69	**473**	761
Exercised during the year	67,19	**(454)**	(272)
Forfeited during the year	48 – 69	**(19)**	(16)
Outstanding at the end of the year	48 – 69	**—**	473
Of which are exercisable	48 – 69	**—**	473

Options exercised during the year resulted in 453 600 (2008: 271 700) shares being allocated at an average exercise price of R67,19 (2008: R66,90) each. The related weighted average share price at the time of exercise was R98,94 (2008: R103,06).

50.3 Absa Group Limited Phantom Performance Share Plan (Phantom PSP)

The Phantom PSP is a cash-settled plan and payments made to participants in respect of their awards are in the form of cash. The Phantom PSP shares (and any associated notional dividend shares) are awarded at no cost to the participants. The amount that is ultimately paid to the participants is equal to the market value of a number of ordinary shares, as determined after a three-year vesting period. The vesting of the Phantom PSP awards will be subject to non-market performance conditions which will be measured over a three-year period, starting on the first day of the financial year in which the award is made. The awards will vest after three years to the extent that the performance conditions are satisfied. These awards are forfeited in total if Absa Group Limited's performance fails to meet the minimum performance criteria.

	Bank Number of options **2009 '000**	2008 '000
Outstanding at the beginning of the year	**2 070**	2 228
Exercised during the year	**(928)**	—
Forfeited during the year	**(33)**	(130)
Transfer to Group subsidiaries	**(14)**	(28)
Outstanding at the end of the year	**1 095**	2 070

50. Share-based payments *(continued)*

50.3 Absa Group Limited Phantom Performance Share Plan (Phantom PSP) *(continued)*

The options outstanding at the statement of financial position date have no exercise price and a weighted average contractual life of 0,2 years (2008: 1,1 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 granted in the previous year

The fair value of the Phantom PSP awards at grant date is based on the share price at grant date. The Bank multiplies the initial fair value by a factor as determined by the rules of the scheme to reflect expectations for the number of shares that will vest based on the performance conditions. At each reporting date the Bank adjusts the liability to reflect differences:

- between the share price at grant date and the share price at valuation date;
- in expectation of the number of shares that will vest subject to the performance of Absa Group Limited; and
- between actual and expected forfeited shares.

50.4 Absa Group Limited Executive Share Award Scheme (ESAS)

The ESAS is an equity-settled share-based payment arrangement, where the participant's notional bonus comprises a number of restricted nil-cost options, based on the allocation price of ordinary shares. Such an initial allocation is held in trust or in the name of the participant. If the participant is in the employ of the Bank 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.

Dividends, in the form of additional shares, are paid to participants on the ordinary shares awarded on exercise of the options, as if the shares were held from inception. The number of dividend shares awarded is therefore calculated on the initial share allocation and on the 20% and/or 10% matched shares, over the three- or five-year period. Employees that received a performance bonus in excess of a predetermined amount were compelled to place a set percentage of their bonus award into the ESAS. Employees also had the option of utilising more of their bonus award for voluntary ESAS options.

The following number of initial options allocated in terms of the scheme are eligible for the 20% and/or 10% matched options:

	Bank Number of options **2009** **'000**	 2008 '000
Outstanding at the beginning of the year	**990**	37
Forfeited during the year	**(155)**	(41)
Granted during the year	**1 274**	994
Outstanding at the end of the year	**2 109**	990

The options outstanding at the statement of financial position date have no exercise price and a weighted average contractual life of 3,8 years (2008: 3,1 years). None of these options were exercisable at the statement of financial position date.

Fair value assumptions of share options granted during the current and previous year

The fair value of the ESAS awards at grant date is based on the share price at grant date. The Bank considers adjustments to reflect expectations for options that might be forfeited before the shares vest.

For purposes of determining the expected life and number of options to vest, historical exercise and forfeiture patterns were used.

50.5 Absa Group Limited Phantom Joiners Share Award Plan (JSAP)

The JSAP is a cash-settled share-based payment arrangement that enables the Bank 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.

50. Share-based payments *(continued)*

50.5 Absa Group Limited Phantom Joiners Share Award Plan (JSAP) *(continued)*

	Bank Number of options 2009 '000	 2008 '000
Outstanding at the beginning of the year	**914**	308
Exercised during the year	**(234)**	(118)
Forfeited during the year	**(75)**	(19)
Granted during the year	**274**	743
Outstanding at the end of the year	**879**	914

The options outstanding at the statement of financial position date have no exercise price and a weighted average contractual life of 2,5 years (2008: 2,9 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 granted during the current and previous year

The fair value of the JSAP awards at grant date is based on the share price at grant date. The Bank considers adjustments to reflect expectations for options that might be forfeited before the shares vest. At each reporting date the Bank adjusts the liability to reflect differences:

- between the share price at grant date and the share price at valuation date; and
- between actual and expected forfeited shares.

50.6 Absa Group Limited Phantom Executive Share Award Scheme (Phantom ESAS)

The Phantom ESAS is a cash-settled share-based payment arrangement, where the participant's notional bonus comprises a number of restricted nil-cost options, based on the allocation price of ordinary shares. If the participant is in the employ of the Bank after the three-year vesting period, the participant will receive 20% matched phantom options. If the bonus award remains in the Phantom ESAS for another two years, the participant receives an additional 10% bonus phantom options. Dividend phantom shares are paid to participants on the ordinary phantom shares as if the shares were held from inception. The number of dividend phantom shares awarded is therefore calculated on the initial allocation and on the 20% and/or 10% bonus phantom shares, over the three- or five-year period. Employees that received a performance bonus in excess of a predetermined amount were compelled to place a set percentage of their bonus award into the Phantom ESAS. Employees also had the option of utilising more of their bonus award for voluntary ESAS options.

The following number of initial options allocated in terms of the scheme are eligible for the 20% and/or 10% matched options:

	Bank Number of options 2009 '000	 2008 '000
Outstanding at the beginning of the year	**537**	446
Exercised during the year	**(111)**	—
Forfeited during the year	**(13)**	(23)
Granted during the year	**25**	123
Transfers to Group subsidiaries	**—**	(9)
Outstanding at the end of the year	**438**	537
Of which are exercisable	**38**	—

The options outstanding have no exercise price and a weighted average contractual life of 2,1 years (2008: 3,0 years).

Fair value assumptions of share options granted during the current and previous year

The fair value of the Phantom ESAS awards at grant date is based on the share price at grant date. The Bank considers adjustments to reflect expectations of options that might be forfeited before the shares vest. At each reporting date the Bank adjusts the liability to reflect differences:

- between the share price at grant date and the share price at valuation date; and
- between actual and expected forfeited shares.

50. Share-based payments *(continued)*

50.7 Absa Group Limited Performance Share Plan (PSP)

The PSP is an equity-settled share-based payment arrangement. Participants are awarded a number of nil-cost options. These options will be converted into Absa Group Limited shares after a three-year vesting period and on achieving performance conditions attached to the award. The vesting of the PSP awards will be subject to non-market and market-related performance conditions which will be measured over a three-year period, starting on the first day of the financial year in which the award is made. The awards will vest after three years to the extent that the performance conditions are satisfied. These awards are forfeited in total if the Absa Group Limited's performance fails to meet the minimum performance criteria.

	Bank Number of options	
	2009 '000	2008 '000
Outstanding at the beginning of the year	**1 888**	—
Forfeited during the year	**(167)**	(116)
Granted during the year	**1 424**	2 004
Outstanding at the end of the year	**3 145**	1 888

The options outstanding at the statement of financial position date have no exercise price and a weighted average contractual life of 1,8 years (2008: 2,2 years). None of these options were exercisable at the statement of financial position date.

Fair value assumptions of share options granted during the current and previous year

The fair value of the PSP awards at grant date is based on the share price at grant date. The Bank considers adjustments to reflect expectations for options that might be forfeited before the shares vest. For purposes of determining the expected life and number of options to vest, historical exercise and forfeiture patterns were used.

51. Acquisitions and disposals of subsidiaries

51.1 Acquisitions of subsidiaries during the current year

51.1.1 On 31 January 2009, the Bank acquired an additional 35,2% interest in Abseq Properties (Proprietary) Limited increasing its shareholding to 85,0%. Abseq Properties (Proprietary) Limited was previously recognised as an associate designated as fair value through profit or loss. Abseq Properties (Proprietary) Limited contributed a net profit before tax of R10 million to the Bank for the period 31 January 2009 to 31 December 2009. If the acquisition had occurred on 1 January 2009, the Bank's revenue would have been R8 million higher and the total profit for the year would have been R1 million higher.

	Bank 2009 Fair value recognised on acquisition Rm
Other assets	**36**
Previously held interest (recognised in investments)	**(199)**
Investments in associates and joint ventures	**40**
Investment property	**1 352**
Deposits from banks	**(8)**
Other liabilities	**(860)**
Deferred tax liabilities	**(160)**
Minority interest	**(60)**
Net assets acquired	**141**
Satisfied by:	
Cash outflow on acquisition	**166**
Fair value of net assets acquired	**(141)**
Goodwill	**25**

The goodwill is attributable to the synergies expected to arise after the Bank's acquisition of Abseq Properties (Proprietary) Limited. The cost of acquisition includes directly attributable costs including legal, audit and other professional fees. No contingent liabilities were recognised as a result of the acquisition and no contingent consideration is payable.

51. Acquisitions and disposals of subsidiaries *(continued)*

51.1 Acquisitions of subsidiaries during the current year *(continued)*

51.1.2 On 1 August 2009, the Bank acquired the business of Meeg Bank Limited through the divisionalisation of Meeg Bank Limited from Absa Group Limited into Absa Bank Limited. Details of the net assets acquired and negative goodwill arising are as follows:

	Bank 2009 Rm
Cash, cash balances and balances with central banks	**34**
Statutory liquid asset portfolio	**24**
Loans and advances to banks	**483**
Other assets	**8**
Loans and advances to customers	**890**
Property and equipment	**13**
Deferred tax assets	**1**
Other liabilities	**(8)**
Provisions	**(3)**
Deposits due to customers	**(1 282)**
Loans from Absa Group companies	**(10)**
Net assets acquired	**150**
Satisfied by:	
Fair value of net assets acquired	**150**
Negative goodwill	**(150)**
Cash outflow due to acquisitions	**166**
Total cash and cash equivalents acquired	**34**

51.2 Acquisitions of subsidiaries during the prior year

51.2.1 On 1 October 2008, the Bank acquired an additional 50,0% interest in Ngwenya River Estate (Proprietary) Limited thereby giving the Bank control over the entity. The fair values of the assets and liabilities were determined provisionally in the prior year based on best estimates as valuations were in the process of being finalised. The prior year's values were adjusted in the current year to reflect the finalisation of the fair values:

	Bank		
	Provisional fair values 2008 Rm	IFRS 3 adjustment 2008 Rm	Adjusted fair values 2008 Rm
Other assets	—	99	99
Property and equipment	81	(81)	—
Other liabilities	(25)	(27)	(52)
Deferred tax liability	—	(5)	(5)
Net assets acquired	56	(14)	42
Total consideration	56	4	60
Fair value of net assets acquired	(56)	14	(42)
Goodwill	—	18	18

Included in the total consideration is a cash outflow on acquisition of R36 million.

51. Acquisitions and disposals of subsidiaries *(continued)*

51.2 Acquisitions of subsidiaries during the prior year *(continued)*

51.2.2 On 10 November 2008, the Bank acquired an additional 50,0% interest in the Ballito Junction Development (Proprietary) Limited thereby giving the Bank control over the entity. The fair value of the assets and liabilities were determined provisionally in the prior year based on best estimates as valuations were in the process of being finalised. The prior year's values were adjusted in the current year to reflect the finalisation of the fair values:

	Bank		
	Provisional fair values 2008 Rm	IFRS 3 adjustment 2008 Rm	Adjusted fair values 2008 Rm
Cash, cash balances and balances with central banks	1	(1)	—
Other assets	9	(6)	3
Investment property	161	(6)	155
Property and equipment	4	—	4
Deferred tax asset	4	(2)	2
Other liabilities	(163)	58	(105)
Net assets acquired	16	43	59
Total consideration	28	14	42
Fair value of net assets acquired	(16)	(43)	(59)
Goodwill/(negative goodwill)	12	(29)	(17)

Included in the total consideration is a cash outflow on acquisition of R6 million.

51.2.3 The Bank obtained control over Abacas from 1 July 2008, and hence began consolidating the entity from 2008 as evaluated in terms of SIC 12. Details of the net assets acquired and goodwill arising are as follows:

	Bank 2008 Rm
Cash, cash balances and balances with central banks	2
Loans and advances to customers	1 782
Investments	10 707
Trading and hedging portfolio liabilities	(9)
Other liabilities	(1)
Current tax liabilities	(10)
Deposits due to customers	(12 415)
Deferred tax liabilities	(4)
Net assets acquired	52
Satisfied by:	
Settlement through intragroup loan with Absa Group Limited	
Total consideration	52
Fair value of assets acquired	(52)
Goodwill	—

51. Acquisitions and disposals of subsidiaries *(continued)*

51.2 Acquisitions of subsidiaries during the prior year *(continued)*

51.2.4 The Bank has a 92,5% interest in the IFU Property Fund. The Bank is deemed to have control over the fund from 2008 and the investment has been consolidated. Details of the net assets acquired and goodwill arising are as follows:

	Bank 2008 Rm
Loans and advances to banks	10
Other assets	4
Investment property	231
Deferred tax asset	27
Other liabilities	(128)
Minority interest	(10)
Net assets acquired	134
Satisfied by:	
Value of shares issued	134
Fair value of net assets acquired	(134)
Goodwill	—

51.2.5 During 2008 an additional payment was made for the acquisition of Ambit Management Services (Proprietary) Limited, which took place in 2007. This payment was the result of a deferred payment agreement and amounted to R22 million.

	Bank 2008 Rm
Cash outflow due to acquisitions	64
Total cash and cash equivalents acquired	2

51.3 Disposal of subsidiaries during the prior year

51.3.1 On 1 January 2008, Absa Bank Limited transferred its investment in Absa Development Company Holdings (Proprietary) Limited to its holding company, Absa Group Limited. The net assets of Absa Development Company Holdings (Proprietary) Limited as at the date of disposal were as follows:

	Bank 2008 Rm
Loans and advances to banks	8
Other assets	729
Deferred tax assets	2
Other liabilities	(389)
Current tax liabilities	(3)
Net assets acquired	347
Satisfied by:	
Settlement through intergroup loan	347

52. Financial risks

52.1 Introduction

Risk management is fundamental to the Bank's business and plays a crucial role in enabling management to operate more effectively in a changing environment. Over time it has evolved into one of the Bank's core capabilities. It is integral to the evaluation of strategic alternatives and the setting of objectives, all within a risk management framework that ensures alignment with the Bank's risk appetite and overall strategy.

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

It is the policy of the Bank board to maintain an independent internal audit function to undertake internal audit work throughout the Bank. The objective of the internal audit function is to provide reliable, valued and timely assurance to the board and executive management over the effectiveness of controls mitigating current and evolving high risks and in doing so enhancing the controls culture within the Bank.

Information regarding the board and its various committees can be found in the corporate governance statement of Absa Group Limited's shareholder report.

The board is responsible for annually approving the Bank's risk appetite. This risk appetite is translated into risk limits per business unit and per risk type. Adherence to these limits is monitored and reported and culminates in a risk-reward profile for the Bank. Risks not specifically addressed by risk appetite are addressed in the Bank's risk management framework.

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

The GACC assists the board with regard to financial information, accounting policies, internal control and compliance matters. The GRCMC's function is to assist the board in fulfilling its responsibilities with regard to risk management and to ensure compliance with the requirements of the Banks Act regarding risk and capital management.

52.2 The year under review

The global banking industry experienced a continuation of setbacks as a result of the deterioration of global economic conditions. The recessionary conditions and rising unemployment levels were the key characteristics of 2009 in many developed markets, while some emerging markets experienced a marked slowdown in economic activity.

During the year a number of interventions were put in place by global policymakers to enable a recovery in the global markets. These interventions have to date been able to reintroduce an element of stability in the global markets and the first signs of a recovery were noted in the last quarter of 2009 in most developed and emerging markets.

Through an embedded risk governance structure, a continuous focus on credit, the managing of the bank's daily liquidity position, and the monitoring of the Bank's risk-weighted assets demand, the Bank responded expediently to the challenging economic conditions experienced during 2009 and ensured compliance with minimum regulatory and board-approved capital targets.

The Bank also monitors on a continuous basis risk trends in business areas where the environment is changing and/or its growth rates are increasing to ensure that the Bank remains within its set risk appetite. For each of the risk trends, the Executive Committee (Exco) and the board are informed on changes in the environment relating to the specific risk trend, the Bank's positioning and exposure, and actions being taken or planned.

All financial data is as at 31 December 2009 unless otherwise indicated.

52. Financial risks *(continued)*

52.2 The year under review *(continued)*

Retail credit risk

2009 was a challenging year from a Retail perspective. A significant increase in impairments was driven by the general worsening economic environment.

An improvement is apparent in the early delinquencies of Absa Retail, especially towards the end of 2009. The trajectory in late delinquencies are less favourable due to the increase in accounts under debt review.

The investment in collections during 2008 continued in 2009. The optimisation of our collection activities contributed towards the rehabilitation of arrears.

Although the realisation of security was under pressure during 2009, an improvement became apparent during the last two months of the year.

Looking forward, the improvements of 2009 are expected to continue into 2010 as the Bank will maintain a continuous review of the credit policy environment. This has enabled a number of credit policy relaxations, especially in the secured – AVAF and Home loan portfolios.

Wholesale credit risk

Absa Corporate and Business Bank (ACBB)

The Wholesale environment has experienced deterioration in credit quality due to the global recession, which has resulted in a large increase in watch list and impairment numbers. During the last quarter of 2009 the inflow started to moderate. A number of industries have been adversely affected by the global credit environment including:

- retailing;
- manufacturing;
- automotive;
- steel; and
- commercial real estate.

The Bank has invested substantially in its business support and recoveries environment to create the necessary capacity and to ensure robust processes to deal with distressed companies and industries.

Absa Capital

The global economic crisis experienced across all markets in 2009 resulted in a general slowdown in new business origination and more careful ongoing reviews of the existing portfolio. This included an overall assessment of high risk industries and the relevant key risk drivers to ensure appropriate and early remedial action.

In conducting the abovementioned reviews it was clearly evident that the portfolio remains acceptably diversified and that correlation is not a feature. Some concentration to the retail sector is present although it has been well managed and is expected to correct during the course of the new trading year. A feature of the portfolio remains that the majority of the exposure is to investment grade counterparties.

General

One of the main focus areas over the last 12 months has been the initiative to migrate to the Basel II Advanced Internal Ratings Based (AIRB) approach. Various work streams are under way to ensure readiness by 2011.

Significant progress has been made in the migration to the AIRB requirements, the advantages of which are:

- optimised risk and capital management;
- embedding a culture of improved risk management and a revised credit management process; and
- risk-based pricing of exposures.

Market risk

In respect of traded market risk in Absa Capital, regulatory approval was maintained for use of the internal models approach to measure general trading book position risk regulatory capital requirements, with specific risk reported in accordance with the regulatory standardised approach. To ensure readiness for anticipated additional future traded market risk regulation and capital requirements, we have commenced in 2009 with building the additional incremental risk and stress risk models in line with recent Basel II recommendations. These models will undergo further testing towards implementation in 2010. We remain focused on efficient use of risk capital across trading desks and products, and on our relatively low capital consuming client flow business (which is our primary focus).

52. Financial risks *(continued)*

52.2 The year under review *(continued)*

The Bank continues to manage its non-traded banking book interest rate risk within defined risk appetite. This includes maintenance of its hedging programme for structural products and equity towards ensuring lower interest rate risk and a higher degree of stability of the mismatch margin component of the net interest margin over a full interest rate cycle. The Bank however remains exposed to reset risk, arising from the timing difference between predominantly prime linked assets being funded with liabilities with a three-month repricing profile after hedging. This timing difference had an adverse income statement impact during the rapidly decreasing interest rate environment experienced in 2009. Other focus areas during 2009 included: proactive consideration of mitigants against the risk of margin compression from liability interest rate floors in the downward rate cycle, risk management refinements in respect of prepayment and recruitment risk that may arise from fixed rate customer loan offerings, and innovative solutions to mitigate the inflation risk arising from inflation-linked fund raising.

Liquidity and funding risk

While international financial markets experienced significant stress in 2009, the South African domestic money market liquidity remains largely unaffected. Overall the Bank's key liquidity risk metrics, which have been formulated to achieve a prudent liquidity profile, were maintained at acceptable levels. Through ongoing stress testing, scenario analysis and contingency planning, the Bank continues to actively manage its stress liquidity buffers applying Basel II and best international practice. Overall the Bank's liquidity position remains strong.

Group Treasury and Absa Capital successfully raised secondary bank capital through issuing a consumer price index (CPI)-linked bond and CPI-linked senior unsecured bonds. The bond issue was the first time that a South African bank issued an inflation-linked subordinated bond into the domestic capital market. This long-term funding raised supported the Bank's liquidity objectives.

The Bank achieved further improvement in its capital structure by issuing R1,9 billion inflation-linked subordinated debt instruments (Tier II capital) during 2009.

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. Although the Bank received approval, the robustness of internal models and of risk management processes will be under increased scrutiny and the Bank needs to continuously demonstrate the following:

- adequacy of capital to ensure financial stability; and
- robust mechanisms to manage risks within the business by successfully entrenching the internal capital adequacy assessment process (ICAAP) and the use test.

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 included:

- the further enhancement of risk models and the monitoring thereof;
- the development of the AIRB approach for wholesale credit risk in the Absa Capital and Absa Commercial and Business Banking operations, continuing in 2010; and
- continuous review and analysis of international regulatory changes in reaction to the international financial crisis to ensure best practice.

Capital supply was constrained during 2009. The financial market crisis severely impacted the ability of financial institutions to issue capital market instruments and execute securitisation transactions. Lower profits owing to pressure on consumers also resulted in reduced capital supply.

Given the constraints in the credit environment over the financial year, the Bank remains vigilant to the potential effect of pro-cyclicality introduced by Basel II and will continue to focus on appropriate levels of capital. In this regard, the board has resolved to increase the target capital adequacy ratios for 2010 to 10,5% (2009: 10%) for Tier I capital and 13,0% (2009: 13,0%) for the total capital adequacy ratio.

The Bank is adequately capitalised above the minimum regulatory requirement and the board-approved targets. This was as a result of the emphasis placed by the Capital Management Committee on risk-weighted asset growth as well as the slower than expected asset growth.

53. Credit risk

53.1 Introduction

Credit risk is the risk of loss arising from the failure of a client or counterparty to fulfil its obligations to the Bank. In the context of traded products, the definition of credit risk also includes the risk of losses arising from mark-to-market requirements due to, for example, changes in credit spreads. The credit risk that the Bank faces arises mainly from commercial and consumer loans and advances, including credit card lending and trading transactions. The Bank dedicates considerable resources to controlling credit risk effectively.

The Bank's strategy as a financial intermediary does not entail the elimination of credit risk but rather to take on credit risk in a well controlled, planned and targeted manner pursuant to its business objectives. Its approach to measuring credit risk is therefore designed to ensure that it can be assessed accurately in all its forms, and that relevant, timely and accurate credit risk information is available to the relevant decisions makers at an operational and at a strategic level at all times.

At a strategic level, the Bank seeks to manage its credit risk profile within the constraints of its overall risk appetite and to structure its portfolio so that it provides optimal returns for the level of risk taken. Operationally, credit risk management is governed by the overall risk appetite framework and aims to ensure that the risk inherent in individual exposures or certain business portfolios is appropriately managed through the economic cycle.

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

As such, IRB risk concepts are used extensively across the Bank in a variety of processes, most notably in the approval of credit exposures, but also in assessing and determining portfolio and origination strategy, the assessment of risk-adjusted performance and the strategic planning process.

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

In addition to drawn loans and advances, the Bank is exposed to other credit risks. These exposures comprise loan commitments, contingent liabilities, financial guarantees, debt securities, other exposures arising in the course of trading activities, settlement risk and debt securities. The risks are managed in a similar way to those in loans and advances, and are subject to the same or similar approval and governance processes.

The nature of the credit risks among these exposures differ considerably:

- Loan commitments may become loans and the risks are thus similar to those attached to loans.
- Contingent liabilities (such as guarantees, assets pledged as security, acceptances and endorsements) have historically experienced 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 decrease in value causing the loss may be attributable to credit deterioration.

The most significant other credit risks are in respect of guarantees, irrevocable loan commitments, debt securities, available-for-sale debt instruments, and settlement risk.

Guarantees and irrevocable loan commitments: The Bank is exposed to loss through financial guarantees, acceptances and endorsements, and irrevocable loan commitments it issues to customers and commitments to provide loan finance which cannot be withdrawn once entered into. The credit risks associated with such contracts are managed in a similar way to loans and advances.

Debt securities: Debt securities, treasury and other eligible bills are generally unsecured with the exception of asset-backed securities and similar instruments which are secured by pools of financial assets. Managing the risks associated with debt securities differs in two important respects from the process for risk management of loans and advances. Firstly, a market price is generally available for a bond or other debt security, which is a good indication of creditworthiness. Secondly, many debt securities are rated by independent rating agencies, which is a further indication of credit quality. However, even with continuous monitoring by the rating agencies, there is often a lag between a credit event and rerating. Therefore, while useful, external ratings can only inform and,

53. Credit risk *(continued)*

53.1 Introduction *(continued)*

as a result, are not a substitute for the credit assessment undertaken for each exposure by the Bank, using its own grading system.

Settlement risk: The Bank is also exposed to settlement risk in its dealings with other financial institutions. These risks arise, for example, in foreign exchange transactions when the Bank pays away its side of the transaction to another bank or counterparty before receiving payment from the third party. The risk is that the third party may not meet its obligation. It also arises on derivative contracts where the carrying value of the financial asset is related to the credit condition of the counterparty.

While these exposures are of short duration, they can be significant. In recent years, settlement risk has been reduced by several industry initiatives that have enabled simultaneous and final settlement of transactions to be made (such as payment-versus-payment through continuous linked settlement and delivery-versus-payment in central bank money).

The Bank has worked with its peers in the development of these arrangements. As a result, the majority of high-value transactions are increasingly settled by such mechanisms. Where these mechanisms are not available, the risk is further reduced by dealing predominantly with highly rated counterparties, holding collateral and limiting the size of the exposures according to the rating of the counterparty. Furthermore, credit risk is manifested as country risk where difficulties may arise in the country in which the exposure is domiciled, thus impeding or reducing the value of the asset, or where the counterparty is the country itself. Thus the rating of any counterparty domiciled in another country is limited to the rating of the country.

53.2 Credit risk management

In managing credit risk, the Bank applies the five-step risk management process outlined in the principal risks policy (PRP), which is supported by the individual credit risk control frameworks. This policy is approved by the board of directors on recommendation from the GRCMC and defines the roles of key individuals and committees in the risk management process.

Under delegated authority from the Group Chief Executive, the Risk Officer has appointed principal risk owners for retail and wholesale credit risks who are responsible for the design of the retail and wholesale credit risk control frameworks across the Bank and within the individual business areas. The frameworks are approved by the GRCMC, which is also responsible for approving the Bank's credit risk appetite under delegated authority from the board.

The credit risk control frameworks provide a structure within which credit risk is managed and for which compulsory credit policies are prescribed. These policies are approved by the Credit Risk Committee (CRC).

Each cluster is responsible for the identification, measurement, management, control and reporting of credit risk within their business portfolio. The credit risk management teams of each business unit within the clusters report to the Chief Credit Officer (CCO) of the respective clusters. In turn, the CCO reports to the executive directors of that cluster. The cluster CCO and Credit Risk are accountable to the Risk Officer, who in turn reports to the Chief Executive.

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 a customer's financial health gives grounds for concern, it is immediately placed into the appropriate category. All customers are subject to a full review of all facilities on, at least, an annual basis. Interim reviews may be undertaken if circumstances dictate.

Within the retail banking portfolios, which tend to comprise homogeneous assets, statistical techniques more readily allow impairment to be monitored on a portfolio basis. It is consistent with the Bank's policy of raising an impairment allowance as soon as objective evidence of impairment is identified as a result of one or more loss events. Where models are used, they are based on 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.

53. Credit risk *(continued)*

53.2 Credit risk management *(continued)*

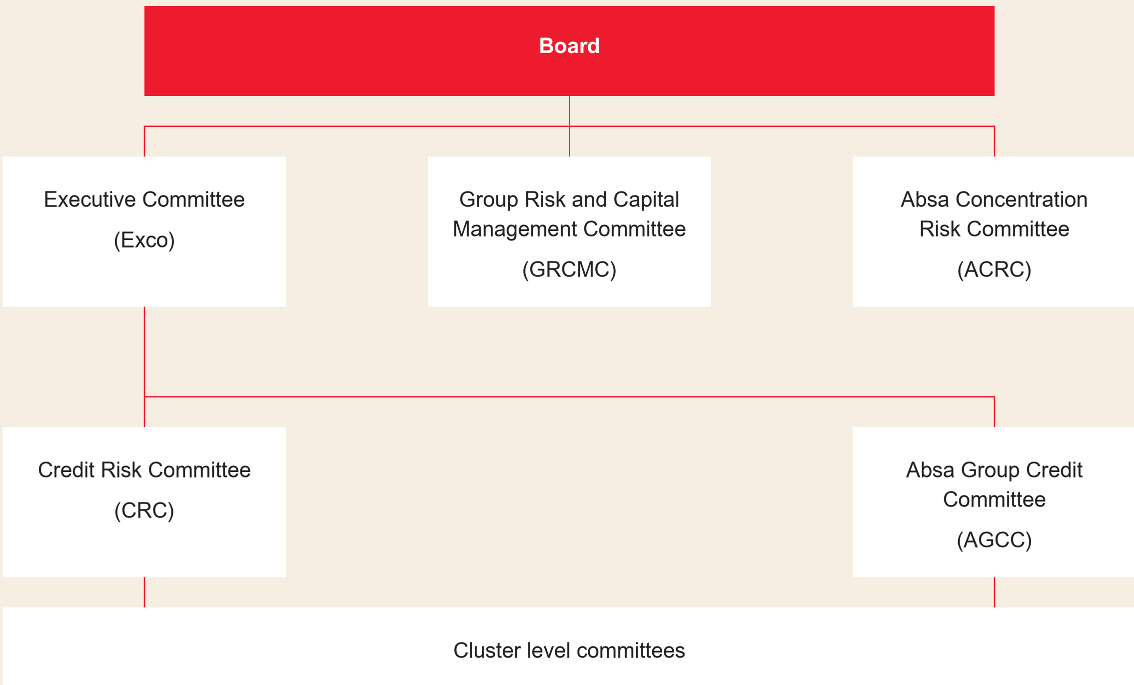
The Bank manages country risk by setting a country risk appetite, which is known as the country guideline and agreed at the CRC. All cross-border or domestic foreign currency transactions are aggregated to give the current utilisation, in terms of country loss given default (CLGD), against country appetite. The level of CLGD incurred by a counterparty transaction will largely depend on three main factors: the country severity, the product severity and the 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 Bank has, or is likely to have, exposure and are reviewed every quarter to ensure they remain appropriate. Country grades, which are derived from long-term sovereign foreign currency ratings, range from one (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 and review overall credit policies, and resolve all significant credit policy issues, are the CRC, the Absa Concentration Risk Committee (ACRC) and the GRCMC. The ACRC and the Absa Group Credit Committee (AGCC) are the highest level of credit sanctioning committees in the Bank. The cluster-level credit committees support these board committees and Exco from an operational perspective. This is reflected in the following diagram:

Figure 1 **Credit risk governance: committee structure**



53. Credit risk *(continued)*

53.2 Credit risk management *(continued)*

The CRC is chaired by the Risk Officer and meets on a regular basis. The CRC exercises oversight of the Bank's credit risk profile, by reviewing and challenging the size and constitution of the respective business portfolios and ensuring credit risk remains within the Bank's risk appetite. Additionally, the CRC ensures that the credit risk framework is in line with best practice and compliant with Basel II. The CRC reports to the GRCMC on credit risk matters on a quarterly basis. In addition, the CRC is responsible for the approval of the relevant credit policies.

GACC considers and debates the adequacy and effectiveness of the Bank's credit control framework regularly on the basis of quarterly control reports including reports prepared by internal audit. In addition, the GACC reviews impairment allowances and regulatory reports. When required, both the GRCMC and the GACC also receive in-depth reports on specific credit risk-related issues. The proceedings of both committees are reported to the board.

53.3 Credit risk measurement

The Bank's credit risk measurement and management processes are tailored to the specific requirements of the respective credit portfolios and thus differ across business areas.

The Bank's internal risk rating systems can be classified in terms of the three major Basel II approaches: standardised, foundation and AIRB. At present, the majority of the Bank's exposure is covered by rating approaches and systems in accordance with the IRB approaches.

The Bank aims to continuously improve its risk measurement and management capabilities and is employing approaches in a number of the standardised and foundation IRB portfolios that are more sophisticated than those required by the regulators. Subject to SARB approval, the Bank aims to transition all its domestic portfolios to the AIRB approach for regulatory capital calculation purposes over the next year.

Portfolios subject to the Standardised approach

The Bank's statutory reserve and liquid asset portfolio are subject to the Standardised approach.

Portfolios subject to the foundation IRB approach

Regulatory capital requirements for the domestic corporate, specialised lending, purchased receivables, sovereign and bank portfolios are calculated on the basis of the foundation IRB approach. The Bank intends to migrate these portfolios to the Advanced approach over the next year.

The Bank employs statistical, structural and expert-based models for these portfolios, which have either been developed internally or are based on services offered by external vendors.

For the majority of clients, default risk is assessed on the basis of financial and cash flow forecasts as well as a number of qualitative factors that are incorporated in the models in a structured fashion. External ratings are also used where these are available, in particular for financial institutions and foreign country sovereign ratings. The latter are used in the calculation of country grades, which are used in the assessment of country risk ceilings where lending transactions are executed outside South Africa.

Portfolios subject to the AIRB approach

The domestic retail portfolios, including retail small and medium enterprises (SMEs), utilise the AIRB approach for regulatory capital calculations. The retail portfolio comprises residential home loans, vehicle and asset finance, personal loans, overdrafts and credit cards as well as a number of joint ventures that give rise to credit exposures of similar types.

The rating process for these portfolios relies on automated application and behavioural scoring on the basis of statistical models. A number of factors play an important role in the credit approval process for retail portfolios in addition to the risk assessment based on the Bank's scoring systems. These include the following, namely:

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

- regulatory policies, such as those related to the National Credit Act (NCA), in particular with respect to affordability modelling;
- internal high-risk policies, designed to incorporate negative internal or external information with respect to particular portfolios or product sub-segments in the approval process;
- product specific policies, such as those related to various types of collateral used in different portfolios and those reflecting different portfolio risk characteristics in pricing decisions; and
- risk appetite considerations, ie mandate and scale constraints across various portfolios that are used to target an optimal structure of the overall credit portfolio.

Behavioural scores and associated probability of default (PD) are updated monthly for credit risk management and regulatory capital calculation purposes.

The Bank's approaches to measuring credit risk seek to align with international best practice and are, in all substantial aspects, aligned with the approaches and methodology employed by Barclays Bank PLC. The assessment of credit risk relies heavily on quantitative models and tools, which have, to a large degree, been developed internally and which are supplemented by vendor solutions in a number of areas.

As such, credit risk is broken down into the common risk components of PD, exposure at default (EAD) and loss given default (LGD) that are modelled at a client, facility and portfolio level. These risk components are then used in the calculation of a number of aggregate risk measures such as expected loss (EL), regulatory capital and economic capital (EC). The models used by the Bank for this purpose are compliant with Basel II requirements as discussed in subsequent sections of this report.

At present, the Bank applies both Standardised and IRB approaches to various portfolios for the purpose of calculating regulatory capital requirements but, in many cases, uses more sophisticated approaches for the management of risk internally.

The following sections provide an overview of the aforementioned concepts and their usage in the assessment of credit risk across the Bank's portfolios.

Probability of default (PD)

The PD measures the likelihood of a client defaulting on its obligations within the next 12 months and is a primary component of the internal risk rating calculated for all clients. The Bank utilises two types of PDs, namely a:

- point in time (PIT) PD, which is reflective of current economic, industry and borrower circumstances; and
- through the cycle (TTC) PD, which reflects the Bank's assessment of the borrower's long-run average propensity to default in the next year, taken over the course of a full economic cycle.

Both types of PDs are used extensively in the organisation's decision processes and several types of rating approaches are employed across the organisation.

For communication and comparison purposes the Bank maps its PD estimates to a 21 default grade (DG) master scale, which has been aligned to the SARB 26 grade scale used for regulatory reporting purposes.

Exposure at default (EAD)

The EAD denotes the total amount the organisation expects to be outstanding to a particular customer at the time of default. The Bank calculates these estimates for each facility through models developed on the basis of internal and external default data as well as credit expert's experience with particular products or client groups.

Loss given default (LGD)

The third major risk component measures the loss expected on a particular facility in the event of default and thus recognises any credit risk mitigants that the Bank may employ such as collateral or credit hedges. LGD estimates are calculated as a percentage of EAD through models based on internal and external loss data as well as credit expert's judgement and are primarily driven by the type and amount of collateral held. The Bank modifies its LGD estimates to distinguish between expected losses over the course of an economic cycle and loss estimates during periods of economic stress (downturn LGD).

Expected loss (EL) and capital requirements

The three components described namely, PD, EAD and LGD, are building blocks used in a variety of applications that measure credit risk across the entire portfolio. EL is a measurement of loss which enables the application of consistent credit risk measurement across all retail and wholesale credit exposures.

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

They are the basis for regulatory and economic capital calculations. EL figures are calculated as the product of TTC PD, EAD and downturn LGD and represent the organisation's best estimate of losses over the next year based on long-run estimates that span an entire business cycle.

These estimates are also used in a range of applications, including pricing, customer and portfolio strategy, and performance measurement. EL estimates are, occasionally, compared to impairment figures but it should be noted that whilst they may be similar, they are calculated on a different basis and for distinctly different purposes and should thus not be expected to match one another.

EL is therefore 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.

53.3.1 Maximum exposure to credit risk

For financial assets recognised in the statement of financial position, the exposure to credit risk equals the carrying amount. For financial guarantees, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the guarantee was called upon (contract value). For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The following represents the maximum exposure, at the statement of financial position date, to credit risk for on- and off-statement of financial position 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-statement of financial position assets

	Bank	
	2009 Rm	2008 Rm
Balances with the SARB	**10 983**	12 626
Cash, cash balances and balances with central banks (refer to note 2)	**10 983**	12 626
Land Bank bills	**493**	492
RSA government bonds	**25 467**	19 156
Reverse repurchase agreements	**1 941**	4 100
SARB debentures	**223**	1 814
Treasury bills	**5 819**	7 457
Statutory liquid asset portfolio (refer to note 3)	**33 943**	33 019
Other loans and advances to banks	**26 104**	26 312
Reverse repurchase agreements	**8 932**	17 247
Loans and advances to banks (refer to note 4)	**35 036**	43 559
Debt instruments	**10 715**	5 178
Derivative assets	**31 686**	65 466
Money market assets	**4 129**	1 464
Trading portfolio assets (refer to note 5)	**46 530**	72 108
Derivatives designated as cash flow hedging instruments	**1 946**	2 530
Derivatives designated as fair value hedging instruments	**612**	609
Hedging portfolio assets (refer to note 5)	**2 558**	3 139
Accounts receivable	**4 880**	5 089
Collateral	**740**	548
Settlement accounts	**269**	1 792
Other assets (refer to note 6)	**5 889**	7 429

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

53.3.1 Maximum exposure to credit risk *(continued)*

(a) Credit risk exposures relating to on-statement of financial position assets *(continued)*

	Bank 2009 Rm	Bank 2008 Rm
Retail banking	**315 181**	322 019
Cheque accounts	**3 945**	3 721
Credit cards	**12 672**	13 378
Instalment credit agreements	**38 531**	43 165
Loans to associates and joint ventures	**6 187**	5 441
Microloans	**2 044**	3 083
Mortgages	**241 522**	242 763
Other advances	**81**	943
Personal and term loans	**10 199**	9 525
Absa Corporate and Business Bank	**117 317**	117 371
Corporate	**22 285**	18 553
Large and Medium	**74 967**	74 170
Other	**20 065**	24 648
Absa Capital	**54 698**	72 636
Other	**476**	631
Loans and advances to customers (refer to note 9)	**487 672**	512 657
Debt instruments	**9 236**	7 709
Investments (refer to note 12)	**9 236**	7 709
Total assets subject to credit risk (refer to note 53.3.2)	**631 847**	692 246
Assets not subject to credit risk[1]	**39 394**	43 132
Total assets per the statement of financial position	**671 241**	735 378

Amounts reflected are net of any impairments.

(b) Credit risk exposures relating to off-statement of financial position items

	Bank 2009 Rm	Bank 2008 Rm
Financial guarantees	**1 007**	1 001
Guarantees	**9 829**	9 134
Irrevocable facilities	**54 346**	29 753
Letters of credit	**4 581**	6 069
Other contingencies	**5**	25
	69 768	45 982

Comparatives have been reclassified and restated, refer to note 1.23.

Note

[1]*Includes coins and bank notes, prepayments, constructed assets held for sale, repossessed properties, deferred costs, investments in equity instruments, deferred tax assets, intangible assets, investment property, non-current assets held for sale and property and equipment which are not subject to credit risk.*

(c) Financial assets and liabilities designated at fair value through profit or loss

The following represents the maximum exposure at the statement of financial position date to credit risk of financial instruments designated at fair value through profit or loss, before taking into account any collateral held or other credit enhancements.

	Bank 2009 Rm	Bank 2008 Rm
Assets		
Statutory liquid asset portfolio (refer to note 3)	**3 636**	8 273
Loans and advances to banks (refer to note 4)	**2 403**	7 168
Loans and advances to customers (refer to note 9)	**8 462**	8 737
Investments (refer to note 12)	**7 492**	6 084
	21 993	30 262

53. Credit risk *(continued)*
53.3 Credit risk measurement *(continued)*
53.3.1 Maximum exposure to credit risk *(continued)*

(c) Financial assets and liabilities designated at fair value through profit or loss *(continued)*

	Bank 2009 Rm	Bank 2008 Rm
Liabilities		
Deposits from banks (refer to note 18)	**8 014**	9 002
Other liabilities (refer to note 20)	**274**	—
Deposits due to customers (refer to note 22)	**12 553**	11 419
Debt securities in issue (refer to note 23)	**4 648**	6 069
Borrowed funds (refer to note 25)	**718**	671
	26 207	27 161

At the statement of financial position date, the Bank did not use credit derivatives as a mechanism to hedge its exposure to credit risk for financial assets and financial liabilities designated at fair value.

(d) Contractual obligation at maturity of financial liabilities designated at fair value through profit or loss

The following represents the carrying value of financial liabilities designated at fair value through profit or loss and the amount which the Bank is contractually required to pay to the holder of the obligation at maturity.

	Bank			
	2009		2008	
	Carrying value Rm	**Contractual obligation Rm**	Carrying value Rm	Contractual obligation Rm
Liabilities				
Deposits from banks (refer to note 18)	**8 014**	**8 117**	9 002	9 034
Other liabilities (refer to note 20)	**274**	**274**	—	—
Deposits due to customers (refer to note 22)	**12 553**	**12 539**	11 419	8 972
Debt securities in issue (refer to note 23)	**4 648**	**4 735**	6 069	4 808
Borrowed funds (refer to note 25)	**718**	**811**	671	765
	26 207	**26 476**	27 161	23 579

(e) Increase/(decrease) in fair value attributable to changes in credit risk during the year

	Bank 2009 Rm	Bank 2008 Rm
Assets		
Loans and advances to customers	**(9)**	24
Investments	**—**	26
(f) Cumulative increase in fair value attributable to changes in credit risk		
Assets		
Loans and advances to customers	**15**	24
Investments	**26**	26

The following approaches are used by the Bank in determining changes in fair value due to changes in credit risk for loans and receivable designated at fair value through profit or loss:

- Internal risk grading approach: The cumulative change in fair value due to changes in credit risk 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 is calculated by stripping out the trading margin from the fixed rate instruments to determine the split between interest and credit movement.
- Constant credit spread approach: The cumulative change in fair value due to changes in credit risk is calculated by assigning to each customer a credit spread based on the contractual credit spread of the loan or receivable at the time of origination. The assigned credit spread is incorporated in the valuation curve. Changes are made to the credit spread used only if a change in credit spread for the counterparty is observed externally.

For financial liabilities designated at fair value through profit or loss no change in fair value due to change in credit risk was recognised.

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

53.3.2 Financial assets subject to credit risk

For the purposes of the Bank's disclosure regarding credit quality, the maximum exposure to credit risk of financial assets at the statement of financial position date has been analysed as follows:

	Cash, cash balances and balances with central banks[1] Rm	**Statutory liquid asset portfolio Rm**	**Loans and advances to banks Rm**
Neither past due nor impaired (refer to note 53.3.3 (a))	**10 983**	**33 943**	**35 036**
Past due but not impaired (refer to note 53.3.5)	—	—	—
Impaired (refer to note 53.3.6 (a))	—	—	—
Impairment allowance (refer to notes 10 and 53.3.7)	—	—	—
Identified impairments	—	—	—
Identified collective	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Identified individual	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Unidentified impairments	—	—	—
Carrying value of financial assets (refer to note 53.3.1 (a))	**10 983**	**33 943**	**35 036**

	Cash, cash balances and balances with central banks[1] Rm	Statutory liquid asset portfolio Rm	Loans and advances to banks Rm
Neither past due nor impaired (refer to note 53.3.3 (a))	12 626	33 019	43 559
Past due but not impaired (refer to note 53.3.5)	—	—	—
Impaired (refer to note 53.3.6 (a))	—	—	—
Impairment allowance (refer to notes 10 and 53.3.7)	—	—	—
Identified impairments			
Identified collective	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Identified individual	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Unidentified impairments	—	—	—
Carrying value of financial assets (refer to note 53.3.1 (a))	12 626	33 019	43 559

Notes

[1] *Cash, cash balances and balances with central banks exclude coins and bank notes which are not subject to credit risk.*

[2] *Trading portfolio assets and investments exclude equity instruments and commodities as they are not subject to credit risk.*

[3] *Other assets exclude prepayments, constructed assets held for sale, repossessed properties, cash under management and deferred costs which are not subject to credit risk.*

Bank

2009

	Trading portfolio assets[2] Rm	Hedging portfolio assets Rm	Other assets[3] Rm	Loans and advances to customers Rm	Investments[2] Rm	Total Rm
	46 530	**2 558**	**5 841**	**440 855**	**9 236**	**584 982**
	—	**—**	**45**	**4 568**	**—**	**4 613**
	—	**—**	**7**	**54 263**	**—**	**54 270**
	—	**—**	**(4)**	**(12 014)**	**—**	**(12 018)**
	—	**—**	**(4)**	**(10 977)**	**—**	**(10 981)**
	—	**—**	**—**	**(1 324)**	**—**	**(1 324)**
	—	**—**	**—**	**(1 025)**	**—**	**(1 025)**
	—	**—**	**—**	**(299)**	**—**	**(299)**
	—	**—**	**(4)**	**(9 653)**	**—**	**(9 657)**
	—	**—**	**—**	**(8 327)**	**—**	**(8 327)**
	—	**—**	**(4)**	**(1 326)**	**—**	**(1 330)**
	—	**—**	**—**	**(1 037)**	**—**	**(1 037)**
	46 530	**2 558**	**5 889**	**487 672**	**9 236**	**631 847**

2008

	Trading portfolio assets[2] Rm	Hedging portfolio assets Rm	Other assets[3] Rm	Loans and advances to customers Rm	Investments[2] Rm	Total Rm
	72 108	3 139	7 408	476 328	7 709	655 896
	—	—	21	2 660	—	2 681
	—	—	2	42 166	—	42 168
	—	—	(2)	(8 497)	—	(8 499)
			(2)	(7 215)		(7 217)
	—	—	—	(943)	—	(943)
	—	—	—	(472)	—	(472)
	—	—	—	(471)	—	(471)
	—	—	(2)	(6 272)	—	(6 274)
	—	—	—	(4 680)	—	(4 680)
	—	—	(2)	(1 592)	—	(1 594)
	—	—	—	(1 282)	—	(1 282)
	72 108	3 139	7 429	512 657	7 709	692 246

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

53.3.3 Financial assets neither past due nor impaired

The Bank categorises its current exposures according to a 21-grade internal rating scale DG that corresponds to a statistical probability of customers in that rating class defaulting within a 12-month period. An indicative mapping of the DG buckets to the equivalent international rating agency scales can be performed as illustrated in the table below:

DG mapping (to risk-rated or credit-scored models)				Rating agency mappings (international rating scales)		
DG	Min PD (>)	Max PD (≤)	PD (midpoint)	Standard and Poor's (S&P)	Moody's	Fitch
1	0,000%	0,020%	0,010%	AAA	Aaa	AAA
2	0,020%	0,030%	0,025%	AA	Aa	AA
3	0,030%	0,050%	0,040%	A+	A1	A+
4	0,050%	0,100%	0,075%	A/A-	A2/A3	A/A-
5	0,100%	0,150%	0,125%	BBB+	Baa1	BBB+
6	0,150%	0,200%	0,175%	BBB+/BBB	Baa1/Baa2	BBB+/BBB
7	0,200%	0,250%	0,225%	BBB	Baa2	BBB
8	0,250%	0,300%	0,275%	BBB/BBB-	Baa2/Baa3	BBB/BBB-
9	0,300%	0,400%	0,350%	BBB-	Baa3	BBB-
10	0,400%	0,500%	0,450%	BBB-/BB+	Baa3/Ba1	BBB-/BB+
11	0,500%	0,600%	0,550%	BB+	Ba1	BB+
12	0,600%	1,200%	0,900%	BB	Ba2	BB
13	1,200%	1,550%	1,375%	BB/BB-	Ba2/Ba3	BB/BB-
14	1,550%	2,150%	1,850%	BB/BB-	Ba2/Ba3	BB/BB-
15	2,150%	3,050%	2,600%	BB-	Ba3	BB-
16	3,050%	4,450%	3,750%	B+	B1	B+
17	4,450%	6,350%	5,400%	B+/B	B1/B2	B+/B
18	6,350%	8,650%	7,500%	B	B2	B
19	8,650%	11,350%	10,000%	B-	B3	B-
20	11,350%	18,650%	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 0,6%.

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.

Default grades 20 – 21
These financial assets' probability of default have deteriorated to such an extent that they are included in a watch-list for regular review. Assets so classified must have well-defined weaknesses that exacerbate the probability of default. They are characterised by the distinct possibility that the obligor will default, and should the collateral pledged be insufficient to cover the asset, the Bank will sustain some loss when default occurs.

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

53.3.3 Financial assets neither past due nor impaired *(continued)*

Financial assets neither past due nor impaired can be analysed according to the internal rating system used in the Bank's business. The credit quality of financial assets subject to credit risk, that were neither past due nor impaired, based on the Bank's internal ratings, were as follows:

(a) Credit risk exposures relating to on-statement of financial position assets

	Bank			
	2009			
	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total Rm
Balances with the SARB	10 983	—	—	10 983
Cash, cash balances and balances with central banks	**10 983**	**—**	**—**	**10 983**
Land Bank bills	493	—	—	493
RSA government bonds	25 467	—	—	25 467
Reverse repurchase agreements	1 941	—	—	1 941
SARB debentures	223	—	—	223
Treasury bills	5 819	—	—	5 819
Statutory liquid asset portfolio	**33 943**	**—**	**—**	**33 943**
Other loans and advances to banks	25 185	919	—	26 104
Reverse repurchase agreements	8 932	—	—	8 932
Loans and advances to banks	**34 117**	**919**	**—**	**35 036**
Debt instruments	10 715	—	—	10 715
Derivative assets	27 586	4 092	8	31 686
Money market assets	3 842	287	—	4 129
Trading portfolio assets	**42 143**	**4 379**	**8**	**46 530**
Derivatives designated as cash flow hedging instruments	1 946	—	—	1 946
Derivatives designated as fair value hedging instruments	612	—	—	612
Hedging portfolio assets	**2 558**	**—**	**—**	**2 558**
Accounts receivable	4 831	1	—	4 832
Collateral	740	—	—	740
Settlement accounts	254	15	—	269
Other assets	**5 825**	**16**	**—**	**5 841**
Retail banking	40 743	218 936	16 295	275 974
Cheque accounts	464	2 883	389	3 736
Credit cards	159	9 360	1 864	11 383
Instalment credit agreements	2 236	30 068	1 625	33 929
Loans to associates and joint ventures	405	5 487	295	6 187
Microloans	37	1 133	458	1 628
Mortgages	35 774	163 066	10 712	209 552
Other advances	89	—	—	89
Personal and term loans	1 579	6 939	952	9 470

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

53.3.3 Financial assets neither past due nor impaired *(continued)*

(a) Credit risk exposures relating to on-statement of financial position assets *(continued)*

Bank

	2009			
	DG 1 – 11 Rm	**DG 12 – 19 Rm**	**DG 20 – 21 Rm**	**Total Rm**
Absa Corporate and Business Bank	**40 664**	**66 329**	**3 415**	**110 408**
Corporate	**12 866**	**8 233**	**64**	**21 163**
Large and Medium	**23 736**	**42 900**	**2 719**	**69 355**
Other	**4 062**	**15 196**	**632**	**19 890**
Absa Capital	**31 811**	**21 849**	**337**	**53 997**
Other	**476**	**—**	**—**	**476**
Loans and advances to customers	**113 694**	**307 114**	**20 047**	**440 855**
Debt instruments	**7 025**	**2 211**	**—**	**9 236**
Investments	**7 025**	**2 211**	**—**	**9 236**
Total (refer to note 53.3.2)	**250 288**	**314 639**	**20 055**	**584 982**

	2008			
	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total Rm
Balances with the SARB	12 626	—	—	12 626
Cash, cash balances and balances with central banks	12 626	—	—	12 626
Land Bank bills	492	—	—	492
RSA government bonds	19 156	—	—	19 156
Reverse repurchase agreements	4 100	—	—	4 100
SARB debentures	1 814	—	—	1 814
Treasury bills	7 457	—	—	7 457
Statutory liquid asset portfolio	33 019	—	—	33 019
Other loans and advances to banks	26 311	1	—	26 312
Reverse repurchase agreements	17 247	—	—	17 247
Loans and advances to banks	43 558	1	—	43 559
Debt instruments	5 178	—	—	5 178
Derivative assets	61 247	4 184	35	65 466
Money market assets	1 464	—	—	1 464
Trading portfolio assets	67 889	4 184	35	72 108
Derivatives designated as cash flow hedging instruments	2 493	37	—	2 530
Derivatives designated as fair value hedging instruments	602	7	—	609
Hedging portfolio assets	3 095	44	—	3 139
Accounts receivable	5 046	22	—	5 068
Collateral	548	—	—	548
Settlement accounts	1 792	—	—	1 792
Other assets	7 386	22	—	7 408
Retail banking	50 428	225 958	12 458	288 844
Cheque accounts	514	2 781	403	3 698
Credit cards	165	9 268	2 218	11 651
Instalment credit agreements	5 535	31 121	2 534	39 190
Loans to associates and joint ventures	652	4 489	300	5 441
Microloans	75	1 820	880	2 775
Mortgages	41 245	170 349	5 234	216 828
Other advances	462	142	21	625
Personal and term loans	1 780	5 988	868	8 636

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

53.3.3 Financial assets neither past due nor impaired *(continued)*

(a) Credit risk exposures relating to on-statement of financial position assets *(continued)*

	Bank 2008 DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total Rm
Absa Corporate and Business Bank	46 669	65 003	2 675	114 347
Corporate	6 283	11 744	243	18 270
Large and Medium	34 253	36 218	2 080	72 551
Other	6 133	17 041	352	23 526
Absa Capital	53 452	18 872	181	72 505
Other	632	—	—	632
Loans and advances to customers	151 181	309 833	15 314	476 328
Debt instruments	7 709	—	—	7 709
Investments	7 709	—	—	7 709
Total (refer to note 53.3.2)	326 463	314 084	15 349	655 896

53.3.4 Financial assets renegotiated

Certain of the Bank's loans and advances to customers would have defaulted if their terms had not been renegotiated.

At the statement of financial position date, the carrying amount of assets[1] renegotiated and transferred[2] to the neither past due nor impaired classification in the last 12 months was as follows:

Loans and advances to customers	**Bank 2009 Rm**	2008 Rm
Retail banking	**1 602**	734
Cheque accounts	**11**	1
Instalment credit agreements	**1**	—
Microloans	**2**	—
Mortgages	**1 569**	728
Other advances	**2**	1
Personal loans	**17**	4
Absa Corporate and Business Bank	**872**	975
	2 474	1 709

Notes

[1]*Only assets included in loans and advances at the statement of financial position date.*

[2]*Assets are only transferred to the neither past due nor impaired classification once the customer demonstrates the ability to make the contractual payments for a specified period.*

In the event that a customer loan becomes past due, and the customer cannot temporarily afford to pay the arrears or monthly instalments, the customer could qualify for a remediation period to give him/her the opportunity to rectify the situation. On expiry of the remediation period the customer's situation is reassessed and the rectification of the account or the renegotiation of the terms of the agreement are explored. The terms of the agreement can only be permanently altered once in a 12-month period and is subject to affordability assessments and customer risk. The renegotiated term of the contract is limited by the maximum legally allowed financing term for the specific product.

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

53.3.5 Financial assets that are past due but not impaired

These are assets where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate, based on the level of security collateral available.

The age of loans and advances to customers and other assets that are past due but not impaired is as follows:

Bank

	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
2009						
Accounts receivable	**40**	**—**	**—**	**5**	**—**	**45**
Other assets	**40**	**—**	**—**	**5**	**—**	**45**
Retail banking	**730**	**58**	**70**	**108**	**1 429**	**2 395**
Cheque accounts	**3**	**2**	**2**	**4**	**44**	**55**
Instalment credit agreements	**22**	**4**	**2**	**2**	**42**	**72**
Mortgages	**705**	**52**	**66**	**68**	**1 343**	**2 234**
Personal and term loans	**—**	**—**	**—**	**34**	**—**	**34**
Absa Corporate and Business Bank	**813**	**529**	**122**	**62**	**646**	**2 172**
Large and Medium	**812**	**528**	**122**	**56**	**636**	**2 154**
Other	**1**	**1**	**—**	**6**	**10**	**18**
Absa Capital	**1**	**—**	**—**	**—**	**—**	**1**
Loans and advances to customers	**1 544**	**587**	**192**	**170**	**2 075**	**4 568**
Past due but not impaired (refer to note 53.3.2)	**1 584**	**587**	**192**	**175**	**2 075**	**4 613**

	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
2008						
Accounts receivable	15	2	4	—	—	21
Other assets	15	2	4	—	—	21
Retail banking	492	115	97	108	1 111	1 923
Cheque accounts	1	4	1	4	20	30
Instalment credit agreements	30	3	2	4	38	77
Mortgages	456	106	93	99	1 043	1 797
Personal and term loans	5	2	1	1	10	19
Absa Corporate and Business Bank	497	61	4	30	145	737
Large and Medium	497	61	4	30	137	729
Other	—	—	—	—	8	8
Loans and advances to customers	989	176	101	138	1 256	2 660
Past due but not impaired (refer to note 53.3.2)	1 004	178	105	138	1 256	2 681

For details of the collateral held against the above loans and advances to customers, refer to note 53.4.1.

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

53.3.6 Identified impairments on financial assets

The Bank's credit policy considers the following to be key indicators (albeit not the only indicators) of default:

- The borrower is unlikely to pay its credit obligation in full, without recourse by the Bank to actions such as realising any security held.
- The obligor is overdue.

In the wholesale portfolio, the identified impairment is calculated on accounts that are reflected on management watch-lists (pre-legal environment) and accounts currently going through the legal workout process.

In the retail portfolio, the identified impairment is calculated on both an individual and collective basis. For accounts currently residing in the legal environment, impairment is held against individual exposures. Where retail exposures are identified as delinquent (one or more payments down) but not currently in the legal process, they are impaired collectively, given the level of delinquency. For accounting purposes, these accounts are considered to be identified impairments.

(a) Analysis of identified impairment

	Bank					
	2009			2008		
	Original carrying amount Rm	**Impairment allowance Rm**	**Revised carrying amount Rm**	Original carrying amount Rm	Impairment allowance Rm	Revised carrying amount Rm
Accounts receivable	**7**	**(4)**	**3**	2	(2)	—
Other assets	**7**	**(4)**	**3**	2	(2)	—
Retail banking	**46 085**	**(8 723)**	**37 362**	37 711	(5 913)	31 798
Cheque accounts	**313**	**(140)**	**173**	247	(105)	142
Credit cards	**3 266**	**(1 952)**	**1 314**	3 249	(1 447)	1 802
Instalment credit agreements	**5 751**	**(1 134)**	**4 617**	5 245	(1 219)	4 026
Microloans	**788**	**(358)**	**430**	647	(366)	281
Mortgages	**34 787**	**(4 676)**	**30 111**	27 193	(2 392)	24 801
Personal and term loans	**1 180**	**(463)**	**717**	1 130	(384)	746
Absa Corporate and Business Bank	**6 931**	**(1 835)**	**5 096**	4 081	(1 284)	2 797
Corporate	**1 353**	**(201)**	**1 152**	563	(228)	335
Large and Medium	**4 948**	**(1 229)**	**3 719**	2 060	(724)	1 336
Other	**630**	**(405)**	**225**	1 458	(332)	1 126
Absa Capital	**1 247**	**(419)**	**828**	374	(18)	356
Loans and advances to customers	**54 263**	**(10 977)**	**43 286**	42 166	(7 215)	34 951
Total (refer to note 53.3.2)	**54 270**	**(10 981)**	**43 289**	42 168	(7 217)	34 951

For details of the collateral held against the above loans and advances to customers, refer to note 53.4.1.

53. Credit risk *(continued)*

53.3 Credit risk measurement *(continued)*

53.3.7 *Reconciliation of total impairments (identified and unidentified)*

Bank

2009

Impairment of loans and advances to customers	Opening balance Rm	Net present value unwind on non-performing book Rm	Exchange differences Rm	Amounts written off Rm	Impairment raised Rm	Closing balance Rm
Retail banking	6 461	(783)	—	(4 022)	7 617	9 273
Absa Corporate and Business Bank	1 794	(147)	(1)	(334)	882	2 194
Absa Capital	242	(6)	(2)	(7)	320	547
	8 497	(936)	(3)	(4 363)	8 819	12 014

2008

Impairment of loans and advances to customers	Opening balance Rm	Net present value unwind on non-performing book Rm	Exchange differences Rm	Amounts written off Rm	Impairment raised Rm	Closing balance Rm
Retail banking	3 517	(475)	—	(2 198)	5 617	6 461
Absa Corporate and Business Bank	1 719	(44)	—	(345)	464	1 794
Absa Capital	245	(2)	—	(31)	30	242
	5 481	(521)	—	(2 574)	6 111	8 497

53.4 Credit risk mitigation, collateral and other credit enhancements

The Bank uses a number of techniques to mitigate credit risk, including the taking of collateral, on- and off-statement of financial position netting agreements and selective hedging through credit derivatives. Depending on the Bank's assessment of a client's financial capacity, facilities may be provided on an unsecured basis but commonly one or more forms of security are sought in the credit approval process.

The Bank's businesses are mandated to take certain types of collateral depending on the type of product, portfolio and client. Where collateral is taken, applicable policies and business processes ensure that funds can only be released once the relevant charges over the security have been perfected and all required documentation has been obtained.

The Bank's policies with respect to assessing, taking and managing collateral are aligned with regulatory requirements for capital calculation purposes but are, in some cases, more specific to ensure robust and efficient processes that exceed these minimum requirements. As such, the applicable credit policies clearly set out:

- what items of security are permissible and qualify as credit risk mitigants;
- what requirements have to be met for valuation purposes;
- which operational requirements that must be met by the collateral management process for the collateral to be recognised as a credit risk mitigant; and
- how collateral valuations should be adjusted based on the Bank's experience when used to calculate their potential value as credit risk mitigant.

53. Credit risk *(continued)*

53.4 Credit risk mitigation, collateral and other credit enhancements *(continued)*

Collateral types used by the Bank, grouped by type of asset

Assets subject to credit risk on-statement of financial position	Type of collateral[1]
The following types of collateral are currently held against assets subject to credit and consistent with accepted market practice:	
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 Cash Listed equities RSA government bonds
Loans and advances to customers	Assignment of debtors Bonds over properties (commercial and residential) Call options to holding companies Charge on property Cession on loan accounts Debentures Governmental guarantees Guarantees from shareholders and directors Insurance policies Life insurance policies Listed equities Netting agreements Parental guarantees Personal and other company guarantees Pledged securities Property and equipment Put options from holding companies or other companies within the Absa Group Shares Suretyships

Valuation of collateral

Any security taken as part of the credit decision process is valued according to the applicable credit policies at the time of credit approval and at regular intervals thereafter. The Bank uses a number of approaches for the revaluation of collateral, including physical inspection, statistical indexing and price volatility modelling. For example, in the retail residential property portfolios market values are re-estimated monthly on the basis of data published by an external data provider (Lightstone), whilst market valuations of motor vehicles are established monthly on the basis of data published by Mead and McGrouther.

For significant items of security, physical inspections and expert valuations are carried out at regular intervals but at least annually. Collateral valuations are also updated when an account enters the legal/recovery process to ensure that an appropriate impairment allowance can be calculated. In the wholesale portfolios these valuations are reviewed regularly to ensure that any impairments raised remain at an appropriate level, including potential gains in the valuation of marketable securities and other market-related instruments that may lead to a partial release of the impairment allowance.

The collateral management process is focused on the efficient handling and processing of a large number of cases in the retail portfolio and the lower end of the corporate sector, thus relying heavily on the Bank's consolidated collateral and document management systems. For larger wholesale exposures and capital markets transaction collateral is managed jointly between the credit and legal functions as transactions and associated legal agreements are often bespoke in nature, in particular where credit derivatives or customised netting agreements are used as a risk mitigant. All security structures and legal covenants are reviewed at least annually to ensure that they remain fit for purpose and consistent with accepted market practice.

Note

[1] *This list is not exhaustive. There may be other forms of collateral that may be recognised by the Bank.*

53. Credit risk *(continued)*

53.4 Credit risk mitigation, collateral and other credit enhancements *(continued)*

Due to the nature of the Bank's business a certain degree of risk concentration in the collateral portfolios cannot be avoided. The Bank manages these risks through mandate and scale limits that differ across the individual portfolios, for example:

- Vehicle and asset finance: limits are placed on the tenure of loans.
- Home loans: limits are placed on property values and loan to value (LTV) ratios.
- Commercial property finance: limits are placed on the type of asset (eg industrial or retail) and geographical area.

Due to the structure of the South African financial markets, a certain level of concentration with respect to derivative counterparties is also to be expected. The Bank manages this type of concentration risk through mandate and scale limits as well as sophisticated, simulation based exposure models that support a rigorous credit analysis and ongoing monitoring of these counterparties, the Bank's mark-to-market exposure and associated risk levels.

Types of guarantor and credit derivative counterparties

In the commercial, corporate and financial sector, the Bank often places reliance on a third party guarantor, which may be a parent company to the obligor, a major shareholder or a bank. Similarly, credit derivative transactions are often used to hedge specific parts of any single-name risk in the wholesale portfolio. For these transactions the most common counterparties or issuers are banks, non-bank financial institutions (NBFIs), large corporates, parastatals and governments. The creditworthiness of the guarantor or derivative counterparty/issuer is assessed as part of the credit approval process and the value of such a guarantee or derivative contract is adjusted accordingly for the purpose of calculating internal LGD estimates.

Use of netting agreements, International Swaps and Derivatives Association (ISDA) master agreements and Collateral Support Annexes (CSAs)

In line with international market practice, the Bank endeavours to utilise netting agreements wherever possible. The Bank primarily employs the ISDA master agreements as well as the respective CSAs, which provide for standardised and commonly accepted processes for the managing of collateral and margin calls over the lifetime of the transaction.

CSAs may create an obligation on the Bank unrelated to the underlying instruments in the event of a credit downgrade. Only a small number of the Bank's agreements make use of such a tiered structure and an instantaneous downgrade by one rating grade from the current AA-rating (S&P's and Fitch) would not trigger any such clauses and create a requirement for the Bank to post additional collateral.

53.4.1 Fair value of collateral for loans past due but not impaired and loans individually impaired

Financial assets that are past due or individually assessed as impaired (specifically impaired) are for the most part collateralised or subject to other forms of credit enhancements. The effects of such arrangements are taken into account in the calculation of the impairment allowance held against them.

The fair value of collateral and other credit enhancements held in respect of loans and advances to customers past due but not impaired and individually assessed as impaired is as follows:

	Bank	
Fair value collateral for loans past due but not impaired and individually impaired	**2009 Rm**	2008 Rm
Retail banking	**38 005**	25 290
Cheque accounts	**83**	44
Instalment credit agreements	**4 407**	3 017
Microloans	**—**	2
Mortgages	**33 388**	22 116
Personal and term loans	**127**	111
Absa Corporate and Business Bank	**7 156**	3 645
Corporate	**1 313**	345
Large and Medium	**5 601**	2 305
Other	**242**	995
	45 161	28 935
Carrying values of loans past due but not impaired (refer to note 53.3.5)	**4 568**	2 660
Carrying values of loans individually impaired (refer to note 53.3.6 (a))	**54 263**	42 166

A shortfall exists between the fair value of collateral held and the carrying values of loans and advances past due but not impaired and individually assessed as impaired. This is owing to the Bank using a probability of default when assessing certain of the individually impaired loans.

53. Credit risk *(continued)*

53.4 Credit risk mitigation, collateral and other credit enhancements *(continued)*

53.4.2 Enforcement of collateral

Carrying value of assets held by the Bank at the statement of financial position date as a result of the enforcement of collateral, was as follows:

	Bank	
Loans and advances to customers	**2009 Rm**	2008 Rm
Residential properties		
Opening balance	**340**	172
Acquisitions	**103**	295
Disposals	**(99)**	(127)
Closing balance	**344**	340

Any properties repossessed are made available for sale in an orderly and timely fashion, with any proceeds realised being used to reduce or repay any outstanding loan. The Bank does not, as a rule, occupy repossessed properties for its business use.

53.5 Credit risk concentration

The Bank seeks to develop and sustain a credit portfolio in line with its chosen strategy and target risk profile. As such, it measures and manages concentration risk through various approaches and metrics as part of its ongoing credit portfolio management processes. The most important considerations used in this process are the following:

- Maximum allocation guidelines (MAGs) are in place to ensure that the size of exposure to any one counterparty is related to its credit quality and does not exceed a certain overall threshold. A distinction is made between corporate, sovereign and bank counterparties. Furthermore, country risk policies are aligned to MAGs to ensure a reasonable degree of geographic diversification.

  The Bank also uses lending policies to limit exposure to certain industries in accordance with its economic forecasts (for example, a reduction in the exposure guidelines for commercial real estate lending has successfully curtailed the Bank's exposure to this sector during the downturn in the property market).

- Mandate and scale limits, which are also a direct articulation of the Bank's risk appetite, are applied at all levels of the organisation. Operationally, they may take the form of caps on high LTV mortgages or the maximum permissible residual value risk in relation to vehicle lease agreements. Strategically, the Bank's mandate and scale limits are used to determine the overall size and risk characteristics of the credit portfolio.

Breaches of exposure guidelines as well as breaches of mandate and scale limits (or other risk limits) are monitored closely and excesses are reported, reviewed and decided-upon at the CRC and the GRCMC. A number of mitigating actions may be mandated by the respective committee, which may include changes in the origination strategy as well as a reduction in individual client limits.

53. Credit risk *(continued)*

53.5 Credit risk concentration *(continued)*

53.5.1 Analysis of credit risk concentration by industry

The following table reflects the Bank's credit exposures at their carrying amounts, as categorised by the industry sectors of counterparties at the statement of financial position 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	**—**	**—**	**—**	**15**	**—**
Construction and property	**—**	**—**	**—**	**21**	**63**
Consumer (home loans)	**—**	**—**	**—**	**—**	**8**
Consumer (other personal lending)	**—**	**—**	**—**	**47**	**187**
Electricity	**—**	**—**	**—**	**1 682**	**2**
Finance	**10 983**	**—**	**35 036**	**37 930**	**4 459**
Government	**—**	**33 943**	**—**	**7 906**	**197**
Manufacturing	**—**	**—**	**—**	**338**	**10**
Mining	**—**	**—**	**—**	**338**	**11**
Other	**—**	**—**	**—**	**13**	**919**
Services	**—**	**—**	**—**	**288**	**30**
Transport	**—**	**—**	**—**	**342**	**—**
Wholesale	**—**	**—**	**—**	**168**	**3**
Subject to credit risk	**10 983**	**33 943**	**35 036**	**49 088**	**5 889**

	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	60
Consumer (home loans)	—	—	—	—	5
Consumer (other personal lending)	—	—	—	—	318
Electricity	—	—	—	—	—
Finance	12 626	—	43 559	68 105	2 978
Government	—	33 019	—	1 107	1 289
Manufacturing	—	—	—	—	—
Mining	—	—	—	—	—
Other	—	—	—	5 983	2 747
Services	—	—	—	38	2
Transport	—	—	—	—	—
Wholesale	—	—	—	—	30
Subject to credit risk	12 626	33 019	43 559	75 247	7 429

Note

[1] *During the year the Bank reassessed its sectorial classifications and realigned some exposures to better reflect the counterparty to the exposure. This has resulted in the Construction and property sector increasing by R988 million, Consumer (home loans) increasing by R71 711 million, Consumer (Other) decreasing by R18 433 million, Finance decreasing by R4 939 million, Manufacturing decreasing by R4 002 million, Other decreasing by R18 128 million, Services decreasing by R34 938 million, Transport decreasing by R7 165 million and Wholesale increasing by R1 897 million.*

Bank

2009

Loans and advances to customers[1] Rm	Investments Rm	Financial guarantees Rm	Guarantees Rm	Irrevocable facilities Rm	Letters of credit Rm	Other contingencies Rm	Total Rm
17 421	**—**	**—**	**216**	**10**	**12**	**—**	**17 674**
53 179	**3 247**	**—**	**976**	**166**	**505**	**—**	**58 157**
253 582	**1 655**	**—**	**—**	**—**	**—**	**—**	**255 245**
31 863	**—**	**—**	**3 446**	**9 726**	**11**	**—**	**45 280**
2 276	**—**	**64**	**463**	**866**	**75**	**—**	**5 428**
39 894	**638**	**256**	**441**	**41 642**	**1 437**	**—**	**172 716**
3 264	**215**	**—**	**14**	**—**	**—**	**—**	**45 539**
11 514	**30**	**562**	**554**	**6**	**297**	**—**	**13 311**
6 534	**1 137**	**125**	**66**	**3**	**636**	**—**	**8 850**
21 122	**816**	**—**	**1 695**	**1 343**	**1 195**	**5**	**27 108**
21 460	**1 248**	**—**	**727**	**229**	**246**	**—**	**24 228**
8 465	**250**	**—**	**118**	**240**	**69**	**—**	**9 484**
17 098	**—**	**—**	**1 113**	**115**	**98**	**—**	**18 595**
487 672	**9 236**	**1 007**	**9 829**	**54 346**	**4 581**	**5**	**701 615**

2008

Loans and advances to customers Rm	Investments Rm	Financial guarantees Rm	Guarantees Rm	Irrevocable facilities Rm	Letters of credit Rm	Other contingencies Rm	Total Rm
17 445	—	—	23	—	—	—	17 469
51 937	3 859	—	430	13	651	—	56 963
258 604	—	—	—	—	—	—	258 609
31 666	—	—	364	9 206	4	—	41 558
2 023	233	94	—	1 143	—	—	3 493
40 228	2 890	539	733	3 151	2 405	—	177 214
4 892	—	—	—	—	—	—	40 307
13 628	—	351	458	2 712	1 326	—	18 475
10 209	617	—	617	1 796	8	—	13 247
25 859	66	—	6 078	2 338	1 515	25	44 611
27 664	—	—	252	241	78	—	28 275
11 047	44	—	114	6 252	—	—	17 457
17 455	—	17	65	2 901	82	—	20 550
512 657	7 709	1 001	9 134	29 753	6 069	25	738 228

53. Credit risk *(continued)*

53.5 Credit risk concentration *(continued)*

53.5.2 Analysis of credit risk concentration by geographical sector

The following table reflects the Bank's credit exposure at their carrying amounts, as categorised by geographical region as at the statement of financial position date. For this table, the Bank has allocated exposures to regions based on the country of domicile of the Bank's counterparties.

	Bank				
	2009				
	South Africa Rm	Rest of Africa Rm	Europe Rm	Asia, Americas and Australia Rm	Total Rm
On-statement of financial position exposures					
Cash, cash balances and balances with central banks	10 983	—	—	—	10 983
Statutory liquid asset portfolio	33 943	—	—	—	33 943
Loans and advances to banks	17 043	131	16 593	1 269	35 036
Trading and hedging portfolio assets	28 828	374	19 544	342	49 088
Other assets	5 830	15	26	18	5 889
Loans and advances to customers	479 605	3 383	4 423	261	487 672
Investments	9 215	—	21	—	9 236
Subject to credit risk (refer to note 53.3.1 (a))	**585 447**	**3 903**	**40 607**	**1 890**	**631 847**
Off-statement of financial position exposures					
Financial guarantees	944	—	63	—	1 007
Guarantees	9 829	—	—	—	9 829
Irrevocable facilities	53 048	866	432	—	54 346
Letters of credit	4 577	3	1	—	4 581
Other contingencies	5	—	—	—	5
Subject to credit risk (refer to note 53.3.1 (b))	**68 403**	**869**	**496**	**—**	**69 768**

53. Credit risk *(continued)*

53.5 Credit risk concentration *(continued)*

53.5.2 Analysis of credit risk concentration by geographical sector *(continued)*

	Bank 2008				
	South Africa Rm	Rest of Africa Rm	Europe Rm	Asia, Americas and Australia Rm	Total Rm
On-statement of financial position exposures					
Cash, cash balances and balances with central banks	12 626	—	—	—	12 626
Statutory liquid asset portfolio	33 019	—	—	—	33 019
Loans and advances to banks	19 891	123	22 992	553	43 559
Trading and hedging portfolio assets	21 403	313	39 673	13 858	75 247
Other assets	7 190	—	237	2	7 429
Loans and advances to customers	495 486	7 299	4 450	5 422	512 657
Investments	7 578	131	—	—	7 709
Subject to credit risk (refer to note 53.3.1 (a))	597 193	7 866	67 352	19 835	692 246
Off-statement of financial position exposures					
Financial guarantees	574	333	94	—	1 001
Guarantees	9 133	—	1	—	9 134
Irrevocable facilities	23 420	721	272	5 340	29 753
Letters of credit	6 069	—	—	—	6 069
Other contingencies	25	—	—	—	25
Subject to credit risk (refer to note 53.3.1 (b))	39 221	1 054	367	5 340	45 982

54. Market risk

Market risk is the risk that the Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads. Market risk mainly arises from trading activities and equity investments. The Bank is also exposed to market risk through non-traded interest rate risk in its banking book.

The Bank's market risk management objectives include:

- understanding and controlling market risk by robust measurement, sound controls and strong oversight;
- facilitating business growth within a controlled and transparent risk management framework;
- ensuring traded market risk resides primarily in Absa Capital; and
- in respect of interest rate risk in the banking book, ensuring a higher degree of interest rate mismatch margin stability and lower interest rate risk over an interest rate cycle.

54.1 Management and control responsibilities

Market risk is managed in terms of the Bank's market risk control framework, in line with the Bank's principal risks policy requirements. Under delegated authority from the Chief Executive, the Risk Officer 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 market risk appetite for trading and non-trading activities, within which the GRCMC approves the market risk appetite for lower categories of market risk. Market risk limits are set within the context of the approved market risk appetite. The Market Risk Committee (MRC) is the Exco appointed subcommittee that governs market risk across the Bank and meets monthly to review, approve and make recommendations concerning the market risk profile including risk appetite, limits and utilisation. The Investment Committee is the Exco appointed subcommittee responsible for the approval and monitoring of all equity investments and divestments within a set governance framework. The new ventures and asset policy requires that a specific sign-off procedure be followed prior to the approval of an investment. The policy requires that regular investment performance reviews be conducted.

The head of each business, assisted by the business risk management team, is accountable for all market risks associated with its activities, which are reported to business risk governance and control committees. Each business is responsible for the identification, measurement, management, control and reporting of market risk as outlined in the market risk control framework. Oversight and support is provided to the business by the central market risk team.

54.2 Traded market risk

The Bank's policy is to concentrate its traded market risk exposure within Absa Capital. This includes transactions where Absa Capital acts as principal with clients or with the market. For maximum efficiency, Absa Capital manages client and market activities together.

In Absa Capital, market risk occurs in both the trading book and the banking book as defined for regulatory purposes. Interest rate risk in Absa Capital's banking book is subjected to the same rigorous measurement and control standards as described later on for its traded market risk, but the associated sensitivities are reported in the interest rate risk in the banking book section further on.

54.2.1 Risk measurement

The techniques used to measure and control traded market risk include daily value at risk, tail risk and stress testing.

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 95%. Daily losses exceeding the DVaR figure are likely to occur, on average, five times in every 100 business days. In 2009, the confidence level was changed from 98% to 95% to guard against incidence of significant market movements making the existing measure more volatile and less effective for risk management purposes. Switching to 95% makes DVaR more stable and consequently improves management, transparency and control of the market risk profile.

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 one-day and 10-day holding period at a 99% confidence level for regulatory back testing and regulatory capital calculation purposes respectively. The value at risk model has been approved by the SARB for regulatory capital calculation purposes. The model approval covers general market (position) risk across all approved interest rate, foreign exchange, commodity, equity and traded credit products.

54. Market risk *(continued)*

54.2 Traded market risk *(continued)*

54.2.1 Risk measurement *(continued)*

There are a number of considerations that should be taken into account when reviewing 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.
- Intra-day risk is not captured.
- 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 for continued suitability. 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 2008 and 2009.

To complement DVaR, tail risk metrics, stress testing and other sensitivity measures are used. Tail risk metrics highlight the risk beyond the percentile selected for DVaR, whereas stress testing provides an indication of the potential size of losses that could arise in extreme conditions. Formal daily monitoring and reporting to senior management of tail risk metrics commenced in 2009 to complement DVaR at the lower 95% confidence level, whereas daily stress testing monitoring and reporting to senior management is already well embedded.

54.2.2 Analysis of traded market risk exposure

The table below reflects the 95% DVaR statistics for Absa Capital's trading book activities. Numbers for the year ended 31 December 2008 have been restated from a 98% to a 95% confidence level.

Absa Capital's traded market risk exposure, as measured by average total DVaR, increased by 63% to R31,65 million (2008: R19,37 million). This was mainly owing to a R13,11 million increase in average interest rate DVaR from increased client trading activity and portfolio positioning in line with slowing economic conditions and monetary policy easing.

Absa Capital trading book DVaR: Summary table

	Year ended 31 December 2009			As at 31 December	Year ended 31 December 2008			As at 31 December
	Average Rm	High[1] Rm	Low[1] Rm	2009 Rm	Average Rm	High[1] Rm	Low[1] Rm	2008 Rm
Interest rate risk[2]	**23,96**	**38,85**	**10,90**	**18,10**	10,85	21,55	2,24	12,41
Foreign exchange risk	**12,09**	**42,01**	**0,61**	**2,60**	8,40	36,25	0,29	3,15
Equity risk	**10,91**	**27,69**	**6,53**	**10,96**	10,83	21,15	5,74	16,94
Commodity risk	**0,59**	**3,00**	**0,01**	**0,69**	0,75	2,72	0,02	0,03
Diversification effect	**(15,90)**	**n/a**	**n/a**	**(9,27)**	(11,46)	n/a	n/a	(7,98)
Total DVaR[3]	**31,65**	**56,44**	**15,36**	**23,08**	19,37	37,47	7,36	24,55

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 remains small and 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 statement of financial position date was R118,52 million (2008: R114,66 million).*

54. Market risk *(continued)*

54.3 Interest rate risk in the banking book

Interest rate risk is the risk that the Bank's financial position may be adversely affected as a result of changes in interest rate levels, yield curves and spreads. Non-traded interest rate risk arises in the banking book from the provision of retail and wholesale (non-traded) banking products and services, as well as from certain structural exposures within the Bank's statement of financial position, mainly due to repricing timing differences between assets, liabilities and equity. These risks impact both the earnings and the economic value of the Bank.

The Bank's objective for management of interest rate risk in the banking book is to ensure a higher degree of interest rate mismatch margin stability and lower interest rate risk over an interest rate cycle. This is achieved by hedging material exposures with the external market. A limits framework exists to ensure that retained risk remains within approved appetite.

Risk management strategies considered include:

- strategies regarding changes in the volume, composition, pricing and interest rate risk characteristics of assets and liabilities; and
- the execution of applicable derivative contracts to maintain the Bank's interest rate risk exposure within limits. Where possible, hedge accounting is applied to derivatives that are used to hedge interest rate risk in the banking book. In cases where hedge relationships do not qualify for hedge accounting, mismatches may arise due to different bases used in fair valuing the hedges and the underlying banking book exposure. Applicable accounting rules as stipulated in the Bank's accounting policies are followed.

As part of Absa Group Treasury's statement of financial position management role, interest rate exposures arising from the repricing mismatches of assets and liabilities in the banking book are transferred from the businesses to Absa Group Treasury through matched funds transfer pricing. These positions are aggregated and the net exposure is hedged with the market via Absa Capital. Mainly owing to timing considerations, interest rate risk can arise when some of the net position stays with Absa Group Treasury.

Structural interest rate risk arises from the variability of income from non-interest-bearing products, managed variable rate products and the Bank's equity, and is managed by Absa Group Treasury.

54.3.1 Risk measurement

Annual earnings at risk (AEaR) measures the sensitivity of net interest income over the next 12 months to a specified shock in interest rates. AEaR is assessed across a range of interest rate scenarios, including parallel and key rate shocks, yield curve twists and inversions as appropriate.

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 complementary techniques used to measure and control non-traded interest rate risk include repricing gaps, daily value at risk, economic value of equity sensitivity and stress testing.

54. Market risk *(continued)*

54.3 Interest rate risk in the banking book *(continued)*

54.3.2 Repricing profile

The Bank's repricing profile is depicted in the table to follow. Instruments are allocated to time periods with reference to the earlier of the next contractual interest rate repricing date and the maturity date. Instruments which have no explicit contractual repricing or maturity dates are placed in time buckets according to management's judgement and analysis, based on the most likely repricing behaviour. For example, retail deposits are repayable on demand or at short notice, but form a stable base for the Bank's operations and liquidity needs because of the broad customer base (numerically and by depositor type).

The repricing profile shows that the banking book remains asset-sensitive, or positively gapped, as interest-earning assets reprice sooner than interest-paying liabilities, before and after derivative hedging activities. Thus, future net interest income remains vulnerable to a decrease in market interest rates. Asset-sensitivity, as represented by the cumulative 12-month interest rate gap, showed a small increase from 2008 to 2009.

During 2008, the Bank completed the hedging build phase for its structural products and equity by increasing its receive fixed/pay floating swaps. The structural hedging programme contributes to interest rate mismatch margin stability over an interest rate cycle. The programme was maintained throughout 2009, within acceptable deviation limits set in line with approved appetite.

Expected repricing profile

	31 December 2009[1]			
	On demand – 3 months Rm	**4 – 6 months Rm**	**7 – 12 months Rm**	**Over 12 months Rm**
Interest rate sensitivity gap	**138 427**	**(36 726)**	**(37 867)**	**(34 183)**
Derivatives[2]	**(112 850)**	**31 191**	**27 194**	**54 466**
Net interest rate sensitivity gap	**25 577**	**(5 535)**	**(10 673)**	**20 283**
Cumulative interest rate gap	**25 577**	**20 042**	**9 369**	**29 652**
Cumulative gap as a percentage of total assets (%)	**3,8**	**3,0**	**1,4**	**4,4**

	31 December 2008[1]			
	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
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 total assets (%)	2,4	0,6	1,2	3,6

Notes

[1]*Includes exposures held in the Absa Capital banking book.*

[2]*Derivatives for interest rate risk management purposes (net nominal value).*

54. Market risk *(continued)*

54.3 Interest rate risk in the banking book *(continued)*

54.3.3 Sensitivity analysis – impact on net interest income

The table below shows the Bank's annual earnings at risk for 100 and 200 basis points (bps) up and down movements 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 pre-tax reduction in projected 12-month net interest income of R367 million. A similar increase would result in an increase in projected 12-month net interest income of R395 million.

Annual earnings at risk for a 100 and 200 basis point (bps) change in interest rates[1]

	Domestic bank book[1]			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
As at 31 December 2009				
Change in projected 12-month net interest income (Rm)	**(736)**	**(367)**	**395**	**805**
Percentage of net interest income (%)	**(3,7)**	**(1,8)**	**2,0**	**4,0**
Percentage of equity (%)	**(1,6)**	**(0,8)**	**0,8**	**1,7**
As at 31 December 2008				
Change in projected 12-month net interest income (Rm)	(744)	(393)	355	666
Percentage of net interest income (%)	(3,6)	(1,9)	1,7	3,2
Percentage of equity (%)	(1,7)	(0,9)	0,8	1,5

Note

[1]*Includes exposures held in the Absa Capital banking book.*

The Bank's banking book exposure to non-ZAR interest rates remained small for both reporting dates.

54. Market risk *(continued)*

54.3 Interest rate risk in the banking book *(continued)*

54.3.4 Sensitivity analysis – 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 pretax effect from net interest income sensitivity is reported in note 54.3.3. The effect of taxation can be estimated using the tax rate of 28% (2008: 28%).

The equity sensitivities that follow are illustrative, based on simplified scenarios and consider the impact on the cash flow hedges and available-for-sale portfolios which are marked-to-market through reserves. The impact on equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges, and derivatives designated as cash flow hedges, for an assumed change in interest rates.

The decreased sensitivity of cash flow hedge reserves from 2008 to 2009 is due to the change in fixed rate exposure experienced at this point of the interest rate cycle compared to the previous year. The increased sensitivity of available-for-sale reserves from 2008 to 2009 is due to additional statutory liquid assets purchased during the year, classified as available-for-sale.

Sensitivity of reserves to interest rate movements

	2009			2008		
	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	**(580)**	**(580)**	**(177)**	(100)	(168)	(64)
Cash flow hedging reserve	**(1 476)**	**(1 670)**	**(1 471)**	(1 596)	(1 598)	(899)
Total	**(2 056)**	**(2 056)**	**(1 754)**	(1 696)	(1 696)	(1 002)
As a percentage of equity at 31 December (%)	**(4,3)**	**(4,3)**	**(3,7)**	(3,8)	(3,8)	(2,2)
– 100 basis point parallel move in all yield curves						
Available-for-sale reserve	**580**	**580**	**177**	100	168	64
Cash flow hedging reserve	**1 476**	**1 670**	**1 471**	1 596	1 598	899
Total	**2 056**	**2 056**	**1 754**	1 696	1 696	1 002
As a percentage of equity at 31 December (%)	**4,3**	**4,3**	**3,7**	3,8	3,8	2,2

Note

[1] *The maximum and minimum impacts reported for each reserve category did not necessarily occur for the same month as the maximum and minimum impact reported for the total.*

54. Market risk *(continued)*

54.4 Interest return on average balances

Average balances and weighted average effective interest rates were as follows:

	Bank					
	2009			2008[1]		
	Average balance Rm	Average rate %	Interest income/ (expense) Rm	Average balance Rm	Average rate %	Interest income/ (expense) Rm
Assets						
Statutory liquid asset portfolio	30 395	8,98	2 728	25 349	11,48	2 909
Loans and advances to customers and banks	520 440	11,30	58 791	521 150	13,46	70 140
Investments	13 423	3,72	499	7 217	8,22	593
Other interest[2]	—	—	515	—	—	(167)
Interest-earning assets	564 258	11,08	62 533	553 716	13,27	73 475
Non-interest-earning assets	144 581	—	—	119 270	—	—
Total assets	708 839	8,83	62 533	672 986	10,92	73 475
Liabilities						
Deposits due to customers and from banks	408 874	(6,28)	(25 679)	403 384	(8,16)	(32 934)
Debt securities in issue	171 029	(9,34)	(15 976)	143 000	(12,94)	(18 506)
Borrowed funds	12 005	(10,31)	(1 238)	10 919	(13,01)	(1 421)
Other interest[2]	—	—	248	—	—	(64)
Interest-bearing liabilities	591 908	(7,20)	(42 645)	557 303	(9,50)	(52 925)
Non-interest-bearing liabilities	60 930	—	—	71 179	—	—
Total liabilities	652 838	(6,53)	(42 645)	628 482	(8,42)	(52 925)
Equity						
Capital and reserves						
Attributable to equity holders of the Bank:						
Ordinary share capital	192	—	—	281	—	—
Ordinary share premium	9 778	—	—	8 750	—	—
Preference share capital	1	—	—	1	—	—
Preference share premium	4 644	—	—	4 643	—	—
Other reserves	3 393	—	—	1 247	—	—
Retained earnings	37 877	—	—	29 565	—	—
	55 885	—	—	44 487	—	—
Minority interest	116	—	—	17	—	—
Total equity	56 001	—	—	44 504	—	—
Total equity and liabilities	708 839	(6,02)	(42 645)	672 986	(7,87)	(52 925)
Net interest margin on average interest-bearing assets		3,52			3,71	
Net interest margin on average assets		2,81			3,05	

Daily averages have been used to calculate the average balances.

Notes

[1]*Comparatives have been reclassified and restated, refer to note 1.23.*

[2]*Also includes fair value adjustments on hedging instruments and hedging items.*

54. Market risk *(continued)*

54.5 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

54.5.1 Currency concentration

The tables to follow summarise the Bank's assets and liabilities at carrying amounts, categorised by currency, as at the statement of financial position date.

Bank

	2009					
	ZAR Rm	USD Rm	GBP Rm	Euro Rm	Other Rm	Total Rm
Assets						
Cash, cash balances and balances with central banks	15 526	—	—	—	—	15 526
Statutory liquid asset portfolio	33 943	—	—	—	—	33 943
Loans and advances to banks	22 202	10 810	1 078	524	422	35 036
Trading portfolio assets	38 822	3 246	409	1 233	3 593	47 303
Hedging portfolio assets	(3 737)	(191)	—	6 486	—	2 558
Other financial assets	5 820	43	16	—	10	5 889
Loans and advances to customers	482 097	5 186	39	167	183	487 672
Loans to Absa Group companies	16 217	15	—	—	—	16 232
Investments	15 808	941	15	85	—	16 849
Financial assets	626 698	20 050	1 557	8 495	4 208	661 008
Non-financial assets	n/a	n/a	n/a	n/a	n/a	10 233
Total assets						671 241
Liabilities						
Deposits from banks	33 601	9 103	290	65	176	43 235
Trading portfolio liabilities	15 188	13 487	729	1 046	6 507	36 957
Hedging portfolio liabilities	527	—	38	—	—	565
Other financial liabilities	7 878	133	41	—	—	8 052
Deposits due to customers	339 869	2 814	104	785	191	343 763
Debt securities in issue	163 854	—	—	5 934	—	169 788
Loans from Absa Group companies	3 464	—	—	—	—	3 464
Borrowed funds	13 530	—	—	—	—	13 530
Financial liabilities	577 911	25 537	1 202	7 830	6 874	619 354
Non-financial liabilities	n/a	n/a	n/a	n/a	n/a	4 469
Total liabilities						623 823
Equity						47 418
Total equity and liabilities						671 241
Gross currency position of financial assets and liabilities	n/a	(5 487)	355	665	(2 666)	(7 133)
Credit commitments						
Financial guarantee contracts	531	259	—	—	217	1 007
Capital commitments	728	—	—	—	—	728
Contingencies	52 491	1 200	104	551	—	54 346

Note

All non-monetary items are classified based on the location of the asset, or where it will most reasonably be realised.

54. Market risk *(continued)*

54.5 Foreign exchange risk *(continued)*

54.5.1 Currency concentration *(continued)*

	Bank 2008					
	ZAR Rm	USD Rm	GBP Rm	Euro Rm	Other Rm	Total Rm
Assets						
Cash, cash balances and balances with central banks	16 549	—	—	—	—	16 549
Statutory liquid asset portfolio	33 019	—	—	—	—	33 019
Loans and advances to banks	33 004	4 769	3 931	1 601	254	43 559
Trading portfolio assets	38 010	32 297	340	1 644	638	72 929
Hedging portfolio assets	(3 218)	(1 815)	—	8 172	—	3 139
Other financial assets	9 918	6	—	—	—	9 924
Loans and advances to customers	501 727	10 210	582	6	132	512 657
Loans to Absa Group companies	18 986	4	—	—	—	18 990
Investments	15 015	131	11	34	—	15 191
Financial assets	663 010	45 602	4 864	11 457	1 024	725 957
Non-financial assets	n/a	n/a	n/a	n/a	n/a	9 421
Total assets						735 378
Liabilities						
Deposits from banks	40 227	7 033	4 299	8 031	453	60 043
Trading portfolio liabilities	44 506	19 635	2 165	1 301	513	68 120
Hedging portfolio liabilities	1 080	—	—	—	—	1 080
Other financial liabilities	6 461	182	14	—	—	6 657
Deposits due to customers	370 906	1 613	2	568	87	373 176
Debt securities in issue	151 083	—	—	7 959	—	159 042
Loans from Absa Group companies	3 946	—	—	—	—	3 946
Borrowed funds	12 143	—	—	—	—	12 143
Financial liabilities	630 352	28 463	6 480	17 859	1 053	684 207
Non-financial liabilities	n/a	n/a	n/a	n/a	n/a	6 177
Total liabilities						690 384
Equity						44 994
Total equity and liabilities						735 378
Gross currency position of financial assets and liabilities	n/a	17 139	(1 616)	(6 402)	(29)	9 092
Credit commitments						
Financial guarantee contracts	1 001	—	—	—	—	1 001
Capital commitments	455	—	—	—	—	455
Contingencies	29 098	626	29	—	—	29 753

Note

All non-monetary items are classified based on the location of the asset, or where it will most reasonably be realised.

54. Market risk *(continued)*

54.5 Foreign exchange risk *(continued)*

54.5.2 Transactional and translational foreign exchange risk

The Bank is exposed to two sources of foreign exchange risk:

- Transactional foreign exchange risk: Transactional foreign exchange exposures arise as a result of banking assets and liabilities which are not denominated in the functional currency of the transacting entity. The Bank's foreign exchange risk management policy does not allow material open positions to be taken outside the Absa Capital trading book. Foreign exchange risk in the trading book is managed by Absa Capital and monitored primarily via open position and DVaR limits. In accordance with this policy, there were no material net currency exposures outside the Absa Capital trading book at either 31 December 2009 or 2008 that would give rise to material foreign exchange gains and losses being recognised in the statement of comprehensive income.
- Translational foreign exchange risk: The Bank has various investments in foreign branches and other entities which have functional currencies other than the South African rand (ZAR). Translational foreign exchange risk is the risk that exchange rate fluctuations will create volatility in the rand value of these net investments. This may in turn impact the statement of comprehensive income, 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 statement of comprehensive income;

– 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 statement of financial position date, net of the effects of any hedges of net investments; and

– changes in the value of non-monetary available-for-sale investments denominated in foreign currencies impacting the available-for-sale reserve.

The main functional currencies in which the Bank's business is transacted are ZAR and, on a lesser scale, US dollar, sterling and euro. Translational foreign currency risk can be mitigated through hedging using for example forward foreign exchange contracts, or by financing with borrowings in the same currency as the functional currency involved.

The Bank's policy is to economically hedge foreign currency net investments, where practical, after taking consideration of market liquidity, cost of hedging, the materiality of the exposure and exchange control regulations. Based on these considerations, the Bank does not currently actively hedge foreign currency net investments, but the risk is monitored regularly to consider the need for mitigating actions towards minimising material fluctuations.

54. Market risk *(continued)*

54.6 Equity investment risk

Note 12 provides a breakdown of investments. An analysis is provided of the sensitivity of investments reported in note 12 to equity price/value movements.

The foreign currency concentration analysis for investments is indicated in note 54.5. For those investments held in the banking books of the Bank, the interest rate risk sensitivity is reported in note 54.3.

The MRC regularly reviews all market risks relating to investments in line with the defined risk appetite of the Bank, with regular reports to the GRCMC.

The main equity investment portfolios are the private equity portfolio managed by Absa Capital and the commercial property finance investment portfolios managed by Absa Corporate and Business Bank (ACBB). These investments are longer-term investments held for non-trading purposes, 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 on mark-to-market considerations only. The Investment Committee considers, approves and monitors all investments or divestments of the Bank in accordance with its terms of reference, the new ventures and asset framework, the directives of the Chief Executive and the directives of the board.

Equity investment risk refers to the risk of adverse changes in the value of listed and unlisted equity investments. The following table illustrates risk through the sensitivity impact on pretax profit and loss and equity for a reasonably possible 5% variance in equity prices based on the accounting treatment of these investments.

Sensitivity analysis – impact on profit and loss and equity

	As at 31 December 2009			As at 31 December 2008		
	Fair value Rm	**Impact on profit and loss Rm**	**Impact on equity Rm**	Fair value Rm	Impact on profit and loss Rm	Impact on equity Rm
Listed and unlisted equity investments	**7 613**			7 482		
5% increase in equity values		**369**	**12**		332	42
5% decrease in equity values		**(369)**	**(12)**		(332)	(42)

55. Liquidity risk

55.1 Introduction

Liquidity risk is the risk that the Bank is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, the consequence of which may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

Liquidity risk refers to a bank's inability to continue operating as a going-concern due to a lack of funding. The appropriate and efficient management of liquidity is of utmost importance to the Bank in ensuring the confidence of the financial markets and to support the Bank's business plan.

The efficient management of liquidity risk is essential to the Bank in order to ensure that:

- all stakeholders in the Bank are protected;
- financial market confidence is maintained at all times; and
- liquidity risk is managed in line with regulatory liquidity requirements.

Liquidity management can be defined as the ability to meet the Bank's commitments as they fall due, whilst maintaining market confidence in the institution.

55. Liquidity risk *(continued)*

55.2 Liquidity risk management

Absa Group Treasury is responsible for the management of liquidity risk on behalf of the Bank. A key focus for Absa Group Treasury is the institutionalisation of prudent liquidity risk management practices at all levels of business across the Bank.

Liquidity risk is managed according to 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. The Liquidity Risk Control Framework and Policy is reviewed at least annually by the MRC and approved by the GRCMC. Liquidity Risk Control Framework and Policy incorporates the Contingency Funding and Liquidity Plan (CFLP), which is designed to manage and mitigate the effects of stress liquidity events.

Absa Group Treasury applies an overall statement of financial position approach to managing liquidity risk, by consolidating all sources and applications of liquidity. In managing liquidity risk, the Bank aims to maintain a balance between liquidity and profitability (cost of funding). In order to effectively manage liquidity risk, the Bank is required to measure, monitor and manage on-statement of financial position and off-statement of financial position liquidity mismatch risk. In managing liquidity risk, cognisance is taken of business-as-usual liquidity conditions, stress liquidity scenarios, liquidity risk 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 the Bank's inward and outward of cash flows experienced in the course of conducting business. These needs in respect of the normal cash flow include, for example, meeting unexpected surges in loan demand or deposit withdrawals.

The business-as-usual environment tends to result in fairly high probability, low severity liquidity events and requires the balancing of the Bank's day-to-day cash needs.

The Bank's approach to managing business-as-usual liquidity needs focuses on a number of key areas including:

- the continuous management of net anticipated cash outflows (between assets and liabilities) within approved cash outflow limits set for periods of one day, one week and monthly out to one year;
- the active daily management of the funding and liquidity profile taking cognisance of the board-approved liquidity risk metrics designed to achieve the Bank's business-as-usual liquidity risk tolerance, and position the Bank to deal with stress liquidity events;
- the maintenance of a portfolio of highly liquid assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- the active participation in local money and capital markets required to support day-to-day funding needed to refinance maturities, meet customer withdraws and support growth in advances;
- the monitoring and managing of liquidity costs; and
- the ongoing assessment and evaluation of various funding sources designed to grow and diversify the Bank's funding base in order to achieve an optimal funding profile and sound liquidity risk management.

The key liquidity risk metrics used to manage the Bank's business-as-usual liquidity risk profile within the board-approved risk tolerance include the short-, medium- and long-term funding ratios, short-term maturity mismatches (at a contractual and behavioural level), cash outflow limits and concentration of deposits.

Stress liquidity risk management

Absa Group Treasury performs liquidity scenario analysis and stress testing on a regular basis in order to assess the adequacy of the Bank's stress funding sources, liquidity buffers and contingency funding strategies to meet unexpected outflows arising from Bank specific, systemic and market stress events. Scenario analysis and stress testing encompasses a range of realistic adverse events, that whilst remote could have a material impact on the liquidity of the Bank's operations. When analysing the Bank's available sources of stress funding in relation to stress funding requirements, Absa Group Treasury takes cognisance of market liquidity risk, which could impact the Bank's ability to raise funding under a specific stress scenario.

Through scenario analysis and stress testing the Bank aims to manage and mitigate liquidity risk by:

- determining, evaluating and testing the impact of adverse liquidity scenarios;
- identifying opportunities for rapid and effective responses to crisis situations;
- aiding management in planning for crisis avoidance or reducing the severity of a crisis; and
- setting liquidity limits, liquidity buffers and formulating a funding strategy designed to minimise liquidity risk.

Absa Group Treasury's overall objective is to ensure that, under a moderate to high liquidity stress event, the Bank's stress funding sources and liquidity buffers exceed the estimated stress funding requirements for a period of at least 30 days.

A detailed CFLP has been designed to protect depositors, creditors and shareholders under adverse liquidity situations. The contingency plan considers early warning indicators and sets out the crisis response strategy addressing sources of stress funding, strategies for crisis avoidance or minimisation and the internal/external communication strategy to be rolled out with key stakeholders.

55. Liquidity risk *(continued)*

55.3 Liquidity risk measurement

Monitoring and reporting of liquidity risk takes the form of net cash flow measurement and projection for the next day, next week and each month out to one year.

In addition to cash flow management, Absa Group Treasury also monitors its money market shortage participation, the interbank funding ratio, short-, medium- and long-term funding ratios, short-term contractual and behavioural maturity mismatches, as well as its off-statement of financial position liquidity risk. Sources of liquidity are regularly reviewed to maintain a wide diversification by provider, product and term.

Absa Group Treasury monitors and manages the Bank's liquidity position to ensure full regulatory compliance in respect of liquidity risk management and reporting.

A summary of the Bank's discounted and undiscounted liquidity profile is reflected in the tables that follow.

	Bank				
	2009				
	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	15 526	—	—	—	15 526
Statutory liquid asset portfolio	—	10 383	11 866	11 694	33 943
Loans and advances to banks	8 223	6 253	18 881	1 679	35 036
Trading portfolio assets	47 303	—	—	—	47 303
Hedging portfolio assets	—	1 298	1 172	88	2 558
Other financial assets	3 528	2 361	—	—	5 889
Loans and advances to customers	121 963	24 203	63 617	277 889	487 672
Loans to Absa Group companies	16 232	—	—	—	16 232
Investments	228	7 681	7 553	1 387	16 849
Financial assets	213 003	52 179	103 089	292 737	661 008
Non-financial assets	n/a	n/a	n/a	n/a	10 233
Total assets					671 241
Liabilities					
Deposits from banks	7 615	31 625	3 120	875	43 235
Trading portfolio liabilities	36 957	—	—	—	36 957
Hedging portfolio liabilities	—	171	305	89	565
Other financial liabilities	5 535	1 897	620	—	8 052
Deposits due to customers	221 258	101 599	8 336	12 570	343 763
Debt securities in issue	703	138 077	25 841	5 167	169 788
Loans from Absa Group companies	3 464	—	—	—	3 464
Borrowed funds	—	2 082	8 082	3 366	13 530
Financial liabilities	275 532	275 451	46 304	22 067	619 354
Non-financial liabilities	n/a	n/a	n/a	n/a	4 469
Total liabilities					623 823
Equity					47 418
Total equity and liabilities					671 241
Net liquidity position of financial assets and liabilities	(62 529)	(223 272)	56 785	270 670	41 654

55 Liquidity risk *(continued)*

55.3 Liquidity risk measurement *(continued)*

	Bank 2008				
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Assets					
Cash, cash balances and balances with central banks	16 549	—	—	—	16 549
Statutory liquid asset portfolio	20	14 461	1 660	16 878	33 019
Loans and advances to banks	6 146	11 798	22 448	3 167	43 559
Trading portfolio assets	72 929	—	—	—	72 929
Hedging portfolio assets	—	281	2 728	130	3 139
Other financial assets	9 918	6	—	—	9 924
Loans and advances to customers	114 685	47 450	84 587	265 935	512 657
Loans to Absa Group companies	18 990	—	—	—	18 990
Investments	—	3 730	7 615	3 846	15 191
Financial assets	239 237	77 726	119 038	289 956	725 957
Non-financial assets	n/a	n/a	n/a	n/a	9 421
Total assets					735 378
Liabilities					
Deposits from banks	13 320	46 485	188	50	60 043
Trading portfolio liabilities	68 120	—	—	—	68 120
Hedging portfolio liabilities	35	250	282	513	1 080
Other financial liabilities	5 210	1 026	177	244	6 657
Deposits due to customers	218 224	131 844	17 795	5 313	373 176
Debt securities in issue	104	125 616	27 754	5 568	159 042
Loans from Absa Group companies	3 946	—	—	—	3 946
Borrowed funds	—	3 492	4 946	3 705	12 143
Financial liabilities	308 959	308 713	51 142	15 393	684 207
Non-financial liabilities	n/a	n/a	n/a	n/a	6 177
Total liabilities					690 384
Equity					44 994
Total equity and liabilities					735 378
Net liquidity position of financial assets and liabilities	(69 722)	(230 987)	67 896	274 563	41 750

55. Liquidity risk *(continued)*

55.4 Contractual maturity of financial liabilities – undiscounted basis

The table below reflects the cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Bank

2009

	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-statement of financial position						
Deposits from banks	7 604	31 885	3 146	875	(275)	43 235
Trading portfolio liabilities	36 957	—	—	—	—	36 957
Hedging portfolio liabilities	—	176	388	451	(450)	565
Other financial liabilities	5 361	2 979	—	—	(288)	8 052
Deposits due to customers	221 865	106 688	8 313	26 844	(19 947)	343 763
Debt securities in issue	703	144 577	34 734	10 986	(21 212)	169 788
Loans from Absa Group companies	3 464	—	—	—	—	3 464
Borrowed funds	—	3 775	12 012	6 764	(9 021)	13 530
Total liabilities	275 954	290 080	58 593	45 920	(51 193)	619 354
Off-statement of financial position						
Financial guarantee contracts	1 007	—	—	—	—	1 007
Loan commitments	54 346	—	—	—	—	54 346

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-statement of financial position						
Deposits from banks	13 320	46 746	256	50	(329)	60 043
Trading portfolio liabilities	68 120	—	—	—	—	68 120
Hedging portfolio liabilities	35	252	340	1 455	(1 002)	1 080
Other financial liabilities	4 379	913	1 480	291	(406)	6 657
Deposits due to customers	222 494	134 844	26 290	20 449	(30 901)	373 176
Debt securities in issue	100	134 285	32 528	16 986	(24 857)	159 042
Loans from Absa Group companies	3 946	—	—	—	—	3 946
Borrowed funds	—	4 196	6 149	4 060	(2 262)	12 143
Total liabilities	312 394	321 236	67 043	43 291	(59 757)	684 207
Off-statement of financial position						
Financial guarantee contracts	1 001	—	—	—	—	1 001
Loan commitments	29 753	—	—	—	—	29 753

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalent and investment grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. Hence, the Bank believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

56. Capital management

56.1 Introduction

Capital management strategy

In a time of extreme economic distress, such as currently prevailing, both domestically and globally, maintaining and preserving capital becomes the priority.

The Bank's capital management strategy is focused on maximising shareholder value by optimising the level and mix of capital resources. Decisions on the allocation of capital resources, conducted as part of the strategic planning review, are based on a number of factors including return on economic and regulatory capital. This is conducted as part of the ICAAP and strategic planning review.

Capital management objectives of the Bank

The Bank has a number of capital management objectives, which are to:

- meet the individual capital ratios required by the Bank's regulators and the board;
- maintain an adequate level of available capital resources as cover for the economic capital (EC) requirements calculated at a 99,95% confidence level;
- generate sufficient capital to support asset growth; and
- maintain an investment grade credit rating.

Importance of capital management

Capital is managed as a board-level priority in the Bank, which reflects the importance of capital planning. The board is responsible for assessing and approving the Bank's capital management policy, capital target levels, capital strategy and risk-based allocation. The capital ratios, together with the short- and medium-term capital plans, are set annually and reviewed monthly at the Capital Management Committee (CMC) and are reported at least quarterly to the board.

Cost of equity

The Bank's average cost of equity for the year ended 31 December 2009 was 14,0% (2008: 16,0%). The cost of equity is based on the Capital Asset Pricing Model (CAPM).

56.2 Regulatory capital requirements

Minimum banking requirements

Capital adequacy and the use of regulatory capital are monitored by employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision (the Basel Committee) and implemented by the SARB or other host regulators for supervisory purposes. These techniques include the capital adequacy ratio calculation, which the SARB and other host regulators regard as a key supervisory tool.

Risk-weighted assets are determined by applying risk weights to statement of financial position assets and off-statement of financial position financial instruments according to the relative credit risk of the counterparty. The risk weighting for each statement of financial position asset and off-statement of financial position 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-statement of financial position and off-statement of financial position exposures, net of intragroup exposures.

56.3 Qualifying capital

Banking entities

Regulatory guidelines define three tiers of capital resources:

- Primary (Tier I) capital comprises mainly shareholders' funds, including certain accounting reserves, hybrid debt instruments (in terms of Basel II) and non-redeemable, non-cumulative preference shares. Primary capital is the highest tier and can be used to meet trading and banking activity requirements.
- Secondary (Tier II) capital includes cumulative preference shares and subordinated debt (prescribed debt instruments). 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. The use of Tier III capital is restricted to trading activities only. It is not eligible to support counterparty or settlement risk.

In addition, the Bank makes provision for a 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.

56.4 Target capital levels (unaudited)

One of the measurements used to ensure that the objectives for managing capital are met is the ability to meet the board target levels. Target capital levels have been set for Absa Bank Limited by including a buffer over and above the minimum regulatory requirements set by the SARB.

56. Capital management *(continued)*

56.4 Target capital levels (unaudited) *(continued)*

The target capital adequacy threshold for the Bank is as follows:

	2009 Absa Bank Limited (Unaudited) %
Total regulatory requirement	9,75
Buffer	3,25
Total capital target	**13,00[1]**

Absa Bank Limited – Capital adequacy – statutory capital and risk-weighted assets

	2009 Risk-weighted assets Rm	2008 Risk-weighted assets Rm
Credit risk	256 995	252 839
Operational risk	47 030	39 098
Market risk	9 662	5 088
Equity investment risk	32 194	41 079
Other risk	13 193	14 767
	359 074	352 871

	2009 Qualifying capital Rm	2009 %[1]	2008 Qualifying capital Rm	2008 %[1]
Primary capital				
Ordinary share capital	303	0,1	303	0,1
Ordinary share premium	10 465	2,9	9 415	2,7
Preference share capital and premium	4 644	1,3	4 644	1,3
Reserves[2]	28 757	8,0	26 003	7,4
Deductions	(2 430)	(0,7)	(1 511)	(0,5)
50% of amount by which expected loss exceeds eligible provisions	(1 968)	(0,6)	(1 472)	(0,5)
50% of first loss credit enhancement provided in respect of a securitisation scheme	(95)	(0,0)	(39)	(0,0)
Other deductions	(367)	(0,1)	—	—
	41 739	11,6	38 854	11,0
Secondary capital				
Subordinated redeemable debt	13 111	3,7	12 210	3,5
Deductions	(2 063)	(0,6)	(1 521)	(0,5)
50% of amount by which expected loss exceeds eligible provisions	(1 968)	(0,6)	(1 472)	(0,5)
50% of first loss credit enhancement provided in respect of a securitisation scheme	(95)	(0,0)	(39)	(0,0)
Other deductions	—	—	(10)	(0,0)
	11 048	3,1	10 689	3,0
Total qualifying capital	52 787	14,7	49 543	14,0

Notes

[1]*Percentage of capital to risk-weighted assets.*

[2]*Reserves include unappropriated banking profits.*

56. Capital management *(continued)*

56.4 Target capital levels (unaudited) *(continued)*

Capital adequacy ratios and targets

Absa Bank Limited	Target %	Regulatory constraint %	2009 %	2008 %
Total capital adequacy ratio	≥13,00	≥9,75	**14,7**	14,0
Core Tier I	≥ 8,00	n/a	**10,3**	9,7
Tier I capital adequacy ratio	≥10,00	≥7,00	**11,6**	11,0
Non-redeemable non-cumulative preference shares and hybrid debt instruments as a percentage of Tier I capital	n/a	≤25	**11,1**	12,0
Tier II and Tier III as a percentage of Tier I	n/a	≤100	**26,5**	27,6
Lower Tier II as a percentage of Tier I (subordinated debt) capital	n/a	≤50	**26,5**	27,6
Ordinary equity and reserves as a percentage of capital	n/a	n/a	**70,3**	69,0
Preference shares as a percentage of capital	n/a	n/a	**8,8**	9,4
Tier II and Tier III as a percentage of capital	n/a	n/a	**20,9**	21,6

56.5 Basel II

The implementation of Basel II on 1 January 2008 provided the Bank with an internationally recognised framework that incorporates best practice in risk and capital management. Under Basel II, banks are expected to hold capital commensurate with the risks assumed. Basel II places emphasis on 3 pillars:

- Pillar 1 – minimum capital requirement.
- Pillar 2 – supervisory review.
- Pillar 3 – market discipline.

Pillar I

The Bank has received approval from the SARB to use the following approaches in order to calculate the regulatory capital requirement under Basel II:

- Retail credit risk – Advanced IRB.
- Wholesale credit risk – Foundation IRB.
- Operational risk – Advanced Measurement Approach.
- Market risk – Internal model.
- Equity investment risk – IRB market-based Simple risk weight approach.
- Africa – Standardised Approach.

Pillar II

With regard to Pillar II, the Bank's comprehensive EC framework ensures that all risks to capital are captured in the assessment of the Bank's capital requirement.

The EC framework incorporates factors not taken into account by the Pillar I process such as interest rate risk in the banking book (treasury and retail market risk). The assessment of the Bank's capital adequacy requirement under the EC environment is both conservative and robust.

Pillar III

In accordance with Pillar III requirements, the Bank prepares a comprehensive, publicity available risk management report on a semi-annual basis. The report discloses the capital adequacy position, risk profile and risk management practices within the Bank. Furthermore, the report incorporates strategies, processes, structure and organisation, scope and nature of risk management systems and reporting within the Bank including risk mitigation strategies and their effectiveness.

57. Fair value of financial instruments

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not held at fair value on the Bank's statement of financial position:

	Bank			
	2009		2008	
	Carrying value Rm	**Fair value Rm**	Carrying value Rm	Fair value Rm
Financial assets				
Balances with the SARB	**10 983**	**10 983**	12 626	12 626
Coins and bank notes	**4 543**	**4 543**	3 923	3 923
Cash, cash balances and balances with central banks (refer to note 2)	**15 526**	**15 526**	16 549	16 549
Loans and advances to banks (refer to note 4)	**32 633**	**32 631**	36 391	36 397
Other assets (refer to note 6)	**5 889**	**5 889**	7 429	7 429
Retail banking	**315 181**	**315 707**	322 019	322 719
Cheque accounts	**3 945**	**3 945**	3 721	3 721
Credit cards	**12 672**	**12 672**	13 378	13 378
Instalment credit agreements	**38 531**	**38 831**	43 165	43 373
Loans to associates and joint ventures	**6 187**	**6 187**	5 441	5 441
Microloans	**2 044**	**2 202**	3 083	3 221
Mortgages	**241 522**	**241 590**	242 763	243 117
Other	**81**	**81**	943	943
Personal and term loans	**10 199**	**10 199**	9 525	9 525
Absa Capital	**47 713**	**47 871**	65 921	64 613
Absa Corporate and Business Bank	**115 324**	**115 590**	114 946	115 098
Corporate	**21 716**	**21 716**	17 486	17 486
Large and Medium	**73 543**	**73 690**	72 839	72 991
Other	**20 065**	**20 184**	24 621	24 621
Other	**346**	**346**	469	469
Loans and advances to customers – net of impairment (refer to note 9)	**478 564**	**479 514**	503 355	502 899
Loans to Absa Group companies (refer to note 11)	**16 232**	**16 232**	18 990	18 990
Total	**548 844**	**549 792**	582 714	582 264

57. Fair value of financial instruments *(continued)*

	Bank			
	2009		2008	
	Carrying value Rm	**Fair value Rm**	Carrying value Rm	Fair value Rm
Financial liabilities				
Deposits from banks (refer to note 18)	**35 221**	**35 261**	51 041	51 046
Other liabilities (refer to note 20)	**7 778**	**7 778**	6 249	6 249
Call deposits	**56 372**	**56 373**	62 055	62 051
Cheque account deposits	**89 630**	**89 630**	96 311	96 311
Credit card deposits	**1 868**	**1 868**	2 051	2 051
Fixed deposits	**97 137**	**97 384**	114 550	115 051
Foreign currency deposits	**7 211**	**7 211**	10 034	10 034
Liabilities to clients under acceptances	**3**	**3**	121	121
Notice deposits	**10 293**	**10 296**	7 148	7 148
Other deposits	**6 016**	**6 016**	12 504	12 504
Saving and transmission deposits	**62 680**	**62 680**	56 983	56 983
Deposits due to customers (refer to note 22)	**331 210**	**331 461**	361 757	362 254
Debt securities in issue (refer to note 23)	**159 094**	**160 564**	144 651	144 979
Loans from Absa Group companies (refer to note 24)	**3 464**	**3 464**	3 946	3 946
Borrowed funds (refer to note 25)	**7 221**	**7 436**	4 917	4 905
Total	**543 988**	**545 964**	572 561	573 379

58. Segment report

58.1 Segment report per geographical segment

	Bank		
	2009		
	South Africa Rm	**Other foreign countries Rm**	**Total Rm**
Net interest income – external	**19 259**	**132**	**19 391**
Non-interest income – external	**15 052**	**95**	**15 147**
Total assets	**664 892**	**6 349**	**671 241**

	2008		
	South Africa Rm	Other foreign countries Rm	Total Rm
Net interest income – external	20 167	123	20 290
Non-interest income – external	15 583	94	15 677
Total assets	718 023	17 355	735 378

58. Segment report *(continued)*

58.2 Segment report per market segment

	Retail banking		Absa Corporate and Business Bank	
	2009 Rm	2008[1] Rm	**2009 Rm**	2008[1] Rm
Statement of comprehensive income				
Net interest income	**12 752**	13 450	**5 338**	5 597
Net interest income – external[2]	**30 491**	38 085	**6 512**	6 929
Net interest income – internal	**(17 739)**	(24 635)	**(1 174)**	(1 332)
Impairment losses on loans and advances	**(7 246)**	(5 325)	**(796)**	(271)
Non-interest income	**10 735**	9 429	**2 855**	2 712
Non-interest income – external[2]	**10 224**	8 900	**2 489**	2 295
Non-interest income – internal	**511**	529	**366**	417
Depreciation and amortisation	**(297)**	(283)	**(15)**	(12)
Operating expenses	**(11 869)**	(12 183)	**(4 041)**	(4 040)
Other impairments	**(26)**	13	**(52)**	—
Indirect taxation	**(257)**	(325)	**(42)**	(103)
Share of retained (losses)/earnings from associates and joint ventures	**(49)**	24	**4**	41
Operating profit before income tax	**3 743**	4 800	**3 251**	3 924
Taxation expense	**(929)**	(1 466)	**(971)**	(1 133)
Profit for the year	**2 814**	3 334	**2 280**	2 791
Profit attributable to:				
Ordinary equity holder of the Bank	**2 814**	3 334	**2 276**	2 791
Preference equity holders of the Bank	**—**	—	**—**	—
Minority interest	**—**	—	**4**	—
	2 814	3 334	**2 280**	2 791
Headline earnings	**2 472**	3 327	**2 293**	2 716

Notes

[1] *December 2008 comparatives have been restated, refer to note 1.23. December 2007 comparatives have not been restated.*

[2] *External revenue refers to revenue outside the Absa Group.*

Absa Capital		Other		Head office and intersegment eliminations		Absa Bank	
2009 Rm	2008[1] Rm	**2009 Rm**	2008[1] Rm	**2009 Rm**	2008[1] Rm	**2009 Rm**	2008[1] Rm
1 820	2 160	**40**	(625)	**(62)**	(32)	**19 888**	20 550
(18 475)	(24 711)	**940**	115	**(77)**	(128)	**19 391**	20 290
20 295	26 871	**(900)**	(740)	**15**	96	**497**	260
(319)	(30)	**1**	(1)	**(32)**	—	**(8 392)**	(5 627)
2 330	3 053	**(424)**	184	**102**	699	**15 598**	16 077
2 007	3 563	**(405)**	210	**832**	709	**15 147**	15 677
323	(510)	**(19)**	(26)	**(730)**	(10)	**451**	400
(146)	(27)	**(85)**	(88)	**(571)**	(483)	**(1 114)**	(893)
(2 054)	(2 308)	**67**	132	**1 376**	794	**(16 521)**	(17 605)
(1 371)	(1)	**88**	7	**(75)**	(8)	**(1 436)**	11
(78)	(63)	**(76)**	(61)	**(311)**	(78)	**(764)**	(630)
—	—	**—**	—	**(5)**	—	**(50)**	65
182	2 784	**(389)**	(452)	**422**	892	**7 209**	11 948
10	(790)	**366**	178	**55**	184	**(1 469)**	(3 027)
192	1 994	**(23)**	(274)	**477**	1 076	**5 740**	8 921
192	1 994	**(444)**	(731)	**477**	1 076	**5 315**	8 464
—	—	**421**	457	**—**	—	**421**	457
—	—	**—**	—	**—**	—	**4**	(0)
192	1 994	**(23)**	(274)	**477**	1 076	**5 740**	8 921
1 177	1 950	**(516)**	(681)	**560**	458	**5 986**	7 770

58. Segment report *(continued)*

58.2 Segment report per market segment *(continued)*

	Retail banking		Absa Corporate and Business Bank	
	2009 Rm	2008[1] Rm	**2009 Rm**	2008[1] Rm
Operating performance (%)				
Net interest margin on average assets	**2,86**	3,22	**4,01**	4,25
Net interest margin on average interest-bearing assets	**3,89**	n/a	**4,65**	n/a
Impairment losses on loans and advances as a percentage of average loans and advances to customers	**2,27**	1,71	**0,70**	0,27
Non-interest income as a percentage of total operating income	**45,7**	41,2	**34,8**	32,6
Top-line growth[1]	**2,7**	12,9	**(1,4)**	23,2
Cost growth[1]	**(2,4)**	11,1	**0,1**	14,3
Cost-to-income ratio	**51,8**	54,5	**49,5**	48,8
Cost-to-assets ratio	**2,7**	3,0	**3,0**	3,1
Statement of financial position				
Loans and advances to customers	**315 189**	322 019	**117 317**	117 371
Investments	**—**	897	**2 355**	2 458
Investments in associates and joint ventures	**259**	318	**110**	783
Other assets	**142 517**	122 812	**16 100**	14 070
Other assets – external	**4 424**	5 516	**5 435**	2 965
Other assets – internal[2]	**138 093**	117 296	**10 665**	11 105
Total assets	**457 965**	446 046	**135 882**	134 682
Deposits due to customers	**128 627**	120 039	**101 544**	98 360
Other liabilities	**327 074**	323 730	**32 364**	34 334
Other liabilities – external	**3 875**	5 258	**6 063**	4 327
Other liabilities – internal[2]	**323 199**	318 472	**26 301**	30 007
Total liabilities	**455 701**	443 769	**133 908**	132 694
Financial performance (%)				
Return on average economic capital (unaudited)	**13,9**	17,8	**19,9**	23,6
Return on average assets	**0,55**	0,80	**1,72**	2,06
Other (unaudited)				
Banking customer base per segment (millions)	**10,9**	9,9	**0,1**	0,1
Attributable income from the rest of Africa (Rm)	**33**	54	**20**	20

Notes

[1] *December 2008 comparatives have been restated, refer to note 1.23. December 2007 comparatives have not been restated.*

[2] *Internal assets and liabilities include all interdivisional and intragroup asset and liability balances. Internal assets and liabilities for the Bank are eliminated in 'Head office and intersegment eliminations'.*

	Absa Capital		Other		Head office and intersegment eliminations		Absa Bank	
	2009 Rm	2008[1] Rm	2009 Rm	2008[1] Rm	2009 Rm	2008[1] Rm	2009 Rm	2008[1] Rm
	0,43	0,50	n/a	n/a	n/a	n/a	2,81	3,05
	2,02	n/a	n/a	n/a	n/a	n/a	3,42	3,61
	0,46	0,05	n/a	n/a	n/a	n/a	1,69	1,19
	56,2	58,6	n/a	n/a	n/a	n/a	44,0	43,9
	(20,4)	36,5	n/a	n/a	n/a	n/a	(3,1)	19,5
	(5,7)	59,2	n/a	n/a	n/a	n/a	(4,7)	11,5
	53,0	44,8	n/a	n/a	n/a	n/a	49,7	50,5
	0,5	0,5	n/a	n/a	n/a	n/a	2,5	2,7
	54 698	72 636	603	427	(135)	204	487 672	512 657
	13 733	11 687	—	—	761	149	16 849	15 191
	85	970	—	—	19	—	473	2 071
	289 457	355 870	71 364	67 244	(353 191)	(354 537)	166 247	205 459
	95 120	136 195	37 782	36 294	7 407	5 499	150 168	186 469
	194 337	219 675	33 582	30 950	(360 598)	(360 036)	16 079	18 990
	357 973	441 163	71 967	67 671	(352 546)	(354 184)	671 241	735 378
	113 113	154 192	—	11	479	574	343 763	373 176
	244 340	285 116	31 502	32 236	(355 220)	(358 208)	280 060	317 208
	235 164	273 874	27 345	29 920	561	(117)	273 008	313 262
	9 176	11 242	4 157	2 316	(355 781)	(358 091)	7 052	3 946
	357 453	439 308	31 502	32 247	(354 741)	(357 634)	623 823	690 384
	14,0	17,0	n/a	n/a	n/a	n/a	14,6	23,9
	0,28	0,46	n/a	n/a	n/a	n/a	0,84	1,37
	0,0	0,0	n/a	n/a	n/a	n/a	11,0	10,0
	10	219	24	42	—	—	87	335

58. Segment report *(continued)*

58.3 Retail banking segment

	Retail Bank	
	2009	2008
Total revenue – external (Rm)[1]	**7 976**	7 173
Net interest income – external (Rm)	**(206)**	77
Non-interest income – external (Rm)	**8 182**	7 096
Total revenue – internal (Rm)	**7 111**	6 430
Net interest income – internal (Rm)	**6 790**	6 145
Non-interest income – internal (Rm)	**321**	285
Attributable earnings[2] (Rm)	**3 053**	2 419
Headline earnings (Rm)	**2 711**	2 412
Impairment losses on loans and advances as a percentage of average loans and advances to customers (%)[3]	**3,72**	2,49
Cost-to-income ratio (%)	**61,5**	65,5
Loans and advances to customers (Rm)	**40 812**	40 700
Total assets (Rm)	**152 444**	135 558
Deposits due to customers (Rm)	**126 909**	118 150
Total liabilities (Rm)	**150 493**	134 080
Return on average economic capital (%) (unaudited)	**55,8**	108,0

Notes

[1]*External revenue refers to revenue outside the Absa Group.*

[2]*These results are after the allocation of head office and support charges.*

[3]*Refer to note 10 for the impairment charge to the statement of comprehensive income.*

	Absa Home Loans		Absa Card		Absa Vehicle and Asset Finance		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	22 840	28 330	**3 814**	3 962	**6 085**	7 520	**40 715**	46 985
	22 738	28 257	**2 190**	2 480	**5 769**	7 271	**30 491**	38 085
	102	73	**1 624**	1 482	**316**	249	**10 224**	8 900
	(19 734)	(24 258)	**(741)**	(1 210)	**(3 864)**	(5 068)	**(17 228)**	(24 106)
	(19 916)	(24 453)	**(726)**	(1 211)	**(3 887)**	(5 116)	**(17 739)**	(24 635)
	182	195	**(15)**	1	**23**	48	**511**	529
	(1 291)	92	**787**	536	**265**	287	**2 814**	3 334
	(1 291)	92	**787**	536	**265**	287	**2 472**	3 327
	1,77	1,20	**7,11**	5,54	**2,04**	2,35	**2,27**	1,71
	32,3	32,6	**33,8**	45,9	**37,9**	39,5	**51,8**	54,5
	219 718	220 530	**11 872**	12 402	**42 787**	48 387	**315 189**	322 019
	238 013	237 593	**18 565**	18 695	**48 943**	54 200	**457 965**	446 046
	—	—	**1 711**	1 888	**7**	1	**128 627**	120 039
	238 775	237 660	**18 091**	18 393	**48 342**	53 636	**455 701**	443 769
	0,0	2,7	**55,8**	22,4	**7,6**	8,7	**13,9**	17,8

58. Segment report *(continued)*

58.4 Absa Corporate and Business Bank segment

	2009 Rm	Excluding CPF equities 2009 Rm	2008 Rm	Excluding CPF equities 2008 Rm
Statement of comprehensive income				
Net interest income	**5 338**	**5 338**	5 597	5 597
Impairment losses on loans and advances	**(796)**	**(796)**	(271)	(271)
Non-interest income	**2 855**	**2 703**	2 712	2 579
Net fee and commission income	**2 217**	**2 217**	2 245	2 245
Gains and losses from banking and trading activities	**266**	**114**	296	163
Gains and losses from investment activities	**13**	**13**	7	7
Other operating income	**359**	**359**	164	164
Operating expenses	**(4 056)**	**(4 056)**	(4 052)	(4 052)
Other	**(90)**	**(90)**	(62)	(62)
Operating profit before income tax	**3 251**	**3 099**	3 924	3 791
Taxation expense	**(971)**	**(928)**	(1 133)	(1 096)
Profit for the year	**2 280**	**2 171**	2 791	2 695
Profit attributable to:				
Ordinary equity holder of the Bank	**2 276**	**2 167**	2 791	2 695
Minority interest	**4**	**4**	—	—
	2 280	**2 171**	2 791	2 695

	2009 Rm	2008 Rm
Operating profit before income tax by business area		
Large	**1 796**	2 012
Medium	**960**	1 464
Corporate	**343**	315
CPF equity portfolio[1]	**152**	133
Listed	**84**	(98)
Unlisted	**68**	231
	3 251	3 924

Note

[1]*Includes realised and unrealised profits on CPF, this however excludes Absa wholly-owned subsidiaries.*

58. Segment report *(continued)*

58.5 Absa Capital

	Note	2009 Rm	2008 Rm
Statement of comprehensive income			
Net interest income	1	**1 820**	2 160
Impairment losses on loans and advances	1	**(319)**	(30)
Non-interest income	1	**2 330**	3 053
Operating expenses		**(2 200)**	(2 335)
Other		**(1 449)**	(64)
Operating profit before income tax		**182**	2 784
Taxation expense		**10**	(790)
Profit for the year		**192**	1 994
Profit attributable to:			
Ordinary equity holder of the Bank		**192**	1 994
Statement of financial position			
Loans and advances to customers		**54 698**	72 636
Total assets		**357 973**	441 163
Deposits due to customers		**113 113**	154 192
Total liabilities		**357 453**	439 308

Notes

		2009 Rm	2008 Rm
1.	**Revenue contribution**[1]		
	Investment banking	**1 794**	1 912
	Markets	**2 967**	2 760
	Private equity and Infrastructure investments	**(1 191)**	356
	Single stock futures and other	**(1)**	(126)
	Total Absa Capital revenue	**3 569**	4 902
	Private banking and investment management	**262**	281
		3 831	5 183

Note

[1]*Net revenue includes net interest income and non-interest income after deducting impairment losses on loans and advances.*

59. Derivatives

Derivative financial instruments are entered into in the normal course of business to manage various financial risks. Derivative financial instruments entered into in terms of asset and liability management strategies are defined as hedging transactions and such instruments are accounted for in terms of the Bank's accounting policies.

At the statement of financial position date, the Bank did not have any compound financial instruments with multiple embedded derivatives in issue.

59.1 Derivatives held for trading

The Bank trades derivative instruments mainly on behalf of customers while the Bank's own positions are insignificant. The Bank transacts derivative contracts to address customer demands both as a market maker in the wholesale markets and in structuring tailored derivatives for customers.

59.2 Derivatives held for hedging

The Bank enters into derivative transactions, which are designated and qualify as either fair value or cash flow hedges for recognised assets or liabilities or forecasted transactions.

Derivatives designated as fair value hedges

Fair value hedges are used by the Bank to protect against changes in fair value of financial assets and liabilities owing to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, available-for-sale assets, debt securities and borrowed funds.

The Bank's fair value hedges principally consist of interest rate swaps that are used to protect against changes in market interest rates.

59. Derivatives *(continued)*

59.2 Derivatives held for hedging *(continued)*

The Bank recognised the following gains and losses on hedging instruments and hedging items:

	Bank 2009 Rm	Bank 2008 Rm
Gains/(losses) on hedged items (assets) (refer to note 28)	**(734)**	1 156
Gains/(losses) on hedging instruments (assets) (refer to note 28)	**690**	(933)
Gains/(losses) on hedged items (liabilities) (refer to note 29)	**410**	(818)
Gains/(losses) on hedging instruments (liabilities) (refer to note 29)	**(290)**	830

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 profit and loss component of the statement of comprehensive income in relation to ineffectiveness is:

	Bank 2009 Rm	Bank 2008 Rm
Ineffectiveness (outside range) (refer to note 31)	**(16)**	107
Ineffectiveness (inside range)	**(197)**	12

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 rate risk and reinvestment or reborrowing of current balances.

The Bank uses interest rate swaps to protect against changes in cash flows of certain variable rate debt issues. The Bank applies hedge accounting for its non-trading interest rate risk in major currencies by analysing the expected cash flows on a group basis.

The Bank is exposed to variability in future interest cash flows on non-trading portfolio assets and liabilities which bear interest at a variable rate. The Bank designates interest rate swaps as hedging instruments in a cash flow hedging relationship to hedge the variability in cash flows owing to changes in interest rates.

A schedule indicating the periods when the hedged cash flows are expected to occur and when they are expected to affect the profit and loss component of the statement of comprehensive income as at the statement of financial position date is as follows:

Bank

2009

	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]	**863**	**555**	**317**	**110**	**22**	**2**	**1 869**
Forecast payable cash flow[1]	**(31)**	**(9)**	**(7)**	**(10)**	**(10)**	**(56)**	**(123)**
Net cash outflow	**832**	**546**	**310**	**100**	**12**	**(54)**	**1 746**

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

Note

[1] *These balances are shown before taxation.*

59. Derivatives *(continued)*

59.2 Derivatives held for hedging *(continued)*

The following net gain/(loss) on cash flow hedges was recycled from other comprehensive income to the profit and loss component of the statement of comprehensive income:

	Bank 2009 Rm	Bank 2008 Rm
Interest and similar income (refer to note 28)	**244**	(1 301)
Interest expense and similar charges (refer to note 29)	**512**	(363)
Gains and losses from banking and trading activities (refer to note 31)	**(3)**	(18)
	753	(1 682)
Taxation	**(211)**	471
	542	(1 211)

The amount of movement in fair value that has been recognised in the profit and loss component of the statement of comprehensive income in relation to ineffectiveness is:

	Bank 2009 Rm	Bank 2008 Rm
Ineffectiveness (outside range) (refer to note 31)	**(3)**	(18)
Ineffectiveness (inside range)	**(65)**	(88)

59.3 Detailed breakdown of derivatives

The Bank uses the following derivative instruments for both hedging and non-hedging purposes:

- **Foreign exchange contracts** represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.
- **Foreign currency and interest rate futures** are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the exchange.
- **Forward rate agreements** are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.
- **Currency and interest rate swaps** are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (ie fixed rate for floating rate) or a combination of all these (ie cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.
- **Options** are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange traded or negotiated between the Bank and a customer.

59. Derivatives *(continued)*

59.3 Detailed breakdown of derivatives *(continued)*

	Bank					
	2009				2008	
	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	303 205	(348)	7 978	(8 326)	433 497	(1 469)
Currency swaps	10 232	(645)	217	(862)	97 606	1 561
OTC foreign exchange options	17 042	206	527	(321)	32 976	(96)
OTC foreign exchange options purchased	8 975	525	527	(2)	15 883	1 076
OTC foreign exchange options written	8 067	(319)	—	(319)	17 093	(1 172)
Other OTC foreign exchange derivatives	27 278	(9)	11	(20)	43 230	(9)
Exchange traded derivatives	121 618	1	1	—	—	—
Total foreign exchange derivatives	479 375	(795)	8 734	(9 529)	607 309	(13)
Interest rate derivatives						
Forward rate agreements (FRAs)	1 217 162	116	1 053	(937)	1 416 653	200
Currency interest rate swaps	172 536	(596)	3 433	(4 029)	20 569	(78)
Swaps	38 014	49	132	(83)	44 112	(128)
Interest rate swaps	1 149 922	9	12 740	(12 731)	1 127 631	(646)
OTC options on FRAs and swaps	270 239	(40)	276	(316)	185 412	89
OTC options on FRAs and swaps purchased	108 261	276	276	—	94 843	664
OTC options on FRAs and swaps written	161 978	(316)	—	(316)	90 569	(575)
OTC bond option contracts	3 702	(1)	10	(11)	7 106	(126)
OTC bond options purchased	2 002	10	10	—	4 065	225
Other bond options written	1 700	(11)	—	(11)	3 041	(351)
Other OTC interest rate derivatives	643	31	76	(45)	—	—
Exchange traded futures	10 880	(2)	—	(2)	—	—
Total interest rate derivatives	2 863 098	(434)	17 720	(18 154)	2 801 483	(689)
Balance carried forward	3 342 473	(1 229)	26 454	(27 683)	3 408 792	(702)

59. Derivatives *(continued)*
59.3 Detailed breakdown of derivatives *(continued)*

	Bank					
	2009				2008	
	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	3 342 473	(1 229)	26 454	(27 683)	3 408 792	(702)
Equity derivatives						
OTC options purchased	13 785	1 436	1 436	—	47 873	2 018
OTC options written	18 409	(4 860)	—	(4 860)	40 715	(4 026)
Equity futures	230	(191)	—	(191)	1 059	193
Other OTC equity derivatives	10 782	(407)	613	(1 020)	2 278	21
OTC equity derivatives	43 206	(4 022)	2 049	(6 071)	91 925	(1 794)
Exchange traded derivatives	84 120	(1)	—	(1)	178 160	—
Exchange traded options purchased	23 444	—	—	—	60 957	—
Exchange traded options written	37 045	—	—	—	60 343	—
Exchange traded futures	23 631	(1)	—	(1)	56 860	—
Other exchange traded equity derivatives	148	(58)	—	(58)	—	—
Total equity derivatives	127 474	(4 081)	2 049	(6 130)	270 085	(1 794)
Commodity derivatives						
Agricultural forwards	5	—	4	(4)	—	—
OTC agricultural options	109	9	9	—	18	(2)
OTC agricultural options purchased	3	9	9	—	—	—
OTC agricultural options written	106	—	—	—	18	(2)
OTC options on gold	9 640	(4)	2 310	(2 314)	11 144	173
OTC gold options purchased	4 860	2 310	2 310	—	5 572	2 903
OTC gold options written	4 780	(2 314)	—	(2 314)	5 572	(2 730)
Other OTC commodity derivatives	5 557	(13)	567	(580)	8 819	(68)
OTC commodity derivatives	15 311	(8)	2 890	(2 898)	19 981	103
Exchange traded agricultural derivatives	24 650	11	11	—	4 159	—
Exchange traded agricultural derivatives purchased	637	—	—	—	309	—
Exchange traded agricultural derivatives written	635	—	—	—	84	—
Exchange traded agricultural futures	10 212	—	—	—	3 766	—
Exchange traded gold options purchased	13 166	11	11	—	—	—
Total commodity derivatives	39 961	3	2 901	(2 898)	24 140	103
Credit derivatives						
Credit derivatives purchased (swaps)	1 694	45	115	(70)	6 717	(178)
Credit derivatives written (swaps)	8 514	(30)	110	(140)	—	—
Embedded derivatives	2 413	21	57	(36)	7 367	199
Total credit derivatives	12 621	36	282	(246)	14 084	21
Total trading (balance carried forward)	3 522 529	(5 271)	31 686	(36 957)	3 717 101	(2 372)

59. Derivatives *(continued)*
59.3 Detailed breakdown of derivatives *(continued)*

	Bank					
	2009				2008	
	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	**3 522 529**	**(5 271)**	**31 686**	**(36 957)**	3 717 101	(2 372)
Hedging						
Cash flow hedges						
Interest rate swaps	**105 975**	**1 852**	**1 946**	**(94)**	130 354	2 280
Forward foreign exchange	**117**	**(38)**	**—**	**(38)**	376	(35)
Total cash flow hedges	**106 092**	**1 814**	**1 946**	**(132)**	130 730	2 245
Fair value hedges						
Interest rate swaps	**2 359**	**58**	**491**	**(433)**	24 943	(315)
Currency swaps	**6 005**	**121**	**121**	**—**	6 005	129
Total fair value hedges	**8 364**	**179**	**612**	**(433)**	30 948	(186)
Total hedges	**114 456**	**1 993**	**2 558**	**(565)**	161 678	2 059
Total derivative instruments	**3 636 985**	**(3 278)**	**34 244**	**(37 522)**	3 878 779	(313)

Derivative assets and liabilities subject to counterparty netting agreements amounted to R20 059 million (2008: R47 646 million). Additionally, the Bank held R999 million (2008: R3 848 million) of collateral against the net derivative asset exposure.

Notional amount

The gross notional amount is the sum of the absolute value of all bought and sold contracts. The notional amount will not generally reflect the amount receivable or payable under a derivative contract. The notional amount should be viewed only as a means of assessing the Bank's participation in derivative contracts and not the market risk position or the credit exposure arising on such contracts.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position, but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates on hand, the extent to which instruments are favourable or unfavourable and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

Fair value

The amounts disclosed represent the fair value as at the statement of financial position date of all derivative financial instruments held. Positive amounts reflect positive fair values, while amounts indicated in brackets reflect negative fair values.

60. Fair value hierarchy disclosures

60.1 Valuation methodology

The table below shows the Bank's financial assets and liabilities that are recognised and subsequently measured at fair value analysed by valuation technique. The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety. A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations based on unobservable inputs is set out in the table below.

	Bank			
	2009			
	Valuations with reference to observable prices Level 1[1] Rm	Valuations based on observable inputs Level 2[1] Rm	Valuations based on unobservable inputs Level 3[2] Rm	Total Rm
Available-for-sale financial assets				
Statutory liquid asset portfolio (refer to note 3)	17 904	—		17 904
Investments (refer to note 12)	1 760	41	176	1 977
Financial assets designated at fair value through profit or loss				
Statutory liquid asset portfolio (refer to note 3)	3 636	—	—	3 636
Loans and advances to banks (refer to note 4)	—	2 403	—	2 403
Loans and advances to customers (refer to note 9)	—	3 958	4 504	8 462
Investments (refer to note 12)	5 917	2 995	5 960	14 872
Financial assets held for trading (refer to note 5)				
Hedging assets	—	2 558	—	2 558
Trading assets	11 889	3 097	—	14 986
Derivative assets	30	30 863	793	31 686
Total financial assets	**41 136**	**45 915**	**11 433**	**98 484**
Financial liabilities designated at fair value through profit or loss				
Deposits from banks (refer to note 18)	—	8 014	—	8 014
Other liabilities (refer to note 20)	—	—	274	274
Deposits due to customers (refer to note 22)	—	2 118	10 435	12 553
Debt securities in issue (refer to note 23)	—	4 402	246	4 648
Borrowed funds (refer to note 25)	718	—	—	718
Financial liabilities held for trading (refer to note 19)				
Hedging liabilities	—	565	—	565
Derivative liabilities	19	35 820	1 118	36 957
Total financial liabilities	**737**	**50 919**	**12 073**	**63 729**

Notes

[1] *The nature of the valuation techniques is summarised in note 60.2.*

[2] *The nature of the valuation techniques is summarised in note 60.3.*

60. Fair value hierarchy disclosures

(continued)

60.2 Valuations based on observable inputs

Valuations based on observable inputs include:

Level 1

Financial instruments valued with reference to unadjusted quoted prices for identical assets or liabilities 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.

An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

This category includes highly liquid government and other bonds, active listed equities, exchange-traded commodities and exchange-traded derivatives.

Level 2

Financial instruments valued using inputs other than quoted prices as described above for level 1 but which are observable for the asset or liability, either directly or indirectly, such as:

- quoted price for similar assets or liabilities in an active market;
- quoted price for identical or similar assets or liabilities in inactive markets;
- valuation model using observable inputs; and
- valuation model using inputs derived from/ corroborated by observable market data.

This category includes certain African government bills, private equity investments, loans and advances, investments in debt instruments, commodity derivatives, credit derivatives, equity derivatives, foreign exchange derivatives, interest rate derivatives, repurchase agreements, deposits and debt securities.

60.3 Valuations based on unobservable inputs

Level 3

Financial instruments valued using inputs that are not based on observable market data (unobservable data) such as an entity's own assumptions about assumptions of market participants in pricing the asset or liability.

This category includes certain private equity investments, loans and advances, investments in debt instruments, credit derivatives, equity derivatives, foreign exchange derivatives, interest rate derivatives, repurchase agreements, deposits and debt securities.

In determining the value of level 3 financial instruments the following are the principal inputs that can require judgement:

(i) Volatility

Volatility is a key input in the valuation of options across all asset classes. For some asset classes volatility is unobservable.

(ii) Basis risk

Basis risk is a key input in the valuation of cross currency swaps. For some currency pairs or maturities, basis risk is unobservable.

(iii) Credit spreads

Credit spreads are key inputs in the valuation of credit default swaps, credit linked notes and debt instrument or liabilities. For some issuers or tenors, credit spreads are unobservable.

(iv) Yield curves

Yield curves are key inputs in the valuation of certain debt instruments. For some debt instruments yield curves are unobservable.

(v) Future earnings and marketability discounts

Future earnings and marketability discounts are key inputs in the valuation of certain private equity investments. Forecast earnings and marketability discounts are unobservable for some investments.

(vi) Comparator multiples

Comparator multiples and point of difference applied to chosen multiples are key inputs in the valuation of certain private equity investments. Price earnings multiples and point of difference applied to chosen multiples are unobservable for some private equity investments.

(vii) Discount rates

Discount rates are key inputs in the valuation of certain private equity investments. Discount rates are unobservable for some private equity investments.

60. Fair value hierarchy disclosures

(continued)

60.3 Valuations based on unobservable inputs *(continued)*

The following summary sets out the principal instruments whose valuation may involve judgemental inputs:

Debt securities and treasury and other eligible bills

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, valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs.

Equity investments

Equity investments 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 investments or by using valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs.

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, credit spreads, equity prices and commodity prices or indices on these assets. Fair values of derivatives are obtained from quoted market prices, dealer price quotations, discounted cash flow and option pricing models.

Loans and advances

Loans and advances are valued 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, debt securities in issue and borrowed funds

Deposits, debt securities in issue and borrowed funds are valued using discounted cash flow models, applying rates currently offered for issuances with similar characteristics. Where these instruments include embedded derivatives, the embedded derivative component is valued using the methodology for derivatives as detailed above.

60. Fair value hierarchy disclosures *(continued)*

60.4 Movements on financial assets and liabilities subsequently measured at fair value using valuations based on unobservable inputs (level 3)

A reconciliation of the opening balances to closing balances is set out below.

Bank

	2009								
	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss			Financial liabilities designated at fair value through profit or loss			Financial liabilities held for trading	
	Investments Rm	Loans and advances to customers Rm	Investments Rm	Total financial assets excluding derivatives Rm	Other liabilities Rm	Deposits due to customers Rm	Debt securities Rm	Net derivatives Rm	Total financial liabilities including net derivatives Rm
Opening balance	**522**	**4 829**	**6 761**	**12 112**	**407**	**10 786**	**465**	**161**	**11 819**
Net interest income	—	295	—	295	—	565	8	—	573
Gains and losses from banking and trading activities	27	(313)	(851)	(1 137)	(133)	(156)	14	285	10
Other comprehensive income	(24)	—	—	(24)	—	—	—	—	—
Purchases	—	373	605	978	—	—	—	(23)	(23)
Sales	—	—	(292)	(292)	—	—	—	—	—
Issues	—	—	—	—	—	1 033	—	5	1 038
Settlements	(349)	(680)	(263)	(1 292)	—	(1 793)	(241)	(43)	(2 077)
Movement out of level 3[1]	—	—	—	—	—	—	—	(60)	(60)
Closing balance	**176**	**4 504**	**5 960**	**10 640**	**274**	**10 435**	**246**	**325**	**11 280**

Note

[1] *Transfers out of level 3 principally reflect transfers to level 2 within the fair value hierarchy of equity-related derivative instruments, as the remaining maturity of these instruments has entered the range for which the unobservable parameter can be observed.*

60. Fair value hierarchy disclosures *(continued)*

60.5 Total unrealised gains and losses for the year on the level 3 positions held at the statement of financial position date

	Bank								
	2009								
	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss			Financial liabilities designated at fair value through profit or loss			Financial liabilities held for trading	
	Investments Rm	Loans and advances to customers Rm	Investments Rm	Total financial assets excluding derivatives Rm	Deposits due to customers Rm	Debt securities Rm	Other liabilities Rm	Net derivatives Rm	Total financial liabilities including net derivatives Rm
Net interest income	9	398	80	487	(566)	(4)	—	—	(570)
Gains and losses from banking and trading activities	—	(326)	(775)	(1 101)	149	(5)	(133)	(286)	(275)
	9	72	(695)	(614)	(417)	(9)	(133)	(286)	(845)

60.6 Sensitivity analysis of valuations using unobservable inputs

As part of the Bank's risk management processes, stress tests are applied on the significant unobservable parameters to generate a range of potentially possible alternative valuations. The financial instruments that most impact this sensitivity analysis are those with the more illiquid and/or structured portfolios. The stresses are applied independently and do not take account of any cross correlation between separate asset classes that would reduce the overall effect on the valuations.

A significant parameter has been deemed to be one which may result in a change in the fair value asset or liability of more than 10%. This is demonstrated by the following sensitivity analysis which includes reasonable range of possible outcomes.

60. Fair value hierarchy disclosures *(continued)*

60.6 Sensitivity analysis of valuations using unobservable inputs *(continued)*

	Significant unobservable parameters[1]	Bank 2009 Potential effect recorded in profit and loss Favourable Rm	Unfavourable Rm	Potential effect recorded directly in equity Favourable Rm	Unfavourable Rm
Net derivatives	i, ii, iii, iv	9	11	—	—
Loans and advances designated at fair value through profit or loss	iii	90	246	—	—
Structured notes and deposits designated at fair value through profit or loss	iv	67	72	—	—
Private equity	v, vi, vii	749	699	—	—
		915	1 028	—	—

Note

Refer to note 60.3 for valuation imputs.

The following table reflects how the unobservable parameters were changed in order to evaluate sensitivities of level 3 financial instruments:

Instrument	Parameter	Positive variance in parameters	Negative variance in parameters
Equity derivatives	Volatilities	10%	–10%
Credit derivatives	Credit spreads	100 basis points	–100 basis points
Foreign currency options	Volatilities	10%	–10%
Foreign currency swaps and foreign interest rate products	Basis risk and yield curve	100 basis points	–100 basis points
Loans and advances designated at fair value through profit or loss	Credit spreads	100 basis points	–100 basis points
Structured notes and deposits designated at fair value through profit or loss	Yield curve	100 basis points	–100 basis points
Private equity	Valuation	15%	–15%

61. Unrecognised gains as a result of the use of valuation models using unobservable inputs

The amount that has yet to be recognised in income that relates to the difference between the transaction price (the fair value at initial recognition) and the amount that would have arisen had valuation models using unobservable inputs been used on initial recognition, less amounts subsequently recognised, was as follows:

	Bank 2009 Rm
Opening balance	—
New transactions	28
Amounts recognised in the profit and loss component of the statement of comprehensive income during the year	(4)
Closing balance	**24**

Contents

Absa Bank Limited (the Company)

Company statement of financial position

As at 31 December

	Note	Company 2009 Rm	2008[1] Rm	2007[1] Rm
Assets				
Cash, cash balances and balances with central banks	2	**15 442**	16 524	15 053
Statutory liquid asset portfolio	3	**33 943**	33 019	22 957
Loans and advances to banks	4	**32 992**	41 510	50 648
Trading portfolio assets	5	**47 377**	73 029	25 876
Hedging portfolio assets	5	**2 558**	3 139	725
Other assets	6	**6 821**	8 484	4 650
Current tax assets	7	**98**	—	168
Non-current assets held for sale	8	**—**	2 495	—
Loans and advances to customers	9	**479 323**	502 748	432 287
Loans to Absa Group companies	11	**13 585**	15 845	11 431
Investments	12	**12 504**	11 003	6 405
Investments in associates and joint ventures	13	**206**	1 729	652
Subsidiaries	14	**3 570**	2 933	2 907
Intangible assets	15	**367**	130	101
Property and equipment	16	**5 996**	5 402	4 233
Deferred tax asset	17	**69**	41	10
Total assets		**654 851**	718 031	578 103
Liabilities				
Deposits from banks	18	**43 335**	59 705	65 299
Trading portfolio liabilities	19	**36 957**	68 119	22 947
Hedging portfolio liabilities	19	**565**	1 080	2 226
Other liabilities	20	**8 250**	6 891	7 129
Provisions	21	**1 481**	1 888	2 193
Current tax liabilities	7	**—**	310	29
Non-current liabilities held for sale	8	**—**	408	—
Deposits due to customers	22	**337 746**	367 631	297 285
Debt securities in issue	23	**164 852**	152 402	134 023
Loans from Absa Group companies	24	**—**	646	500
Borrowed funds	25	**13 530**	12 143	9 796
Deferred tax liability	17	**1 760**	2 730	2 214
Total liabilities		**608 476**	673 953	543 641
Equity				
Capital and reserves				
Attributable to equity holders of the Company:				
Ordinary share capital	26	**303**	303	303
Ordinary share premium	26	**10 465**	9 415	5 415
Preference share capital	26	**1**	1	1
Preference share premium	26	**4 643**	4 643	4 643
Other reserves	27	**2 434**	3 609	1 329
Retained earnings		**28 529**	26 107	22 771
Total equity		**46 375**	44 078	34 462
Total equity and liabilities		**654 851**	718 031	578 103

Note

[1]*Reclassified and restated, refer to note 1.1.*

Company statement of comprehensive income

For the year ended 31 December

	Note	Company 2009 Rm	2008[1] Rm
Net interest income		**19 374**	20 031
Interest and similar income	28	**61 036**	71 933
Interest expense and similar charges	29	**(41 662)**	(51 902)
Impairment losses on loans and advances	10	**(8 362)**	(5 605)
Net interest income after impairment losses on loans and advances		**11 012**	14 426
Net fee and commission income		**12 254**	11 709
Fee and commission income	30	**12 992**	12 344
Fee and commission expense	30	**(738)**	(635)
Gains and losses from banking and trading activities	31	**2 627**	3 118
Gains and losses from investment activities	32	**391**	770
Other operating income	33	**393**	1 074
Operating profit before operating expenditure		**26 677**	31 097
Operating expenditure		**(19 637)**	(18 948)
Operating expenses	34	**(17 476)**	(18 331)
Other impairments	35	**(1 399)**	11
Indirect taxation	36	**(762)**	(628)
Operating profit before income tax		**7 040**	12 149
Taxation expense	37	**(1 404)**	(2 990)
Profit for the year		**5 636**	9 159
Other comprehensive income			
Exchange differences on translation of foreign operations		**(160)**	(6)
Movement in cash flow hedging reserve		**(661)**	2 668
Fair value (losses)/gains arising during the year		**(143)**	2 064
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income		**(776)**	1 636
Deferred tax	17	**258**	(1 032)
Movement in available-for-sale reserve		**(323)**	(94)
Fair value losses arising during the year		**(302)**	(245)
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income		**(205)**	—
Amortisation of government bonds – release to the profit and loss component of the statement of comprehensive income		**104**	85
Deferred tax	17	**80**	66
Movements in retirement benefit assets		**75**	181
Increase in retirement benefit surplus		**104**	252
Deferred tax	17	**(29)**	(71)
Total comprehensive income for the year		**4 567**	11 908
Profit attributable to:			
Ordinary equity holder of the Company		**5 215**	8 702
Preference equity holders of the Company		**421**	457
		5 636	9 159
Total comprehensive income attributable to:			
Ordinary equity holder of the Company		**4 146**	11 451
Preference equity holders of the Company		**421**	457
		4 567	11 908
Earnings per share:			
• basic earnings per share (cents)	38	**1 440,2**	2 454,0
• diluted earnings per share (cents)	38	**1 440,2**	2 454,0

Note

[1]*Reclassified and restated, refer to note 1.1.*

Company statement of cash flows

For the year ended 31 December

	Note	Company 2009 Rm	2008 Rm
Cash flow from operating activities			
Interest, fee and commission income		**73 788**	83 051
Interest, fee and commission expense		**(42 910)**	(50 977)
Net trading and other income		**466**	9 900
Cash payments to employees and suppliers		**(16 929)**	(17 415)
Income taxes paid		**(2 492)**	(3 093)
Cash flow from operating profit before changes in operating assets and liabilities		**11 923**	21 466
Net decrease/(increase) in trading and hedging portfolio assets		**27 681**	(50 699)
Net decrease/(increase) in loans and advances to customers		**14 534**	(75 541)
Net decrease/(increase) in other assets		**14 445**	(12 501)
Net (decrease)/increase in trading and hedging portfolio liabilities		**(31 955)**	44 026
Net (decrease)/increase in amounts due to customers and banks		**(30 235)**	69 386
Net (decrease)/increase in other liabilities		**(2 613)**	11 076
Net cash generated from operating activities		**3 780**	7 213
Cash flow from investing activities			
Purchase of property and equipment	16	**(1 988)**	(2 117)
Proceeds from sale of property and equipment		**404**	197
Purchase of intangible assets	15	**(299)**	(133)
Acquisition of subsidiaries, net of cash		**34**	—
Acquisition of associates and joint ventures, net of cash	13.5	**(61)**	(1 060)
Net increase in loans to associates and joint ventures	13.1	**(1)**	—
Net decrease/(increase) in investments		**435**	(4 654)
Net cash utilised from investing activities		**(1 476)**	(7 767)
Cash flow from financing activities			
Issue of ordinary shares		**1 050**	4 000
Share buy-back		**(88)**	—
Proceeds from borrowed funds		**4 500**	1 886
Repayment of borrowed funds		**(3 100)**	—
Dividends paid		**(3 271)**	(6 412)
Net cash utilised from financing activities		**(909)**	(526)
Net increase/(decrease) in cash and cash equivalents		**1 395**	(1 080)
Cash and cash equivalents at the beginning of the year		**3 925**	5 005
Cash and cash equivalents at the end of the year	46	**5 320**	3 925

Company statement of changes in equity

For the year ended 31 December

	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at 1 January 2009	**359 054**	**303**	**9 415**	**1**	**4 643**
Total comprehensive income	—	—	—	—	—
Profit for the year	—	—	—	—	—
Other comprehensive income	—	—	—	—	—
Dividends paid	—	—	—	—	—
Shares issued	**8 621**	**0**	**1 050**	—	—
Contribution to the Absa Group Limited Share Incentive Trust	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Movement in general credit risk reserve	—	—	—	—	—
Balance at 31 December 2009	**367 675**	**303**	**10 465**	**1**	**4 643**

	Number of ordinary shares '000	Ordinary share capital Rm	Ordinary share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at 1 January 2008 as previously reported	337 286	303	5 415	1	4 643
Restatement of opening balance (refer to note 1.1)	—	—	—	—	—
Restated balance at 1 January 2008	337 286	303	5 415	1	4 643
Total comprehensive income	—	—	—	—	—
Profit for the year	—	—	—	—	—
Other comprehensive income	—	—	—	—	—
Dividends paid	—	—	—	—	—
Shares issued	21 768	0	4 000	—	—
Contribution to the Absa Group Limited Share Incentive Trust	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Movement in general credit risk reserve	—	—	—	—	—
Balance at 31 December 2008	359 054	303	9 415	1	4 643
Notes	26	26	26	26	26

Comparatives have been restated, refer to note 1.1.

Note

All movements are reflected net of taxation, refer to note 17.

Company
2009

General credit risk reserve Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Retained earnings Rm	Total Rm
2	**(36)**	**1 775**	**151**	**1 422**	**295**	**26 107**	**44 078**
—	**(323)**	**(661)**	**(160)**	**—**	**—**	**5 711**	**4 567**
—	**—**	**—**	**—**	**—**	**—**	**5 636**	**5 636**
—	**(323)**	**(661)**	**(160)**	**—**	**—**	**75**	**(1 069)**
—	**—**	**—**	**—**	**—**	**—**	**(3 271)**	**(3 271)**
—	**—**	**—**	**—**	**—**	**—**	**—**	**1 050**
—	**—**	**—**	**—**	**—**	**—**	**(88)**	**(88)**
—	**—**	**—**	**—**	**—**	**(29)**	**68**	**39**
—	**—**	**—**	**—**	**—**	**(68)**	**68**	**—**
—	**—**	**—**	**—**	**—**	**39**	**—**	**39**
(2)	**—**	**—**	**—**	**—**	**—**	**2**	**—**
—	**(359)**	**1 114**	**(9)**	**1 422**	**266**	**28 529**	**46 375**

2008

General credit risk reserve Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Retained earnings Rm	Total Rm
429	58	(893)	157	1 422	156	22 695	34 386
—	—	—	—	—	—	76	76
429	58	(893)	157	1 422	156	22 771	34 462
—	(94)	2 668	(6)	—	—	9 340	11 908
—	—	—	—	—	—	9 159	9 159
—	(94)	2 668	(6)	—	—	181	2 749
—	—	—	—	—	—	(6 412)	(6 412)
—	—	—	—	—	—	—	4 000
—	—	—	—	—	—	(61)	(61)
—	—	—	—	—	139	42	181
—	—	—	—	—	(42)	42	—
—	—	—	—	—	181	—	181
(427)	—	—	—	—	—	427	—
2	(36)	1 775	151	1 422	295	26 107	44 078
27	27	27	27	27	27		

1. Summary of significant accounting policies

The financial statements of Absa Bank Limited (Company) are prepared according to the same accounting principles used in preparing the consolidated financial statements of Absa Bank Limited and its subsidiaries (Bank). For detailed accounting policies refer to the Bank's financial statements.

1.1 Reclassifications and restatements

Some items within the statement of comprehensive income and statement of financial position for the years ended 31 December 2008 and 31 December 2007 were reclassified and restated in the current year:

1.1.1 Retirement benefit fund

The Company early adopted *AC 504 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction in the South African Pension Fund Environment.* This early adoption resulted in the Company recognising its defined benefit surplus as an asset, retrospectively. AC 504 required the Company to assess whether it had an unconditional right to the surplus. This right specifically relates to the surplus once the scheme has run off in the normal course of business. The effective date for AC 504 is financial periods starting on or after 1 April 2009, however the Company elected the early adoption as this guidance was published before the Company's year-end and seeks to clarify an existing accounting pronouncement.

In addition, the Company changed its accounting policy in accordance with the allowed alternative in *IAS 19 Employee Benefits* to recognise actuarial gains and losses on the Company's defined benefit pension plan. As a result of this change in accounting policy, any adjustments to the surplus by applying the limit to the asset in accordance with *IAS 19 Employee Benefits* will also be recognised in other comprehensive income. This new policy results in more relevant information on the Company's performance by removing the volatility from changes in actuarial assumptions and reserves.

1.1.2 Gains and losses from financial instruments

Gains and losses from financial instruments, used as part of the Company's interest rate management, have been reclassified to 'Net interest income' from 'Gains and losses from banking and trading activities', in line with the Company's accounting policy. This reclassification eliminates mismatches previously experienced between these two statements of comprehensive income lines.

1.1.3 Reclassification to 'Provisions'

The provisions (excluding leave pay) which were previously included in 'Other liabilities and sundry provisions' have been reclassified to 'Provisions'.

1. Summary of significant accounting policies *(continued)*

The reclassifications and restatements had the following impact on the statement of comprehensive income for the year ended 31 December 2008:

	31 December 2008			
	Reclassifications and restatements			
	As previously reported Rm	Retirement benefit fund (refer to note 1.1.1) Rm	Profits and losses from derivatives (refer to note 1.1.2) Rm	Reclassified and restated Rm
Net interest income	19 720	—	311	20 031
Interest and similar income	71 622	—	311	71 933
Interest expense and similar charges	(51 902)	—	—	(51 902)
Impairment losses on loans and advances	(5 605)	—	—	(5 605)
Net interest income after impairment losses on loans and advances	14 115	—	311	14 426
Net fee and commission income	11 709	—	—	11 709
Fee and commission income	12 344	—	—	12 344
Fee and commission expense	(635)	—	—	(635)
Gains and losses from banking and trading activities	3 429	—	(311)	3 118
Gains and losses from investment activities	770	—	—	770
Other operating income	1 074	—	—	1 074
Operating profit before operating expenditure	31 097	—	—	31 097
Operating expenditure	(19 027)	79	—	(18 948)
Operating expenses	(18 410)	79	—	(18 331)
Other impairments	11	—	—	11
Indirect taxation	(628)	—	—	(628)
Operating profit before income tax	12 070	79	—	12 149
Taxation expense	(2 968)	(22)	—	(2 990)
Profit for the year	9 102	57	—	9 159
Profit attributable to:				
Ordinary equity holder of the Company	8 645	57	—	8 702
Preference equity holders of the Company	457	—	—	457
	9 102	57	—	9 159
Headline earnings	7 636	57	—	7 693

Accounting policies

For the year ended 31 December

1. Summary of significant accounting policies *(continued)*

The reclassifications and restatements had the following impact on the statement of financial position:

	31 December 2008			
	Reclassifications and restatements			
	As previously reported Rm	Retirement benefit fund (refer to note 1.1.1) Rm	Reclassification to 'Provisions' (refer to note 1.1.3) Rm	Reclassified and restated Rm
Assets				
Cash, cash balances and balances with central banks	16 524	—	—	16 524
Statutory liquid asset portfolio	33 019	—	—	33 019
Loans and advances to banks	41 510	—	—	41 510
Trading portfolio assets	73 029	—	—	73 029
Hedging portfolio assets	3 139	—	—	3 139
Other assets	8 049	435	—	8 484
Current tax assets	—	—	—	—
Non-current assets held for sale	2 495	—	—	2 495
Loans and advances to customers	502 748	—	—	502 748
Loans to Absa Group companies	15 845	—	—	15 845
Investments	11 003	—	—	11 003
Investments in associates and joint ventures	1 729	—	—	1 729
Subsidiaries	2 933	—	—	2 933
Intangible assets	130	—	—	130
Property and equipment	5 402	—	—	5 402
Deferred tax asset	41	—	—	41
Total assets	717 596	435	—	718 031
Liabilities				
Deposits from banks	59 705	—	—	59 705
Trading portfolio liabilities	68 119	—	—	68 119
Hedging portfolio liabilities	1 080	—	—	1 080
Other liabilities and sundry provisions	8 779	—	(8 779)	—
Other liabilities	—	—	6 891	6 891
Provisions	—	—	1 888	1 888
Current tax liabilities	310	—	—	310
Non-current liabilities held for sale	408	—	—	408
Deposits due to customers	367 631	—	—	367 631
Debt securities in issue	152 402	—	—	152 402
Loans from Absa Group companies	646	—	—	646
Borrowed funds	12 143	—	—	12 143
Deferred tax liability	2 609	121	—	2 730
Total liabilities	673 832	121	—	673 953
Equity				
Capital and reserves				
Attributable to equity holders of the Company:				
Ordinary share capital	303	—	—	303
Ordinary share premium	9 415	—	—	9 415
Preference share capital	1	—	—	1
Preference share premium	4 643	—	—	4 643
Other reserves	3 609	—	—	3 609
Retained earnings	25 793	314	—	26 107
Total equity	43 764	314	—	44 078
Total equity and liabilities	717 596	435	—	718 031

31 December 2007			
	Reclassifications and restatements		
As previously reported Rm	Retirement benefit fund (refer to note 1.1.1) Rm	Reclassification to 'Provisions' (refer to note 1.1.3) Rm	Reclassified and restated Rm
15 053	—	—	15 053
22 957	—	—	22 957
50 648	—	—	50 648
25 876	—	—	25 876
725	—	—	725
4 545	105	—	4 650
168	—	—	168
—	—	—	—
432 287	—	—	432 287
11 431	—	—	11 431
6 405	—	—	6 405
652	—	—	652
2 907	—	—	2 907
101	—	—	101
4 233	—	—	4 233
10	—	—	10
577 998	105	—	578 103
65 299	—	—	65 299
22 947	—	—	22 947
2 226	—	—	2 226
9 322	—	(9 322)	—
—	—	7 129	7 129
—	—	2 193	2 193
29	—	—	29
—	—	—	—
297 285	—	—	297 285
134 023	—	—	134 023
500	—	—	500
9 796	—	—	9 796
2 185	29	—	2 214
543 612	29	—	543 641
303	—	—	303
5 415	—	—	5 415
1	—	—	1
4 643	—	—	4 643
1 329	—	—	1 329
22 695	76	—	22 771
34 386	76	—	34 462
577 998	105	—	578 103

	Company 2009 Rm	Company 2008 Rm
2. Cash, cash balances and balances with central banks		
Balances with the South African Reserve Bank (SARB)	**10 983**	12 626
Coins and bank notes	**4 459**	3 898
	15 442	16 524
Portfolio analysis		
Loans and receivables		
Balances with the SARB	**10 983**	12 626
Coins and bank notes	**4 459**	3 898
	15 442	16 524
3. Statutory liquid asset portfolio		
Land Bank bills	**493**	492
Republic of South Africa (RSA) government bonds	**25 467**	19 156
Reverse repurchase agreements (refer to note 42 of the Bank's financial statements)	**1 941**	4 100
SARB debentures	**223**	1 814
Treasury bills	**5 819**	7 457
	33 943	33 019
Portfolio analysis		
Available-for-sale financial assets	**17 904**	12 669
Land Bank bills	**493**	492
RSA government bonds	**11 369**	2 906
SARB debentures	**223**	1 814
Treasury bills	**5 819**	7 457
Available-for-sale financial assets in fair value hedging relationship		
RSA government bonds	**12 403**	12 077
Financial assets designated at fair value through profit or loss	**3 636**	8 273
Reverse repurchase agreements	**1 941**	4 100
RSA government bonds	**1 695**	4 173
	33 943	33 019

RSA government bonds, SARB debentures and treasury bills valued at R2 011 million (2008: R3 470 million) have been pledged with the SARB. The related liability for the pledged assets, which is disclosed in 'Deposits from banks', bears interest at the SARB repurchase rate.

	Company 2009 Rm	Company 2008 Rm
4. Loans and advances to banks		
Other loans and advances to banks	**24 060**	24 263
Reverse repurchase agreements (refer to note 42 of the Bank's financial statements)	**8 932**	17 247
	32 992	41 510
Portfolio analysis		
Financial assets designated at fair value through profit or loss	**2 403**	16 632
Other loans and advances to banks	**629**	—
Reverse repurchase agreements	**1 774**	16 632
Loans and receivables	**30 589**	24 878
Other loans and advances to banks	**23 431**	24 263
Reverse repurchase agreements	**7 158**	615
	32 992	41 510

4. Loans and advances to banks *(continued)*

Loans with variable rates are R23 740 million (2008: R24 004 million) and fixed rates are R9 252 million (2008: R17 506 million).

Included above are loans and advances with the Company's ultimate parent company of R10 433 million (2008: R13 636 million). Refer to note 41 for the full disclosure of related party transactions.

Included above are loans and advances to banks with a carrying value of R3 814 million (2008: R2 462 million) that have been pledged as security, which excludes reverse repurchase agreements as disclosed in note 42 of the Bank's financial statements. The amounts pledged is the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

Collateral to the value of R9 320 million (2008: R6 177 million) was received on Other loans and advances to banks. This collateral was on-pledged as part of repurchase agreements (refer to note 42 of the Bank's financial statements).

	Company	
	2009 Rm	2008 Rm
5. Trading and hedging portfolio assets		
Commodities	**631**	517
Debt instruments	**10 715**	5 178
Derivative assets (refer to note 48.3)	**31 777**	65 566
Commodity derivatives	**2 901**	4 722
Credit derivatives	**282**	343
Equity derivatives	**2 049**	2 322
Foreign exchange derivatives	**8 734**	31 479
Interest rate derivatives	**17 811**	26 700
Equity instruments	**125**	304
Money market assets	**4 129**	1 464
Total trading portfolio assets	**47 377**	73 029
Hedging portfolio assets (refer to note 48.3)	**2 558**	3 139
	49 935	76 168
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**1 946**	2 530
Derivatives designated as fair value hedging instruments	**612**	609
Financial assets held for trading	**46 746**	72 512
Debt instruments	**10 715**	5 178
Derivative assets	**31 777**	65 566
Equity instruments	**125**	304
Money market assets	**4 129**	1 464
Non-financial instruments	**631**	517
	49 935	76 168

Included above are derivative positions with the Company's ultimate parent company of R6 936 million (2008: R15 672 million). Refer to note 41 for the full disclosure of related party transactions.

Trading portfolio assets with a carrying value of R10 297 million (2008: R5 178 million) have been pledged as security for repurchase agreements (refer to note 42 of the Bank's financial statements). In addition, trading portfolio assets with a carrying value of R418 million (2008: Rnil) have been pledged as security for deposits. These assets are pledged for the duration of the respective agreements.

Included in the financial assets held for trading are financial instruments related to the Company's economic hedging programme with a notional value of R171 million (2008: R1 393 million) and a fair value of R3 million (2008: R30 million).

	Company 2009 Rm	2008 Rm	2007 Rm
6. Other assets			
Accounts receivable and prepayments	**4 789**	5 318	2 432
Collateral	**740**	548	400
Deferred costs	**29**	27	25
Inventories	**377**	365	167
Cost	**441**	403	167
Write-down	**(64)**	(38)	—
Retirement benefit fund surplus (refer to note 40 of the Bank's financial statements)	**616**	435	105
Settlement accounts	**270**	1 791	1 521
	6 821	8 484	4 650
Portfolio analysis			
Loans and receivables	**5 639**	7 418	4 219
Accounts receivable	**4 629**	5 079	2 298
Collateral	**740**	548	400
Settlement accounts	**270**	1 791	1 521
Non-financial assets	**1 182**	1 066	431
	6 821	8 484	4 650

Comparatives have been restated, refer to note 1.1.
Included above are settlement accounts with the Company's ultimate parent company of R196 million (2008: R228 million). Refer to note 41 for the full disclosure of related party transactions.

	Company 2009 Rm	2008 Rm
7. Current tax		
Current tax assets		
Amount due from revenue authorities	**98**	—
Current tax liabilities		
Amount due to revenue authorities	**—**	310

8. Non-current assets and liabilities held for sale

The Company, through the private equity division in Absa Capital, transferred investments to a newly formed fund during the prior year. The Company remained 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' in the statement of financial position in 2008. The completion of the sale within 12 months is no longer considered to be highly probable and consequently the investments have been classified as 'Investments' in the 2009 statement of financial position.

	Company 2009 Rm	2008 Rm
Non-current assets held for sale		
Investments	**—**	2 495
Non-current liabilities held for sale		
Other liabilities	**—**	408

	Company 2009 Rm	Company 2008 Rm
9. Loans and advances to customers		
Cheque accounts	**28 720**	26 337
Corporate overdrafts and specialised finance loans	**10 389**	10 294
Credit cards	**14 774**	15 040
Foreign currency loans	**6 787**	11 775
Instalment credit agreements (refer to note 9.1)	**53 379**	61 261
Gross advances	**63 749**	77 359
Unearned finance charges	**(10 370)**	(16 098)
Loans granted under resale agreements (Carries) (refer to note 42 of the Bank's financial statements)	**1 988**	7 072
Loans to associates and joint ventures (refer to note 13.2)	**7 878**	8 290
Microloans	**2 411**	3 412
Mortgages	**302 219**	299 453
Other advances[1]	**2 406**	3 615
Overnight finance	**9 807**	11 146
Personal and term loans	**20 776**	18 154
Preference shares	**4 102**	2 987
Wholesale overdrafts	**25 532**	32 291
	491 168	511 127
Impairment losses on loans and advances (refer to note 10)	**(11 845)**	(8 379)
	479 323	502 748
Portfolio analysis		
Financial assets designated at fair value through profit or loss	**8 462**	7 720
Corporate overdrafts and specialised finance loans	**711**	915
Foreign currency loans	**884**	—
Loans granted under resale agreements (Carries)	**1 988**	1 543
Mortgages	**1 388**	1 673
Wholesale overdrafts	**3 491**	3 589
Amortised cost items held in a fair value hedging relationship		
Corporate overdrafts and specialised finance loans	**24**	—
Loans and receivables	**482 682**	503 407
	491 168	511 127

Included above are loans and advances to customers with a carrying value of R989 million (2008: Rnil) that have been pledged as security, which excludes reverse repurchase agreements as disclosed in note 42 of the Bank's financial statements. The amount 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.

Note

[1]*Other advances include client liabilities under acceptances of R3 million (2008: R121 million), working capital solutions of R1 862 million (2008: R2 247 million) and bridging finance of R74 million (2008: R411 million).*

9. Loans and advances to customers *(continued)*

9.1 Instalment credit agreements

Maturity analysis

	Company 2009 Gross investment in finance leases Rm	Company 2009 Unearned finance charges Rm	Company 2009 Net investment in finance leases Rm
Less than one year	**18 934**	**(3 035)**	**15 899**
Between one and five years	**43 445**	**(7 087)**	**36 358**
More than five years	**1 370**	**(248)**	**1 122**
	63 749	**(10 370)**	**53 379**

	2008 Gross investment in finance leases Rm	2008 Unearned finance charges Rm	2008 Net investment in finance leases Rm
Less than one year	23 035	(4 711)	18 324
Between one and five years	52 661	(11 002)	41 659
More than five years	1 663	(385)	1 278
	77 359	(16 098)	61 261

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

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

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

Unguaranteed residual values of instalment credit agreements at the statement of financial position date are R4 632 million (2008: R5 768 million).

The accumulated allowance for uncollectable lease payments receivable included in the allowance for impairments at the statement of financial position date is R1 531 million (2008: R773 million).

	Company 2009 Rm	Company 2008 Rm
10. Impairment losses on loans and advances		
Balance at the beginning of the year	**8 379**	5 365
Amounts written off during the year	**(4 356)**	(2 553)
Exchange difference	**(3)**	—
Interest on impaired assets (refer to note 28)	**(936)**	(521)
	3 084	2 291
Impairments raised during the year (refer to note 10.1)	**8 761**	6 088
Balance at the end of the year (refer to note 9)	**11 845**	8 379
Comprising:		
Identified impairments	**10 825**	7 113
Unidentified impairments	**1 020**	1 266
	11 845	8 379

	Company 2009 Rm	Company 2008 Rm
10. Impairment losses on loans and advances *(continued)*		
10.1 Statement of comprehensive income charge for impairment losses on loans and advances		
Impairments raised during the year	**8 761**	6 088
Identified impairments	**9 005**	6 735
Unidentified impairments	**(244)**	(647)
Recoveries of loans and advances previously written off	**(399)**	(483)
	8 362	5 605
11. Loans to Absa Group companies		
Fellow subsidiaries	**13 568**	14 055
Holding company	**17**	1 790
	13 585	15 845
Portfolio analysis		
Loans and receivables	**13 585**	15 845
12. Investments		
Debt instruments	**5 088**	3 564
Listed equity instruments	**1 465**	1 591
Unlisted equity and hybrid instruments	**5 951**	5 848
	12 504	11 003
Market value and directors' valuation		
Market value of debt instruments	**5 088**	3 564
Market value of listed equity instruments	**1 465**	1 591
Directors' valuation of unlisted equity and hybrid instruments	**5 951**	5 848
	12 504	11 003
Portfolio analysis		
Available-for-sale financial assets (refer to note 12.1)	**716**	1 199
Debt instruments	**522**	367
Listed equity instruments	**44**	422
Unlisted equity and hybrid instruments	**150**	410
Financial assets designated at fair value through profit or loss	**11 788**	9 804
Debt instruments	**4 566**	3 197
Listed equity instruments	**1 421**	1 169
Unlisted equity and hybrid instruments	**5 801**	5 438
	12 504	11 003

Included above are investments with the Company's ultimate parent company of R369 million (2008: R435 million). Refer to note 41 for the full disclosure of related party transactions.

	Company 2009 Rm	Company 2008 Rm
12. Investments *(continued)*		
12.1 Available-for-sale financial assets		
Carrying value at the beginning of the year	**1 199**	494
Cost plus fair value movements	**1 243**	537
Impairments[1]	**(44)**	(43)
Movement in investments	**(447)**	706
Net acquisitions and disposals	**(203)**	333
Fair value movements	**(244)**	373
Movement in impairments (refer to note 35)	**(36)**	(1)
Carrying value at the end of the year	**716**	1 199
Cost plus fair value movements	**796**	1 243
Impairments[1]	**(80)**	(44)

Note

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

	Company 2009 Rm	Company 2008 Rm
13. Investments in associates and joint ventures		
Listed investments	**112**	1 635
Unlisted investments	**94**	94
	206	1 729
13.1 Movement in carrying value		
Balance at the beginning of the year	**1 729**	652
Net movement in the carrying value of investments in associates and joint ventures (refer to note 13.4)	**(196)**	1 077
Change in loans to associates and joint ventures at cost	**1**	—
Impairment charge (refer to note 35)	**(1 328)**	—
Balance at the end of the year	**206**	1 729
13.2 Analysis of carrying value		
Listed investments	**112**	1 635
Shares at cost	**1 440**	1 635
Impairments	**(1 328)**	—
Unlisted investments		
Shares at cost	**94**	94
	206	1 729

Other commercial loans to associates and joint ventures included in ‘Loans and advances to customers’ amounted to R7 878 million (2008: R8 290 million). Refer to note 9 for further details.

A register of investments in associates and joint ventures is available for inspection at the registered office of the Company.

	Company 2009 Rm	Company 2008 Rm
13.3 Valuation		
Market value of listed investments	**188**	1 576
Directors’ valuation of unlisted investments	**373**	367
	561	1 943

	Company	
	2009 Rm	2008 Rm
13. Investments in associates and joint ventures *(continued)*		
13.4 Net movement in the carrying value of investments in associates and joint ventures		
The following associate was transferred from investments during the current year, at cost:		
Blue Financial Services Limited	**451**	n/a
During May 2009, the Company acquired a further 2,2% interest in Blue Financial Services Limited. The Company's shareholding is now 20,2%.		
The following associate was transferred from investments during the previous year, at cost:		
Sekunjalo Investments Limited	**n/a**	59
On 11 December 2008, the Company acquired an additional 17,2% interest in Sekunjalo Investments Limited at a cost of R39 million. Sekunjalo Investments Limited was previously recognised as an investment at a carrying amount of R20 million. The Company's shareholding is now 27,2%.		
The following acquisitions were concluded during the current year, at cost:		
Meadowood Investments 8 (Proprietary) Limited	**0**	n/a
On 1 January 2009, the Company acquired a 50,0% interest in Meadowood Investments 8 (Proprietary) Limited. The acquisition resulted from the Company exercising its rights in terms of a collateral agreement upon default by a client on loans.		
The following acquisitions were concluded during the previous year, at cost:		
Ambit Properties Limited	**n/a**	90
In 2008, the Company acquired an additional 4,0% interest in Ambit Properties Limited.		
Integrated Processing Solutions (Proprietary) Limited	**n/a**	11
On 1 November 2008, the Company made an additional contribution to maintain its 50,0% interest in Integrated Processing Solutions (Proprietary) Limited.		
Pinnacle Point Group Limited	**n/a**	931
On 9 December 2008, the Company acquired a 27,5% interest in Pinnacle Point Group Limited.		
The following disposals were concluded during the current year:		
Ambit Properties Limited	**(647)**	n/a
On 30 June 2009, ApexHi Limited acquired the Company's 34,5% interest in Ambit Properties Limited in exchange for shares in ApexHi Limited.		
The following disposals were concluded during the previous year:		
Maravedi Group (Proprietary) Limited	**n/a**	(14)
During 2008, the Company sold its share in Maravedi Group (Proprietary) Limited.		
Net movement in the carrying value of investments in associates and joint ventures (refer to note 13.1)	**(196)**	1 077
13.5 Details of the purchase consideration on net assets acquired on the aforementioned acquisitions are as follows:		
Cash paid	**61**	1 060
Property and equipment	**—**	11
Transfer from investments	**390**	20
	451	1 091

	Company 2009 Rm	Company 2008 Rm
13. Investments in associates and joint ventures *(continued)*		
13.6 Details of the consideration received on net assets disposed of on the aforementioned disposals are as follows:		
Consideration in shares	**(660)**	—
Profit on disposal	**13**	—
Transfer to parent company	**—**	(14)
	(647)	(14)
Refer to note 41 for the full disclosure of the Company's investments in associates and joint ventures.		
14. Subsidiaries		
Loans to subsidiary companies	**2 358**	2 318
Shares at cost	**1 212**	615
	3 570	2 933

15. Intangible assets

	Company 2009 Cost Rm	2009 Accumulated amortisation and/or impairments Rm	2009 Carrying value Rm	2008 Cost Rm	2008 Accumulated amortisation and/or impairments Rm	2008 Carrying value Rm
Computer software development costs	**759**	**(392)**	**367**	460	(330)	130

Reconciliation of intangible assets

2009	Opening balance Rm	Additions Rm	Amorti-sation Rm	Impairment charge Rm	Closing balance Rm
Computer software development costs	**130**	**299**	**(62)**	**—**	**367**

2008	Opening balance Rm	Additions Rm	Amorti-sation Rm	Impairment charge Rm	Closing balance Rm
Computer software development costs	101	133	(103)	(1)	130

Refer to note 1.11 of the Bank's financial statements for useful lives, amortisation methods and amortisation rates. The majority of computer software development costs were internally generated. The remainder were acquired.

Included in the above assets is R31 million relating to assets under construction.

16. Property and equipment

	Company					
	2009			2008		
	Cost Rm	**Accumulated depreciation and/or impairments Rm**	**Carrying value Rm**	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm
Computer equipment	**4 715**	**(3 157)**	**1 558**	3 944	(2 581)	1 363
Freehold property	**2 313**	**(180)**	**2 133**	1 653	(172)	1 481
Furniture and other equipment	**4 256**	**(2 040)**	**2 216**	4 175	(1 731)	2 444
Leasehold property	**500**	**(411)**	**89**	490	(376)	114
Motor vehicles	**4**	**(4)**	**—**	3	(3)	—
	11 788	**(5 792)**	**5 996**	10 265	(4 863)	5 402

Reconciliation of property and equipment

	2009							
	Opening balance Rm	**Additions Rm**	**Additions through business combinations[1] Rm**	**Disposals Rm**	**Foreign exchange movements Rm**	**Depreciation Rm**	**Impairment charge Rm**	**Closing balance Rm**
Computer equipment	**1 363**	**851**	**—**	**(28)**	**—**	**(628)**	**—**	**1 558**
Freehold property	**1 481**	**690**	**8**	**(27)**	**(1)**	**(18)**	**—**	**2 133**
Furniture and other equipment	**2 444**	**447**	**4**	**(292)**	**—**	**(378)**	**(9)**	**2 216**
Leasehold property	**114**	**—**	**1**	**—**	**—**	**(26)**	**—**	**89**
	5 402	**1 988**	**13**	**(347)**	**(1)**	**(1 050)**	**(9)**	**5 996**

	2008							
	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Foreign exchange movements Rm	Depreciation Rm	Impairment charge Rm	Closing balance Rm
Computer equipment	1 393	443	—	(13)	—	(460)	—	1 363
Freehold property	1 461	132	—	(83)	—	(29)	—	1 481
Furniture and other equipment	1 239	1 542	—	(64)	—	(273)	—	2 444
Leasehold property	140	—	—	—	—	(26)	—	114
	4 233	2 117	—	(160)	—	(788)	—	5 402

The fair value of freehold property is determined by both external and internal valuers. The most recent valuation was performed during 2009 and indicated that the fair value of the freehold property amounts to R2 697 million. The previous valuation was performed during December 2007 and indicated that the fair value of the freehold property amounted to R1 631 million.

Leasehold property and computer equipment with a carrying value of R228 million (2008: R160 million) are encumbered under finance leases (refer to note 20).

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.

Included in the above additions is R609 million that relates to expenditure capitalised to the cost of the asset during the course of its construction. This asset is disclosed under freehold property and the total carrying amount is R1 162 million.

Note

[1]*The values reflected are at net asset value at the date of acquisition and relate to the acquisition of the assets of Meeg Bank Limited as a going concern, a subsidiary of Absa Group Limited. The values reflected in the cost and accumulated depreciation table above are at gross amounts.*

	Company 2009 Rm	2008 Rm	2007 Rm
17. Deferred tax			
17.1 Reconciliation of net deferred tax liability			
Balance at the beginning of the year	**2 689**	2 204	2 092
Deferred tax asset (raised)/released on STC credits (refer to note 17.3)	**(28)**	(31)	12
Deferred tax on amounts charged directly to other comprehensive income	**(309)**	1 037	(159)
Available-for-sale investments	**(80)**	(66)	33
Fair value measurement	**(51)**	(90)	15
Transfer to the profit and loss component of the statement of comprehensive income	**(29)**	24	18
Cash flow hedges	**(258)**	1 032	(221)
Fair value measurement	**(475)**	574	(530)
Transfer to the profit and loss component of the statement of comprehensive income	**217**	458	309
Retirement benefit asset	**29**	71	29
Charge to the profit and loss component of the statement of comprehensive income (refer to note 37)	**(701)**	(516)	274
Tax effect of translation and other differences	**40**	(5)	(15)
Balance at the end of the year	**1 691**	2 689	2 204
17.2 Deferred tax liabilities/(assets)			
Tax effects of temporary differences between tax and book value for:			
Accruals and provisions	**2 389**	3 416	2 220
Retirement benefit asset	**172**	121	29
Gains on investments	**(463)**	(257)	(161)
Impairment of advances	**(727)**	(962)	(415)
Lease and rental debtor allowances	**463**	512	490
Property allowances	**(74)**	(100)	51
Deferred tax liabilities	**1 760**	2 730	2 214
Deferred tax asset			
Deferred tax asset – STC (refer to note 17.3)	**(69)**	(41)	(10)
Net deferred tax liabilities	**1 691**	2 689	2 204
Comparatives have been restated, refer to note 1.1.			
17.3 Secondary taxation on companies (STC)			
Accumulated STC credits	**688**	410	92
Deferred tax asset raised (refer to note 17.2)	**69**	41	10
Movement in deferred tax asset for the year (refer to note 17.1)	**28**	31	(12)

If the total reserves of R30 963 million (2008: R29 716 million) as at the statement of financial position date were to be declared as dividends, the secondary tax impact at a rate of 10,0% (2008: 10,0%) would be R3 096 million (2008: R2 672 million).

	Company 2009 Rm	Company 2008 Rm

18. Deposits from banks

	2009 Rm	2008 Rm
Call deposits	**4 065**	7 299
Fixed deposits	**3 933**	2 228
Foreign currency deposits	**1 882**	6 119
Other deposits	**9 244**	16 285
Repurchase agreements (refer to note 42 of the Bank's financial statements)	**24 211**	27 774
	43 335	59 705
Portfolio analysis		
Financial liabilities at amortised cost	**35 321**	50 703
Financial liabilities designated at fair value through profit or loss	**8 014**	9 002
	43 335	59 705

Deposits with variable rates are R14 973 million (2008: R29 703 million) and fixed rates are R28 362 million (2008: R30 002 million).

Included above are deposits with the Company's ultimate parent company of R8 246 million (2008: R14 616 million). Refer to note 41 for the full disclosure of related party transactions.

19. Trading and hedging portfolio liabilities

	2009 Rm	2008 Rm
Derivative liabilities (refer to note 48.3)	**36 957**	67 838
Commodity derivatives	**2 899**	4 619
Credit derivatives	**245**	322
Equity derivatives	**6 130**	4 116
Foreign exchange derivatives	**9 529**	31 492
Interest rate derivatives	**18 154**	27 289
Short positions	**—**	281
Total trading portfolio liabilities	**36 957**	68 119
Hedging portfolio liabilities (refer to note 48.3)	**565**	1 080
	37 522	69 199
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**132**	285
Derivatives designated as fair value hedging instruments	**433**	795
Financial liabilities held for trading	**36 957**	68 119
Derivative liabilities	**36 957**	67 838
Short positions	**—**	281
	37 522	69 199

Included above are derivative positions with the Company's ultimate parent company of R8 450 million (2008: R15 373 million). Refer to note 41 for the full disclosure of related party transactions.

Included in the financial liabilities held for trading are financial instruments related to the Company's economic hedging programme with a notional value of R1 851 million (2008: R4 286 million) and fair value of R169 million (2008: R824 million).

Notes to the Company financial statements

For the year ended 31 December

	Company 2009 Rm	2008 Rm	2007 Rm
20. Other liabilities			
Accruals	**493**	516	508
Audit fee accrual	**38**	25	20
Creditors	**4 515**	3 934	3 718
Deferred income	**365**	378	587
Liabilities under finance leases (refer to note 20.1)	**800**	828	884
Settlement balances	**1 899**	906	1 217
Share-based payment liability (refer to note 50 of the Bank's financial statements)	**140**	304	195
	8 250	6 891	7 129
Portfolio analysis			
Financial liabilities at amortised cost	**6 940**	5 668	5 781
Creditors	**4 241**	3 934	3 680
Liabilities under finance leases	**800**	828	884
Settlement balances	**1 899**	906	1 217
Financial liabilities designated at fair value through profit or loss	**274**	—	38
Non-financial liabilities	**1 036**	1 223	1 310
	8 250	6 891	7 129

Comparatives have been reclassified, refer to note 1.1.

Included above are settlement accounts with the Company's ultimate parent company of R127 million (2008: R284 million). Refer to note 41 for the full disclosure of related party transactions.

20.1 Liabilities under finance leases

Company

	2009 Minimum lease payments due Rm	2009 Interest Rm	2009 Principal Rm
Less than one year	**298**	**(117)**	**181**
Between one and two years	**260**	**(90)**	**170**
Between two and three years	**275**	**(58)**	**217**
Between three and four years	**208**	**(22)**	**186**
Between four and five years	**47**	**(1)**	**46**
	1 088	**(288)**	**800**

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

Under the terms of the leases, no contingent rentals are payable. Refer to note 16 for details of property and equipment, subject to finance leases.

20. Other liabilities *(continued)*

20.1 Liabilities under finance leases *(continued)*

20.1.1 Terms and conditions of finance lease

Building	Address	Details
Absa Towers	180 Main Street, Johannesburg 170 Main Street, Johannesburg 10 Troy Street, Johannesburg	Original term of 18 years with negotiable escalation clauses and a renewal date of 31 March 2014.
Bankorp	270 Republic Road, Johannesburg 194 Main Reef Road, Johannesburg 200 Gale Street, Durban 1 Wallace Street, Cape Town 10 Oswald Pirow Street, Cape Town	Original term of 20 years with negotiable escalation clauses and a renewal date of 31 March 2010.
Centro City	11 Trump Street, Johannesburg	Original term of 20 years with negotiable escalation clauses and a renewal date of 31 October 2013.
Roggebaai	31 Lower Long Street, Cape Town	Original term of 20 years with negotiable escalation clauses and a renewal date of 28 February 2014.
Volkskas Centre	230 Van der Walt Street, Pretoria	Original term of 20 years with negotiable escalation clauses and a renewal date of 31 March 2013.

20.1.2 Minimum future income receivable from subleasing

	Company	
	2009 Rm	2008 Rm
Receivable within one year	**40**	25
Receivable within two to five years	**2**	25
	42	50

21. Provisions

	Company			
	2009			
	Redundancy and restructuring provision Rm	**Staff bonus and incentive provision Rm**	**Sundry provisions Rm**	**Total Rm**
Balance at the beginning of the year	**3**	**1 270**	**615**	**1 888**
Additions	**—**	**516**	**386**	**902**
Amounts used	**(3)**	**(929)**	**(265)**	**(1 197)**
Release of provision subject to share-based payment arrangement	**—**	**(112)**	**—**	**(112)**
Balance at the end of the year	**—**	**745**	**736**	**1 481**

	2008			
	Redundancy and restructuring provision Rm	Staff bonus and incentive provision Rm	Sundry provisions Rm	Total Rm
Balance at the beginning of the year	—	1 501	692	2 193
Additions	3	1 416	265	1 684
Amounts used	—	(1 647)	(342)	(1 989)
Balance at the end of the year	3	1 270	615	1 888

21. Provisions *(continued)*

	Company 2007 Redun-dancy and restruc-turing provision Rm	Staff bonus and incentive provision Rm	Sundry provisions Rm	Total Rm
Balance at the beginning of the year	—	1 215	491	1 706
Additions	—	1 414	320	1 734
Amounts used	—	(1 128)	(119)	(1 247)
Balance at the end of the year	—	1 501	692	2 193

Comparatives have been reclassified, refer to note 1.1.

Provisions expected to be recovered or settled within no more than 12 months after the statement of financial position date were R841 million (2008: R1 410 million). Sundry provisions are made with respect to fraud cases and litigation claims.

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

22. Deposits due to customers

	Company 2009 Rm	Company 2008 Rm
Call deposits	**56 373**	62 055
Cheque account deposits	**90 087**	96 510
Credit card deposits	**1 868**	2 051
Fixed deposits	**105 927**	123 752
Foreign currency deposits	**7 211**	10 035
Liabilities to clients under acceptances	**3**	121
Notice deposits	**10 293**	7 148
Other deposits[1]	**1 592**	6 760
Repurchase agreements with non-banks (refer to note 42 of the Bank's financial statements)	**1 712**	2 217
Savings and transmission deposits	**62 680**	56 982
	337 746	367 631
Portfolio analysis		
Financial liabilities at amortised cost	**327 243**	356 212
Call deposits	**56 373**	62 055
Cheque account deposits	**90 087**	96 510
Credit card deposits	**1 868**	2 051
Fixed deposits	**97 136**	114 550
Foreign currency deposits	**7 211**	10 035
Liabilities to clients under acceptances	**3**	121
Notice deposits	**10 293**	7 148
Other deposits	**1 592**	6 760
Savings and transmission deposits	**62 680**	56 982
Financial liabilities designated at fair value through profit or loss	**10 503**	11 419
Fixed deposits	**8 791**	9 202
Repurchase agreements with non-banks	**1 712**	2 217
	337 746	367 631

Note

[1]*Included in other deposits are deposits due on structured deals and unclaimed deposits.*

	Company 2009 Rm	Company 2008 Rm
23. Debt securities in issue		
Credit linked notes	**8 024**	6 962
Floating rate notes	**84 925**	63 906
Negotiable certificates of deposit	**59 690**	69 364
Other debt securities in issue	**15**	—
Promissory notes	**4 742**	3 823
Replica bonds	**1 534**	5 740
Senior notes	**5 922**	2 607
	164 852	152 402
Portfolio analysis		
Amortised cost items held in a fair value hedging relationship	**6 046**	8 322
Floating rate notes	**5 959**	8 074
Negotiable certificates of deposit	**87**	248
Financial liabilities at amortised cost	**154 158**	138 011
Credit linked notes	**7 832**	6 633
Floating rate notes	**78 966**	55 832
Negotiable certificates of deposit	**59 596**	69 116
Promissory notes	**1 842**	3 823
Senior notes	**5 922**	2 607
Financial liabilities designated at fair value through profit or loss	**4 648**	6 069
Credit linked notes	**192**	329
Negotiable certificates of deposit	**7**	—
Other debt securities in issue	**15**	—
Promissory notes	**2 900**	—
Replica bonds	**1 534**	5 740
	164 852	152 402
24. Loans from Absa Group companies		
Fellow subsidiaries	**—**	646
Portfolio analysis		
Financial liabilities at amortised cost	**—**	646

25. Borrowed funds

Subordinated callable notes

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

Interest rate	*Final maturity date*	*Note*	2009 Rm	2008 Rm
14,25%	22 March 2014	i	**—**	3 100
10,75%	26 March 2015	ii	**1 100**	1 100
8,75%	1 September 2017	iii	**1 500**	1 500
8,10%	27 March 2020	iv	**2 000**	2 000
8,80%	7 March 2019	v	**1 725**	1 725
Three-month JIBAR + 0,75%	26 March 2015	vi	**400**	400
CPI-linked rates, fixed at the following coupon rates:				
6,25%	31 March 2018	vii	**1 886**	1 886
6,00%	20 September 2019	viii	**3 000**	—
5,50%	7 December 2028	ix	**1 500**	—
Accrued interest			**575**	378
Fair value adjustment			**(156)**	54
			13 530	12 143
Portfolio analysis				
Subordinated callable notes designated at fair value through profit or loss			**718**	671
Subordinated callable notes at amortised cost			**7 221**	4 917
Amortised cost subordinated callable notes held in a fair value hedging relationship			**5 591**	6 555
			13 530	12 143

25. Borrowed funds *(continued)*

i The 14,25% fixed rate notes were redeemed in full on 22 March 2009. Interest was paid semi-annually in arrear on 22 March and 22 September of each year.

ii 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.

iii 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.

iv 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.

v 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.

vi 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%.

vii The 6,25% CPI-linked notes may be redeemed at the option of Absa Bank Limited on 31 March 2013. Interest is paid semi-annually in arrear on 31 March and 30 September 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 CPI-linked rate payable will convert to JIBAR plus a spread which will be payable quarterly in arrear on 31 March, 30 June, 30 September and 31 December.

viii The 6,00% CPI-linked notes, may be redeemed in full at the option of Absa Bank Limited on 20 September 2014. Interest is paid semi-annually in arrear on 20 March and 20 September of each year, provided that the last date of payment shall be 20 September 2014. If Absa Bank Limited does not exercise the redemption option, a coupon step-up of 150 basis points shall apply.

ix The 5,50% CPI-linked notes may be redeemed in full option of Absa Bank Limited on 7 December 2023. Interest is paid semi-annually in arrear on 7 June and 7 December each year, provided that the last date for payment shall be 7 December 2023. If Absa Bank Limited does not exercise the redemption option, a coupon step-up of 150 basis points shall apply.

All the above notes are listed on the Bond Exchange of South Africa.

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

	Company 2009 Rm	Company 2008 Rm
26. Share capital and premium		
26.1 Ordinary share capital		
Authorised		
320 000 000 (2008: 320 000 000) ordinary shares of R1,00 each	**320**	320
250 000 000 (2008: 250 000 000) 'A' ordinary shares of R0,01 each	**3**	3
	323	323
Issued		
302 609 359 (2008: 302 609 359) ordinary shares of R1,00 each	**303**	303
65 066 161 (2008: 56 444 764) 'A' ordinary shares of R0,01 each	**0**	0
	303	303
Total issued capital		
Share capital	**303**	303
Share premium	**10 465**	9 415
	10 768	9 718

Unissued shares

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

Shares issued during the current year

On 1 September 2009, 8 621 397 'A' ordinary shares were issued at R121,79 per share, being R0,01 par value and R121,78 share premium to Absa Group Limited.

Shares issued during the previous year

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

All shares issued by the Company were paid in full.

	Company 2009 Rm	Company 2008 Rm
26.2 Preference share capital – listed		
Authorised		
30 000 000 (2008: 30 000 000) non-cumulative non-redeemable preference shares of R0,01 each	**1**	1
Issued		
4 944 839 (2008: 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 63,0% 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 by the Company is proposed which directly affects the rights attached to the non-redeemable preference shares or the interest of the holders thereof.

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 other comprehensive income is released to the profit and loss component of the statement of comprehensive income.

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.

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. No reserve is currently recognised as there is no shortfall in the Company.

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 profit and loss component of the statement of comprehensive income, 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 profit and loss component of the statement of comprehensive income.

	Company 2009 Rm	Company 2008 Rm
## 28. Interest and similar income		
Interest and similar income is earned from:		
Fair value adjustments on financial instruments used for interest rate management	**781**	(1 924)
Investments	**—**	43
Loans and advances to banks	**2 309**	4 020
Other loans and advances to banks	**1 235**	2 389
Reverse repurchase agreements	**1 074**	1 631
Loans and advances to customers	**55 217**	64 824
Cheque accounts	**3 021**	3 575
Corporate overdrafts and specialised finance loans	**1 102**	1 102
Credit cards	**2 395**	2 772
Foreign currency loans	**542**	745
Instalment credit agreements	**7 041**	8 909
Interest on impaired financial assets (refer to note 10)	**936**	521
Loans granted under resale agreements	**258**	662
Loans to associates and joint ventures	**645**	756
Microloans	**890**	1 027
Mortgages	**30 819**	37 588
Other advances[1]	**468**	830
Overnight finance	**1 108**	1 438
Personal and term loans	**2 789**	3 044
Preference shares	**314**	436
Wholesale overdrafts	**2 889**	1 419
Other interest	**948**	905
Statutory liquid asset portfolio	**1 781**	4 065
	61 036	71 933
Portfolio analysis		
Fair value adjustments on available-for-sale items held in a fair value hedging relationship		
Statutory liquid asset portfolio (refer to note 48.2)	**(768)**	1 156
Fair value adjustments on derivatives	**781**	(1 924)
Cash flow hedges (refer to note 48.2)	**244**	(1 301)
Fair value hedges (refer to note 48.2)	**690**	(934)
Economic hedges	**(153)**	311
Interest on financial assets held at amortised cost and available-for-sale	**60 354**	72 071
Interest on financial assets designated at fair value through profit or loss	**669**	630
Debt instruments	**—**	43
Loans and advances	**423**	299
Statutory liquid asset portfolio	**246**	288
	61 036	71 933

Comparatives have been reclassified, refer to note 1.1.

Included above is interest received from the Company's ultimate parent company of R215 million (2008: R1 018 million). Refer to note 41 for the full disclosure of related party transactions.

Note

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

	Company 2009 Rm	Company 2008 Rm
29. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	**1 008**	1 784
Debt securities in issue	**15 388**	17 927
Deposits due to customers	**24 589**	31 398
Call deposits	**4 649**	7 095
Cheque account deposits	**3 993**	5 626
Credit card deposits	**30**	75
Fixed deposits	**10 630**	13 010
Foreign currency deposits	**534**	965
Notice deposits	**582**	585
Other deposits	**1 095**	933
Savings and transmission deposits	**3 076**	3 109
Deposits from banks	**702**	1 097
Call deposits	**535**	658
Fixed deposits	**132**	161
Other	**35**	278
Fair value adjustments on hedging instruments	**(222)**	(467)
Interest incurred on finance leases	**130**	148
Other interest	**67**	15
	41 662	51 902
Portfolio analysis		
Fair value adjustments on amortised cost items held in a fair value hedging relationship (refer to note 48.2)	**(410)**	818
Borrowed funds	**(223)**	368
Debt securities in issue	**(187)**	450
Fair value adjustments on hedging instruments	**(222)**	(467)
Cash flow hedges (refer to note 48.2)	**(512)**	362
Fair value hedges (refer to note 48.2)	**290**	(829)
Interest on financial liabilities designated at fair value through profit or loss	**1 589**	1 666
Debt securities in issue	**786**	706
Deposits due to customers	**803**	960
Interest on financial liabilities held at amortised cost	**40 705**	49 885
	41 662	51 902

Included above is interest paid to the Company's ultimate parent company of R54 million (2008: R259 million). Refer to note 41 for the full disclosure of related party transactions.

	Company 2009 Rm	Company 2008 Rm

30. Net fee and commission income

	2009 Rm	2008 Rm
Fee and commission income		
Asset management and other related fees	**100**	72
Consulting and administration fees	**123**	138
Credit-related fees and commissions	**12 064**	11 151
Credit cards[1]	**1 710**	1 570
Cheque accounts	**3 168**	2 990
Electronic banking	**3 490**	3 013
Other	**1 408**	1 473
Savings accounts	**2 288**	2 105
Insurance commission received	**323**	385
Other fees and commissions	**88**	97
Project finance fees	**268**	477
Trust and other fiduciary services	**26**	24
Portfolio and other management fees	**10**	16
Trust and estate income	**16**	8
	12 992	12 344
Fee and commission expense	**(738)**	(635)
	12 254	11 709

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

Note

[1]*Includes merchant, acquiring and issuing fees.*

30.1 Included above are net fees and commissions linked to financial instruments not at fair value

	2009 Rm	2008 Rm
Fee and commission income		
Credit cards	**811**	725
Cheque accounts	**3 168**	2 990
Electronic banking	**3 490**	3 013
Other	**1 031**	649
Savings accounts	**2 288**	2 105
	10 788	9 482
Fee and commission expense	**(193)**	(168)
	10 595	9 314

Notes to the Company financial statements

For the year ended 31 December

	Company 2009 Rm	Company 2008 Rm
31. Gains and losses from banking and trading activities		
Associates and joint ventures	**60**	—
Dividends received	**45**	—
Profit realised on disposal	**15**	—
Available-for-sale unwind from reserve	**115**	(85)
Equity instruments	**219**	—
Statutory liquid asset portfolio	**(104)**	(85)
Financial instruments designated at fair value through profit or loss	**98**	(1 045)
Debt instruments	**(14)**	19
Debt securities in issue	**(125)**	(765)
Deposits from banks and due to customers	**(434)**	(3 400)
Equity instruments	**49**	1 255
Loans and advances to banks and customers	**610**	1 852
Statutory liquid asset portfolio	**12**	(6)
Financial instruments held for trading		
Derivatives and trading instruments	**2 373**	4 159
Ineffective hedges	**(19)**	89
Cash flow hedges (refer to note 48.2)	**(3)**	(18)
Fair value hedges (refer to note 48.2)	**(16)**	107
	2 627	3 118

Comparatives have been reclassified, refer to note 1.1

	Company 2009 Rm	Company 2008 Rm
32. Gains and losses from investment activities		
Financial instruments designated at fair value through profit or loss		
Equity instruments	**46**	8
Subsidiaries	**345**	762
Dividends received	**345**	331
Profit realised on disposal	**—**	431
	391	770
33. Other operating income		
Exchange differences	**13**	125
Profit on disposal of intangible assets	**—**	740
Profit on disposal of property and equipment	**57**	48
Profit on sale of repossessed properties	**8**	8
Gross sales	**107**	135
Cost of sales	**(99)**	(127)
Rental income	**97**	109
Sundry income[1]	**218**	44
	393	1 074

Included above is income received from the Company's ultimate parent company of R37 million (2008: R211 million). Refer to note 41 of the Bank's financial statements for the full disclosure of related party transactions.

Note

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

	Company 2009 Rm	Company 2008 Rm
34. Operating expenses		
Amortisation of intangible assets (refer to note 15)	**62**	103
Auditors' remuneration	**111**	85
Audit fees	**77**	53
Audit fees – under provision from prior periods	**8**	6
Other fees	**26**	26
Cash transportation	**370**	320
Depreciation (refer to note 16)	**1 050**	788
Equipment costs	**199**	206
Rentals	**121**	135
Maintenance	**78**	71
Information technology	**1 589**	1 369
Marketing costs	**796**	895
Operating lease expenses on property	**814**	984
Other operating costs[1]	**1 515**	1 458
Printing and stationery	**236**	224
Professional fees	**695**	817
Research and development cost	**146**	114
Staff costs	**9 219**	10 226
Bonuses	**517**	1 438
Current service costs on post-retirement benefits	**542**	530
Other staff costs[2]	**286**	484
Salaries	**7 502**	7 468
Share-based payments (refer to note 50 of the Bank's financial statements)	**211**	120
Training costs	**161**	186
Telephone and postage	**674**	742
	17 476	18 331
Average number of employees employed by the Company	**31 851**	32 959
Number of employees employed by the Company at year-end	**30 627**	33 074

Comparatives have been restated, refer to note 1.1.

Notes

[1]*Other operating costs include accommodation, travel and entertainment costs.*

[2]*Other staff costs include recruitment costs, membership fees to professional bodies, staff parking, redundancy fees, study assistance, staff relocation and refreshment costs.*

	Company 2009 Rm	Company 2008 Rm
35. Other impairments		
Financial instruments		
Available-for-sale instruments (refer to note 12.1)	**36**	1
Other	**1 363**	(12)
Computer software development costs (refer to note 15)	**—**	1
Equipment (refer to note 16)	**9**	—
Investments in associates and joint ventures (refer to note 13.1)	**1 328**	—
Repossessed properties	**26**	(13)
	1 399	(11)

During the year under review, indications existed that the carrying amount of the investments in associates, that arose as a result of client defaults on single stock futures within Absa Capital, would not be recoverable. The recoverable amount is the fair value less costs to sell and was based on the Company's best estimate of the price the Company would achieve in a sale transaction of these investments. These investments have consequently been impaired.

35. 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 'Absa Capital' segment.
- Impairments on equipment are reported in the 'Business Bank' segment.
- Impairments on investments in associates and joint ventures are reported in the 'Absa Capital' segment.
- The impairment of repossessed properties is reported in the 'Retail banking' segment.

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

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

	Company 2009 Rm	Company 2008 Rm
36. Indirect taxation		
Payments to third parties	—	46
Training levy	**75**	74
Value added tax net of input credits	**687**	508
	762	628
37. Taxation expense		
Current		
Foreign taxation	**798**	402
Secondary taxation on companies (STC)	**62**	119
South African current taxation	**1 140**	2 996
South African current taxation – prior year	**105**	(11)
	2 105	3 506
Deferred		
Deferred taxation (refer to note 17.1)	**(701)**	(516)
Accelerated tax depreciation	**43**	(149)
Retirement benefit asset	**21**	22
Allowances for loan losses	**(234)**	(547)
Other provisions	**129**	14
Other temporary differences	**(660)**	144
	1 404	2 990
Reconciliation between accounting profit and the tax expense		
Operating profit before income tax	**7 040**	12 149
Tax calculated at a tax rate of 28,0%	**1 971**	3 402
Effect of different tax rates in other countries	**(308)**	(33)
Effect on opening deferred taxes resulting from the reduction in the income tax rate	—	(27)
Expenses not deductible for tax purposes	**56**	15
Income not subject to tax	**(389)**	(506)
Other	**12**	20
Secondary taxation on companies	**62**	119
	1 404	2 990

Comparatives have been restated, refer to note 1.1.

The effective STC rate is lower than the statutory rate of 10,0% due to STC being provided for dividends declared net of dividends received and unutilised STC credits from prior years.

Comparatives have been restated, refer to note 1.1.

	Company 2009 Rm	Company 2008 Rm
38. Earnings per share		
Basic earnings per share		
Basic earnings per share is calculated by dividing the profit attributable to the ordinary equity holder of the Company, obtained from the profit and loss component of the statement of comprehensive income, by the weighted average number of ordinary shares outstanding during the year.		
Profit attributable to the ordinary equity holder of the Company	**5 215**	8 702
Weighted average number of ordinary shares in issue (millions)	**362,1**	354,6
Issued shares at the beginning of the year (millions)	**359,1**	337,3
Effect of shares issued during the year (weighted millions)	**3,0**	17,3
Basic earnings per share (cents)	**1 440,2**	2 454,0
Diluted earnings per share (cents)	**1 440,2**	2 454,0

Comparatives have been restated, refer to note 1.1.

39. Headline earnings

	Company 2009 Gross Rm	Company 2009 Net[1] Rm	Company 2008 Gross Rm	Company 2008 Net[1] Rm
Headline earnings is determined as follows:				
Net profit attributable to the ordinary equity holder of the Company		**5 215**		8 702
Adjustments for:				
IFRS 3 – Business combinations (goodwill) (refer to note 51.1)	**(150)**	**(150)**	—	—
IAS 16 – Net profit on disposal of property and equipment (refer to note 33)	**(57)**	**(51)**	(48)	(35)
IAS 21 – Recycled foreign currency translation reserve, disposal of investments in foreign operations	**(15)**	**(15)**	—	—
IAS 27 – Net profit on disposal of subsidiaries (refer to note 32)	**—**	**—**	(431)	(431)
IAS 28 and 31 – Net profit on disposal of associates and joint ventures (refer to note 31)	**(15)**	**(13)**	—	—
IAS 28 and 31 – Impairment of investments in associates and joint ventures (refer to note 35)	**1 328**	**956**	—	—
IAS 36 – Impairment of equipment (refer to note 35)	**9**	**6**	—	—
IAS 38 – Net profit on disposal and impairment of intangible assets (refer to notes 33 and 35)	**—**	**—**	(739)	(636)
IAS 39 – Release of available-for-sale reserves	**(105)**	**(115)**	85	61
IAS 39 – Net profit on disposal and impairment of available-for-sale-assets	**25**	**16**	42	32
Headline earnings		**5 849**		7 693
Diluted headline earnings		**5 849**		7 693
Headline earnings per share (cents)		**1 615,3**		2 169,5
Diluted headline earnings per share (cents)		**1 615,3**		2 169,5

Comparatives have been restated, refer to note 1.1.

Note

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

	Company 2009 Rm	Company 2008 Rm
40. Dividends per share		
Dividends paid to the ordinary equity holder during the year		
9 February 2009 final dividend number 45 of 429,6 cents per ordinary share (19 February 2008: 323,8 cents)	**1 300**	980
3 August 2009 interim dividend number 46 of 139,3 cents per ordinary share (7 August 2008: 322,2 cents)	**500**	975
1 September 2009 special dividend of R121,79 per 'A' ordinary share (17 March 2008: R183,75)	**1 050**	4 000
	2 850	5 955
Dividends paid to the ordinary equity holder relating to income for the year		
3 August 2009 interim dividend number 46 of 139,3 cents per ordinary share (7 August 2008: 322,2 cents)	**500**	975
1 September 2009 special dividend of R121,79 per 'A' ordinary share (17 March 2008: R183,75)	**1 050**	4 000
16 February 2010 final dividend number 47 of 244,8 cents per ordinary share (9 February 2009: 429,6 cents)	**900**	1 300
	2 450	6 275
The STC payable by the Company in respect of the dividend approved and declared subsequent to the statement of financial position date, amounts to R90 million. No provision has been made for this dividend and the related STC in the financial statements at the statement of financial position date.		
Dividends paid to preference equity holders during the year		
9 February 2009 final dividend number 6 of 4 734,5 cents per preference share (19 February 2008: 4 436,0 cents)	**234**	219
3 August 2009 interim dividend number 7 of 3 799,0 cents per preference share (7 August 2008: 4 797,5 cents)	**187**	238
	421	457
Dividends paid to preference equity holders relating to income for the year		
3 August 2009 interim dividend number 7 of 3 799,0 cents per preference share (7 August 2008: 4 797,5 cents)	**187**	238
16 February 2010 final dividend number 8 of 3 280,3 cents per preference share (9 February 2009: 4 734,5 cents)	**162**	234
	349	472

The STC payable by the Company in respect of the dividend approved and declared subsequent to the statement of financial position date amounts to R16 million (2008: R24 million). No provision has been made for this dividend and the related STC in the financial statements at the statement of financial position date.

41. Related parties

Refer to note 44 of the Bank's financial statements for the disclosure of related party transactions.

	Company 2009 Rm	Company 2008 Rm
42. Managed funds		
Other	**959**	2 237
Portfolio management	**2 917**	1 955
Unit trusts	**122**	133
	3 998	4 325
43. Financial guarantee contracts		
Financial guarantee contracts	**4 393**	4 590

Financial guarantee contracts represent contracts where the Company undertakes to make specified payments to a counterparty, should the counterparty suffer a loss as a result of a specified debtor failing to make payment when due in accordance with the terms of a debt instrument. This amount represents the maximum off-statement of financial position exposure.

44. Commitments

	Company 2009 Rm	Company 2008 Rm
Authorised capital expenditure		
Contracted but not provided for	**728**	455

The Company has capital commitments in respect of computer equipment and property development. Management is confident that future net revenues and funding will be sufficient to cover these commitments.

	Company 2009 Rm	Company 2008 Rm
Operating lease payments due		
No later than one year	**1 149**	1 094
Later than one year and no later than five years	**2 131**	2 221
Later than five years	**307**	473
	3 587	3 788

The operating lease commitments comprise a number of separate operating leases in relation to properties and equipment, none of which is individually significant to the Company. Leases are negotiated for an average term of three to five years and rentals are renegotiated annually.

45. Contingencies

	Company 2009 Rm	Company 2008 Rm
Guarantees	**11 844**	10 224
Irrevocable facilities	**54 352**	29 753
Letters of credit	**4 581**	6 069
Other contingencies	**5**	25
	70 782	46 071

Irrevocable facilities are commitments to extend credit where the Company does not have the right to terminate the facilities by written notice. Commitments generally have fixed expiry dates. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Guarantees include performance guarantee contracts and payment guarantee contracts.

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45. Contingencies *(continued)*

Legal proceedings

The Company has been party in proceedings against it during the year, and as at year-end the following cases need further disclosure:

- During 2001 a US$100 million facility was granted to Trans Sahara Trading (IOM) Limited (TST). The Government of Zambia (GRZ) breached an undertaking it gave to the Company and in addition interfered in the operations of TST leading to TST's inability to service the facility. The Company contends that this conduct gives rise to liability on the part of TST, which the GRZ denies. MNB attorneys have obtained a charging order *nisi* over the deadstock belonging to TST, entitling them to dispose of such stocks in settlement of a judgement obtained for outstanding legal fees. Given that, in addition to the obvious prejudice resulting from such a disposal, these proceedings will inevitably involve a consideration of the deadstock ownership issue, as well as the enforceability of the Company's floating charge. The Company was compelled to intervene and has successfully sought the joinder of both itself and the Attorney General of the GRZ. These proceedings have been enrolled for trial on various occasions, most recently being postponed to 18 to 20 January 2010 shortly prior to which the GRZ delivered a letter expressing interest in settlement negotiations. A delegation immediately travelled to Lusaka and, after intensive consultation, the parties appear to be agreed in principle at a figure of US$ 27,36 million. A written settlement agreement has been submitted to the GRZ for consideration and although a tentative signature date of 1 February was agreed, the GRZ has yet to revert. In the interim, the matter has been adjourned to 1 to 3 March 2010 at the instance of the Solicitor General.
- A Company employee has been accused of opening an incorrectly designated bank account within the Ovation Group of companies, which was subsequently used for fraudulent purposes. The Company has received 22 letters of demand from persons who deposited money (approximately R3,5 million) into the incorrectly opened account. All these monies appear to have been lost. During the year a portion of these claimants have instituted claims, in respect of which the Company has entered appearance to defend, and a summary judgement application is now pending. It is anticipated that the claim will be both legally and factually difficult. The curators of other entities within the Ovation Group are currently investigating its affairs from which further claims may conceivably flow. This matter is closely linked to the Fidentia group.
- Mr Bernert (acting in his personal and representative capacities) has made a claim against the Company for withdrawing a guarantee, which was issued by the Company in favour of Emirates Bank International for an amount of US$6 million. The guarantee however, was withdrawn by the Company as it was issued under irregular circumstances. Mr Bernert claims that he has suffered damages and that the Company is in breach of contract. The Company has defended the matter, raising inter alia, prescription, lack of authority to represent Absa, invalidity on an oral cession, contravention of the Exchange Control Act and PBI fraud. The total claim value at the date of launching the action against the Company was R188 million. It was agreed between the parties, that the quantum and merits of the action would be separately argued. On 15 October 2008, the court granted judgement in Mr Bernert's favour on the merits. The Company's application for leave to appeal was finalised on 2 November 2008. The application for leave to appeal was argued and granted in the South Gauteng High Court on 13 February 2009. The Company has finalised and filed appeal documents for argument in the Supreme Court of Appeal in Bloemfontein. The hearing of the appeal will take place on 18 February 2010.

	Company 2009 Rm	Company 2008 Rm
46. Cash and cash equivalents		
Cash, cash balances and balances with central banks	**4 460**	3 898
Loans and advances to banks	**860**	27
	5 320	3 925

47. Fair value of financial instruments

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not held at fair value on the Company's statement of financial position:

	Company 2009 Carrying value Rm	2009 Fair value Rm	2008 Carrying value Rm	2008 Fair value Rm
Financial assets				
Balances with the SARB	**10 983**	**10 983**	12 626	12 626
Coins and bank notes	**4 459**	**4 459**	3 898	3 898
Cash, cash balances and balances with central banks (refer to note 2)	**15 442**	**15 442**	16 524	16 524
Loans and advances to banks (refer to note 4)	**30 589**	**30 587**	24 878	24 884
Other assets (refer to note 6)	**5 639**	**5 639**	7 418	7 418
Retail banking	**312 438**	**312 964**	319 287	319 987
Cheque accounts	**3 945**	**3 945**	3 721	3 721
Credit cards	**12 672**	**12 672**	13 378	13 378
Instalment credit agreements	**35 787**	**36 087**	40 430	40 638
Loans to associates and joint ventures	**6 187**	**6 187**	5 441	5 441
Microloans	**2 044**	**2 202**	3 086	3 224
Mortgages	**241 522**	**241 590**	242 763	243 117
Other	**82**	**82**	943	943
Personal and term loans	**10 199**	**10 199**	9 525	9 525
Absa Capital	**45 455**	**45 613**	62 406	61 098
Absa Corporate and Business Bank	**112 597**	**112 863**	113 081	113 233
Corporate	**19 248**	**19 248**	17 486	17 486
Large and Medium	**74 409**	**74 556**	72 955	73 107
Other	**18 940**	**19 059**	22 640	22 640
Other	**347**	**347**	254	254
Loans and advances to customers – net of impairment (refer to note 9)	**470 837**	**471 787**	495 028	494 572
Loans to Absa Group companies (refer to note 11)	**13 585**	**13 585**	15 845	15 845
Total	**536 092**	**537 040**	559 693	559 243

47. Fair value of financial instruments *(continued)*

	Company			
	2009		2008	
	Carrying value Rm	**Fair value Rm**	Carrying value Rm	Fair value Rm
Financial liabilities				
Deposits from banks (refer to note 18)	**35 321**	**35 361**	50 703	50 708
Other liabilities (refer to note 20)	**6 940**	**6 940**	5 668	5 668
Call deposits	**56 373**	**56 374**	62 055	62 051
Cheque account deposits	**90 087**	**90 087**	96 510	96 510
Credit card deposits	**1 868**	**1 868**	2 051	2 051
Fixed deposits	**97 136**	**97 383**	114 550	115 051
Foreign currency deposits	**7 211**	**7 211**	10 035	10 035
Liabilities to clients under acceptances	**3**	**3**	121	121
Notice deposits	**10 293**	**10 296**	7 148	7 148
Other deposits	**1 592**	**1 592**	6 760	6 760
Saving and transmission deposits	**62 680**	**62 680**	56 982	56 982
Deposits due to customers (refer to note 22)	**327 243**	**327 494**	356 212	356 709
Debt securities in issue (refer to note 23)	**154 158**	**155 628**	138 011	138 339
Loans from Absa Group companies (refer to note 24)	**—**	**—**	646	646
Borrowed funds (refer to note 25)	**7 221**	**7 436**	4 917	4 905
Total	**530 883**	**532 859**	556 157	556 975

48. Derivatives

Derivative financial instruments are entered into in the normal course of business to manage various financial risks. Derivative financial instruments entered into in terms of asset and liability management strategies are defined as hedging transactions and such instruments are accounted for in terms of the Company's accounting policies.

At the statement of financial position date, the Company did not have any compound financial instruments with multiple embedded derivatives in issue.

48.1 Derivatives held for trading

The Company trades derivative instruments mainly on behalf of customers while the Company's own positions are insignificant. The Company transacts derivative contracts to address customer demands both as a market maker in the wholesale markets and in structuring tailored derivatives for customers.

48.2 Derivatives held for hedging

The Company enters into derivative transactions, which are designated and qualify as either fair value or cash flow hedges for recognised assets or liabilities or forecasted transactions.

Derivatives designated as fair value hedges

Fair value hedges are used by the Company to protect against changes in fair value of financial assets and liabilities owing to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, available-for-sale assets, debt securities and borrowed funds.

The Company's fair value hedges principally consist of interest rate swaps that are used to protect against changes in market interest rates.

The Company recognised the following gains and losses on hedging instruments and hedging items:

	Company	
	2009 Rm	2008 Rm
Gains/(losses) on hedged items (assets) (refer to note 28)	**(768)**	1 156
Gains/(losses) on hedging instruments (assets) (refer to note 28)	**690**	(934)
Gains/(losses) on hedged items (liabilities) (refer to note 29)	**410**	(818)
Gains/(losses) on hedging instruments (liabilities) (refer to note 29)	**(290)**	829

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 profit and loss component of the statement of comprehensive income in relation to ineffectiveness is:

	Company	
	2009 Rm	2008 Rm
Ineffectiveness (outside range) (refer to note 31)	**(16)**	107
Ineffectiveness (inside range)	**(197)**	12

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 and reinvestment or reborrowing of current balances.

The Company uses interest rate swaps to protect against changes in cash flows of certain variable rate debt issues. The Company applies hedge accounting for its non-trading interest rate risk in major currencies by analysing the expected cash flows on a group basis.

The Company is exposed to variability in future interest cash flows on non-trading portfolio assets and liabilities which bear interest at a variable rate. The Company designates interest rate swaps as hedging instruments in a cash flow hedging relationship to hedge the variability in cash flows owing to changes in interest rates.

48. Derivatives *(continued)*
48.2 Derivatives held for hedging *(continued)*

A schedule indicating the periods when the hedged cash flows are expected to occur and when they are expected to affect the profit and loss component of the statement of comprehensive income as at the statement of financial position date is as follows:

Company 2009	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]	**863**	**555**	**317**	**110**	**22**	**2**	**1 869**
Forecast payable cash flow[1]	**(31)**	**(9)**	**(7)**	**(10)**	**(10)**	**(56)**	**(123)**
Net cash outflow	**832**	**546**	**310**	**100**	**12**	**(54)**	**1 746**

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

Note

[1] *These balances are shown before taxation.*

The following net gain/(loss) on cash flow hedges was recycled from other comprehensive income to the profit and loss component of the statement of comprehensive income:

	Company 2009 Rm	2008 Rm
Interest and similar income (refer to note 28)	**244**	(1 301)
Interest expense and similar charges (refer to note 29)	**512**	(362)
Gains and losses from banking and trading activities (refer to note 31)	**(3)**	(18)
	753	(1 681)
Taxation	**(211)**	471
	542	(1 210)

The amount of movement in fair value that has been recognised in the profit and loss component of the statement of comprehensive income in relation to ineffectiveness is:

	Company 2009 Rm	2008 Rm
Ineffectiveness (outside range) (refer to note 31)	**(3)**	(18)
Ineffectiveness (inside range)	**(65)**	(88)

48. Derivatives *(continued)*

48.3 Detailed breakdown of derivatives

The Company uses the following derivative instruments for both hedging and non-hedging purposes:

- **Foreign exchange contracts** represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.
- **Foreign currency and interest rate futures** are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the exchange.
- **Forward rate agreements** are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.
- **Currency and interest rate swaps** are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (ie fixed rate for floating rate) or a combination of all these (ie cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Company's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Company assesses counterparties using the same techniques as for its lending activities.
- **Options** are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange traded or negotiated between the Company and a customer.

Company

	2009				2008	
	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	**303 205**	**(348)**	**7 978**	**(8 326)**	433 497	(1 469)
Currency swaps	**10 232**	**(645)**	**217**	**(862)**	97 606	1 561
OTC foreign exchange options	**17 042**	**206**	**527**	**(321)**	32 976	(96)
OTC foreign exchange options purchased	**8 975**	**525**	**527**	**(2)**	15 883	1 076
OTC foreign exchange options written	**8 067**	**(319)**	**—**	**(319)**	17 093	(1 172)
Other OTC foreign exchange derivatives	**27 278**	**(9)**	**11**	**(20)**	43 230	(9)
Exchange traded derivatives	**121 618**	**1**	**1**	**—**	—	—
Total foreign exchange derivatives	**479 375**	**(795)**	**8 734**	**(9 529)**	607 309	(13)
Interest rate derivatives						
Forward rate agreements (FRAs)	**1 217 162**	**116**	**1 053**	**(937)**	1 416 653	200
Currency interest rate swaps	**172 536**	**(596)**	**3 433**	**(4 029)**	20 569	(78)
Swaps	**38 014**	**49**	**132**	**(83)**	44 112	(128)
Interest rate swaps	**1 149 922**	**99**	**12 831**	**(12 732)**	1 127 631	(546)
OTC options on FRAs and swaps	**270 239**	**(40)**	**276**	**(316)**	185 412	89
OTC options on FRAs and swaps purchased	**108 261**	**276**	**276**	**—**	94 843	664
OTC options on FRAs and swaps written	**161 978**	**(316)**	**—**	**(316)**	90 569	(575)
OTC bond option contracts	**3 702**	**(1)**	**10**	**(11)**	7 106	(126)
OTC bond options purchased	**2 002**	**10**	**10**	**—**	4 065	225
Other bond options written	**1 700**	**(11)**	**—**	**(11)**	3 041	(351)
Other OTC interest rate derivatives	**643**	**31**	**76**	**(45)**	—	—
Exchange traded futures	**10 880**	**(1)**	**—**	**(1)**	—	—
Total interest rate derivatives	**2 863 098**	**(343)**	**17 811**	**(18 154)**	2 801 483	(589)
Balance carried forward	**3 342 473**	**(1 138)**	**26 545**	**(27 683)**	3 408 792	(602)

48. Derivatives *(continued)*
48.3 Detailed breakdown of derivatives *(continued)*

	Company					
	2009				2008	
	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	3 342 473	(1 138)	26 545	(27 683)	3 408 792	(602)
Equity derivatives						
OTC options purchased	13 785	1 436	1 436	—	47 873	2 018
OTC options written	18 409	(4 860)	—	(4 860)	40 715	(4 026)
Equity futures	230	(191)	—	(191)	1 059	193
Other OTC equity derivatives	10 782	(406)	614	(1 020)	2 278	21
OTC equity derivatives	43 206	(4 021)	2 050	(6 071)	91 925	(1 794)
Exchange traded derivatives	84 120	(1)	(1)	—	178 160	—
Exchange traded options purchased	23 444	—	—	—	60 957	—
Exchange traded options written	37 045	—	—	—	60 343	—
Exchange traded futures	23 631	(1)	(1)	—	56 860	—
Other exchange traded equity derivatives	148	(59)	—	(59)	—	—
Total equity derivatives	127 474	(4 081)	2 049	(6 130)	270 085	(1 794)
Commodity derivatives						
Agricultural forward	5	—	3	(3)	—	—
OTC agricultural options	109	9	9	—	18	(2)
OTC agricultural options purchased	3	9	9	—	—	—
OTC agricultural options written	106	—	—	—	18	(2)
OTC options on gold	9 640	(4)	2 310	(2 314)	11 144	173
OTC gold options purchased	4 860	2 310	2 310	—	5 572	2 903
OTC gold options written	4 780	(2 314)	—	(2 314)	5 572	(2 730)
Other OTC commodity derivatives	5 557	(14)	568	(582)	8 819	(68)
OTC commodity derivatives	15 311	(9)	2 890	(2 899)	19 981	103
Exchange traded agricultural derivatives	24 651	11	11	—	4 159	—
Exchange traded agricultural derivatives purchased	637	—	—	—	309	—
Exchange traded agricultural derivatives written	635	—	—	—	84	—
Exchange traded agricultural futures	10 213	—	—	—	3 766	—
Exchange traded gold options purchased	13 166	11	11	—	—	—
Total commodity derivatives	39 962	2	2 901	(2 899)	24 140	103
Credit derivatives						
Credit derivatives purchased (swaps)	1 694	45	115	(70)	6 717	(178)
Credit derivatives written (swaps)	8 514	(30)	110	(140)	—	—
Embedded derivatives	2 413	22	57	(35)	7 367	199
Total credit derivatives	12 621	37	282	(245)	14 084	21
Total trading (balance carried forward)	3 522 530	(5 180)	31 777	(36 957)	3 717 101	(2 272)

48. Derivatives *(continued)*
48.3 Detailed breakdown of derivatives *(continued)*

	Company					
	2009				2008	
	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	3 522 530	(5 180)	31 777	(36 957)	3 717 101	(2 272)
Hedging						
Cash flow hedges						
Interest rate swaps	105 975	1 852	1 946	(94)	130 354	2 280
Forward foreign exchange	117	(38)	—	(38)	376	(35)
Total cash flow hedges	106 092	1 814	1 946	(132)	130 730	2 245
Fair value hedges						
Interest rate swaps	2 359	58	491	(433)	24 943	(315)
Currency swaps	6 004	121	121	—	6 005	129
Total fair value hedges	8 363	179	612	(433)	30 948	(186)
Total hedges	114 455	1 993	2 558	(565)	161 678	2 059
Total derivative instruments	3 636 985	(3 187)	34 335	(37 522)	3 878 779	(213)

Derivative assets and liabilities subject to counterparty netting agreements amounted to R20 059 million (2008: R47 646 million). Additionally, the Company held R999 million (2008: R3 848 million) of collateral against the net derivative asset exposure.

Notional amount

The gross notional amount is the sum of the absolute value of all bought and sold contracts. The notional amount will not generally reflect the amount receivable or payable under a derivative contract. The notional amount should be viewed only as a means of assessing the Company's participation in derivative contracts and not the market risk position or the credit exposure arising on such contracts.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position, but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore do not indicate the Company's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates on hand, the extent to which instruments are favourable or unfavourable and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

Fair value

The amounts disclosed represent the fair value as at the statement of financial position date of all derivative financial instruments held. Positive amounts reflect positive fair values, while amounts indicated in brackets reflect negative fair values.

49. Fair value hierarchy disclosures

49.1 Valuation methodology

The table below shows the Company's financial assets and liabilities that are recognised and subsequently measured at fair value analysed by valuation technique. The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety. A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations based on unobservable inputs is set out underneath the table below.

	Company			
	2009			
	Valuations with reference to observable prices Level 1[1] Rm	Valuations based on observable inputs Level 2[1] Rm	Valuations based on un-observable inputs Level 3[2] Rm	Total Rm
Available-for-sale financial assets				
Statutory liquid asset portfolio (refer to note 3)	17 904	—	—	17 904
Investments (refer to note 12)	499	42	175	716
Financial assets designated at fair value through profit or loss				
Statutory liquid asset portfolio (refer to note 3)	3 636	—	—	3 636
Loans and advances to banks (refer to note 4)	—	2 403	—	2 403
Loans and advances to customers (refer to note 9)	—	3 958	4 504	8 462
Investments (refer to note 12)	3 702	2 996	5 090	11 788
Financial assets held for trading (refer to note 5)				
Hedging assets	—	2 558	—	2 558
Trading assets	11 872	3 097	—	14 969
Derivative assets	30	30 954	793	31 777
Total financial assets	**37 643**	**46 008**	**10 562**	**94 213**
Financial liabilities designated at fair value through profit or loss				
Deposits from banks (refer to note 18)	—	8 014	—	8 014
Other liabilities (refer to note 20)	—	—	274	274
Deposits due to customers (refer to note 22)	—	2 118	8 385	10 503
Debt securities in issue (refer to note 23)	—	4 402	246	4 648
Borrowed funds (refer to note 25)	718	—	—	718
Financial liabilities held for trading (refer to note 19)				
Hedging liabilities	—	565	—	565
Derivative liabilities	19	35 820	1 118	36 957
Total financial liabilities	**737**	**50 919**	**10 023**	**61 679**

Note

[1]The nature of the valuation techniques is summarised in note 49.2.

[2]The nature of the valuation techniques is summarised in note 49.3.

49.2 Valuations based on observable inputs

Valuations based on observable inputs include:

Level 1

Financial instruments valued with reference to unadjusted quoted prices for identical assets or liabilities 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.

An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

This category includes highly liquid government and other bonds, active listed equities, exchange-traded commodities and exchange-traded derivatives.

Level 2

Financial instruments valued using inputs other than quoted prices as described above for level 1 but which are observable for the asset or liability, either directly or indirectly, such as:

49. Fair value hierarchy disclosures

(continued)

49.2 Valuation based on observable inputs

(continued)

- quoted price for similar assets or liabilities in an active market;
- quoted price for identical or similar assets or liabilities in inactive markets;
- valuation model using observable inputs; and
- valuation model using inputs derived from/ corroborated by observable market data.

This category includes certain African government bills, private equity investments, loans and advances, investments in debt instruments, commodity derivatives, credit derivatives, equity derivatives, foreign exchange derivatives, interest rate derivatives, repurchase agreements, deposits and debt securities.

49.3 Valuations based on unobservable inputs

Level 3

Financial instruments valued using inputs that are not based on observable market data (unobservable data) such as an entity's own assumptions about assumptions of market participants in pricing the asset or liability.

This category includes certain private equity investments, loans and advances, investments in debt instruments, credit derivatives, equity derivatives, foreign exchange derivatives, interest rate derivatives, repurchase agreements, deposits and debt securities.

In determining the value of level 3 financial instruments the following are the principal inputs that can require judgement:

(i) Volatility

Volatility is a key input in the valuation of options across all asset classes. For some asset classes volatility is unobservable.

(ii) Basis risk

Basis risk is a key input in the valuation of cross currency swaps. For some currency pairs or maturities, basis risk is unobservable.

(iii) Credit spreads

Credit spreads are key inputs in the valuation of credit default swaps, credit linked notes and debt instruments or liabilities. For some issuers or tenors, credit spreads are unobservable.

(iv) Yield curves

Yield curves are key inputs in the valuation of certain debt instruments. For some debt instruments yield curves are unobservable.

(v) Future earnings and marketability discounts

Future earnings and marketability discounts are key inputs in the valuation of certain private equity investments. Forecast earnings and marketability discounts are unobservable for some investments.

(vi) Comparator multiples

Comparator multiples and point of difference applied to chosen multiples are key inputs in the valuation of certain private equity investments. Price earnings multiples and point of difference applied to chosen multiples are unobservable for some private equity investments.

(vii) Discount rates

Discount rates are key inputs in the valuation of certain private equity investments. Discount rates are unobservable for some private equity investments.

The following summary sets out the principal instruments whose valuation may involve judgemental inputs:

Debt securities and treasury and other eligible bills

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, valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs.

Equity investments

Equity investments 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 investments or by using valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs.

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, credit spreads, equity prices and commodity prices or indices on these assets. Fair values of derivatives are obtained from quoted market prices, dealer price quotations, discounted cash flow and option pricing models.

Loans and advances

Loans and advances are valued 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, debt securities in issue and borrowed funds

Deposits, debt securities in issue and borrowed funds are valued using discounted cash flow models, applying rates currently offered for issuances with similar characteristics. Where these instruments include embedded derivatives, the embedded derivative component is valued using the methodology for derivatives as detailed above.

49. Fair value hierarchy disclosures *(continued)*

49.4 Movements on financial assets and liabilities subsequently measured at fair value using valuations based on unobservable inputs (level 3)

A reconciliation of the opening balances to closing balances is set out below.

Company 2009

	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss			Financial liabilities designated at fair value through profit or loss			Financial liabilities held for trading	
	Investment Rm	Loans and advances to customers Rm	Investments Rm	Total financial assets excluding derivatives	Other liabilities Rm	Deposits due to customers Rm	Debt securities Rm	Net derivatives Rm	Total financial liabilities including net derivatives Rm
Opening balance	522	4 829	5 725	11 076	407	8 736	465	161	9 769
Net interest income	—	295	—	295	—	559	8	—	567
Gains and losses from banking and trading activities	27	(313)	(931)	(1 217)	(133)	(156)	14	285	10
Other comprehensive income	(24)	—	—	(24)	—	—	—	—	—
Purchases	—	373	605	978	—	—	—	(23)	(23)
Sales	—	—	(292)	(292)	—	—	—	—	—
Issues	—	—	—	—	—	1 034	—	5	1 039
Settlements	(350)	(680)	(17)	(1 047)	—	(1 788)	(241)	(43)	(2 072)
Movement out of level 3[1]	—	—	—	—	—	—	—	(60)	(60)
Closing balance	175	4 504	5 090	9 769	274	8 385	246	325	9 230

Note

[1] *Transfers out of level 3 principally reflect transfers to level 2 within the fair value hierarchy of equity-related derivative instruments, as the remaining maturity of these instruments has entered the range for which the unobservable parameter can be observed.*

49.5 Total unrealised gains and losses for the year on the level 3 positions held at the statement of financial position date

Company 2009

	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss			Financial liabilities designated at fair value through profit or loss			Financial liabilities held for trading	
	Investment Rm	Loans and advances to customers Rm	Investments Rm	Total financial assets excluding derivatives	Deposits due to customers Rm	Debt securities Rm	Other liabilities Rm	Net derivatives Rm	Total financial liabilities including net derivatives Rm
Net interest income	9	398	—	407	(560)	(4)	—	—	(564)
Gains and losses from banking and trading activities	—	(326)	(775)	(1 101)	149	(5)	(133)	(286)	(275)
	9	72	(775)	(694)	(411)	(9)	(133)	(286)	(839)

49. Fair value hierarchy disclosures *(continued)*

49.6 Sensitivity analysis of valuations using unobservable inputs

As part of the Company's risk management processes, stress tests are applied on the significant unobservable parameters to generate a range of potentially possible alternative valuations. The financial instruments that most impact this sensitivity analysis are those with the more illiquid and/or structured portfolios. The stresses are applied independently and do not take account of any cross correlation between separate asset classes that would reduce the overall effect on the valuations.

A significant parameter has been deemed to be one which may result in a change in the fair value asset or liability of more than 10%. This is demonstrated by the following sensitivity analysis which includes reasonable range of possible outcomes.

		Company			
		2009			
	Significant unobservable parameters[1]	Potential effect recorded in profit and loss Favourable Rm	Potential effect recorded in profit and loss Unfavourable Rm	Potential effect recorded directly in equity Favourable Rm	Potential effect recorded directly in equity Unfavourable Rm
Net derivatives	i, ii, iii, iv	9	11	—	—
Loans and advances designated at fair value through profit or loss	iii	84	240	—	—
Structured notes and deposits designated at fair value through profit or loss	iv	59	64	—	—
Private equity	v, vi, vii	749	699	—	—
		901	**1 014**	**—**	**—**

Notes

Refer to note 49.3 for valuation inputs.

The following table reflects how the unobservable parameters were changed in order to evaluate sensitivities of level 3 financial instruments:

Instrument	Parameter	Positive variance in parameters	Negative variance in parameters
Equity derivatives	Volatilities	10%	–10%
Credit derivatives	Credit spreads	100 basis points	–100 basis points
Foreign currency options	Volatilities	10%	–10%
Foreign currency swaps and foreign interest rate products	Basis risk and yield curve	100 basis points	–100 basis points
Loans and advances designated at fair value through profit or loss	Credit spreads	100 basis points	–100 basis points
Structured notes and deposits designated at fair value through profit or loss	Yield curve	100 basis points	–100 basis points
Private equity	Valuation	15%	–15%

50. Unrecognised gains as a result of the use of valuation models using unobservable inputs

The amount that has yet to be recognised in income that relates to the difference between the transaction price (the fair value at initial recognition) and the amount that would have arisen had valuation models using unobservable inputs been used on initial recognition, less amounts subsequently recognised, was as follows:

	Company 2009 Rm
Opening balance	—
New transactions	28
Amounts recognised in the profit and loss component of the statement of comprehensive income during the year	(4)
Closing balance	**24**

51. Acquisitions and disposals of subsidiaries

51.1 Acquisitions of subsidiaries during the current year

On 1 August 2009, the Company acquired the business of Meeg Bank Limited through the divisionalisation of Meeg Bank Limited from Absa Group Limited into Absa Bank Limited. Details of the net assets acquired and negative goodwill arising are as follows:

	Company 2009 Rm
Cash, cash balances and balances with central banks	34
Statutory liquid asset portfolio	24
Loans and advances to banks	483
Other assets	8
Loans and advances to customers	890
Loans from Absa Group companies	(10)
Property and equipment	13
Deferred tax assets	1
Other liabilities	(8)
Provisions	(3)
Deposits due to customers	(1 282)
Net assets acquired	**150**
Satisfied by:	
Nil consideration	—
Fair value of net assets acquired	150
Negative goodwill	**(150)**

Contents

Additional information

Shareholders' information

Ordinary shareholders

As at 31 December

	2009		2008	
	Number of shares held	**%**	Number of shares held	%
Major ordinary shareholders				
Absa Group Limited (including "A" ordinary shares)	**367 675 520**	**100,0**	359 054 123	100,0
Shareholder type				
Principal shareholder	**367 675 520**	**100,0**	359 054 123	100,0
Private investors	**—**	**—**	—	—
Total	**367 675 520**	**100,0**	359 054 123	100,0

Ordinary shareholders – Public and non-public shareholders

As at 31 December

	2009			2008		
	Number of share-holders	**Number of shares held**	**%**	Number of share-holders	Number of shares held	%
Public shareholders	**—**	**—**	**—**	—	—	—
Non-public shareholders						
Absa Group Limited	**1**	**367 675 520**	**100,0**	1	359 054 123	100,0
Total	**1**	**367 675 520**	**100,0**	1	359 054 123	100,0

Major preference shareholders

As at 31 December

	2009		2008	
	Number of shares held	**%**	Number of shares held	%
Major preference shareholders				
Liberty Group	**442 997**	**8,96**	433 591	8,77
Coronation Fund Managers	**415 607**	**8,41**	498 757	10,08
Investment Solutions	**145 758**	**2,95**	140 871	2,85
Corolife Absolute Fund	**98 999**	**2,00**	n/a	n/a
Solar Spectrum Trading 311 (Proprietary) Limited	**90 000**	**1,82**	90 000	1,82
Capital Alliance Shareholder Fund	**89 275**	**1,81**	59 379	1,20
Sanlam	**78 250**	**1,58**	78 250	1,58
Outsurance Insurance Company Fund	**77 311**	**1,56**	62 477	1,26
Stanlib Multi-Manager Flexible Property Fund	**69 925**	**1,41**	69 925	1,41
Symmetry Defensive Fund	**50 555**	**1,02**	n/a	n/a

Shareholders' information

Public and non-public shareholders

As at 31 December

	2009			2008		
	Number of share-holders	**Number of shares held**	**%**	Number of share-holders	Number of shares held	%
Public shareholders	**4 738**	**4 943 577**	**99,97**	4 404	4 943 577	99,97
Non-public shareholders						
• Directors and associates of the Company	**3**	**1 262**	**0,03**	3	1 262	0,03
• Strategic holdings	**—**	**—**	**—**	—	—	—
Total	**4 741**	**4 944 839**	**100,00**	4 407	4 944 839	100,00

Distribution of preference shareholders

As at 31 December

	2009		2008	
	Number of shares held	**%**	Number of shares held	%
Mutual funds	**1 739 856**	**35,2**	1 091 129	22,1
Individuals	**1 071 844**	**21,7**	697 881	14,1
Nominees and trusts	**799 564**	**16,2**	1 625 487	32,8
Private companies	**468 945**	**9,5**	487 505	9,8
Insurance companies	**439 073**	**8,9**	446 420	9,0
Pension funds	**260 740**	**5,3**	27 123	0,6
Close corporations	**39 150**	**0,8**	30 315	0,6
Medical schemes	**34 219**	**0,7**	83 709	1,7
Endowment funds	**33 817**	**0,7**	331 400	6,7
Investment companies	**20 296**	**0,4**	37 976	0,8
Public companies	**17 394**	**0,4**	9 719	0,2
Other companies	**15 883**	**0,3**	32 271	0,7
Banks	**2 468**	**0,1**	43 404	0,9
Brokers	**1 090**	**0,0**	—	—
Share trusts	**500**	**0,0**	500	0,0
Total	**4 944 839**	**100,0**	4 944 839	100,0

Preference dividends

The following preference dividends were declared for the year ended 31 December 2009:

	Dividend number	Dividend amount
1 March 2009 – 31 August 2009	**7**	**3 783,0**
1 September 2009 – 28 February 2010	**8**	**3 280,3**

Shareholders' diary

Financial year-end	**31 December 2009**
Announcement of results for the year ended 31 December 2009	**16 February 2010**
Announcement of interim results[1]	**5 August 2010**

Dividend dates

Dividend	Declaration date	Last day to trade	Ex dividend date	Record date	Payment date
Final – December 2009	**16 February 2010**	**5 March 2010**	**8 March 2010**	**12 March 2010**	**15 March 2010**
Interim – June 2010[1]	5 August 2010	20 August 2010	23 August 2010	27 August 2010	30 August 2010

Note

[1]*Subject to change.*

Administration

As at 15 March 2010

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
Email: groupsec@absa.co.za

Board of directors

D C Brink (Chairman)
D C Arnold
B P Connellan
Y Z Cuba
B C M M de Vitry d'Avaucourt (French)
S A Fakie
G Griffin
M W Hlahla
D W P Hodnett[1]
M J Husain
A Jenkins (British)
R Le Blanc (British)
T M Mokgosi-Mwantembe
E C Mondlane, Jr. (Mozambican)
T S Munday
S G Pretorius
M Ramos[1] (Chief Executive)
L L von Zeuner[1] (Deputy Chief Executive)
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

Auditors

PricewaterhouseCoopers Inc.
Ernst & Young Inc.

Company Secretary

S Martin
Email: sarita.martin@absa.co.za

Sponsor

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Telefax: 011 507 0503

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Sandton, 2146
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Telefax: 011 895 7802
Website: www.absacapital.com

Absa Card

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Telephone: 012 317 0000
Telefax: 012 317 0127
Email: contactcard@absa.co.za

Absa Corporate and Business Bank

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Johannesburg, 2001
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Johannesburg, 2000
Telephone: 011 350 4000
Telefax: 011 350 5247
Email: jamessl@absa.co.za

Absa Home Loans

45 Mooi Street (corner of Mooi and Anderson Streets)
Johannesburg, 2001
Telephone: 011 330 2111
Telefax: 011 350 1753
Email: 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
Email: islamicbanking@absa.co.za

Absa Micro Lending

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278 Thirteenth Road
Erand Gardens, Midrand, 1685
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Johannesburg, 2000
Telephone: 011 697 8000
Telefax: 011 697 8023
Email: lawrence.twigg@absa.co.za

Absa Private Bank

Investment Campus, Park Ridge Office Park, 61-65 Empire Road
Parktown, 2193
Telephone: 011 551 4300
Email: privatebank@absa.co.za

Absa Vehicle and Asset Finance

3rd Floor, 45 Mooi Street
Johannesburg, 2001
Postal address: PO Box 8842
Johannesburg, 2000
Telephone: 011 350 8452
Telefax: 011 350 5373
Email: vehiclefinance@absa.co.za

Retail Bank

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Johannesburg, 2000
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Telefax: 011 350 4411
Email: gavin.opperman@absa.co.za

Note

[1]*Executive in Absa.*

Glossary

Abbreviations and acronyms used in the Absa Group annual report for the year ended 31 December 2009

A	
ACBB	Absa Corporate and Business Bank
AEaR	Annual Earnings at Risk
AGCC	Absa Group Credit Committee
AGM	Annual General Meeting
AIRB	Advanced Internal Rating Based
AMA	Advanced Management Approach
AML	Anti-Money Laundering
AMP	Advanced Management Programme
ATM	Automated Teller Machine
AVAF	Absa Vehicle And Asset Finance

B	
Basel II	Basel II Capital Accord
BEE	Black Economic Empowerment
BFC	Board Finance Committee
BOT	Bank of Tanzania
bps	basis points
BRC	Brand and Reputation Committee

C	
CAF	Commercial Asset Finance
CAPM	Capital Asset Pricing Model
CARS	Collateralised Auto Receivables Securitisation (Proprietary) Limited
CCO	Chief Credit Officer
CFLP	Contingency Funding and Liquidity Plan
CGU	Cash Generating Unit
CLGD	Country Loss-Given Default
CMC	Capital Management Committee
CODM	Chief Operating Decision Maker
CoGP	Codes of Good Practice
CoRC	Concentration Risk Committee
CPA	Consumer Protection Act
CPF	Commercial Property Finance
CPI	Consumer Price Index
CRC	Credit Risk Committee
CRES	Corporate Real Estate Services
CSA	Collateral Support Annex
CSI	Corporate Social Investment

D	
DAC	Directors' Affairs Committee or deferred acquisition costs
DG	Default Grade
DTI	Department of Trade and Industry
DVaR	Daily Value At Risk

E	
EAD	Exposure At Default
EC	Economic Capital
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
FIC	Financial Intelligence Centre
FICA	Financial Intelligence Centre Act, No 38 of 2001
FRA	Forward Rate Agreement
FSB	Financial Services Board

G	
GACC	Group Audit and Compliance Committee
GBP	Sterling/Great British pounds
GCE	Group Chief Executive
GRCMC	Group Risk and Capital Management Committee
GRHRC	Group Remuneration and Human Resource Committee
GRZ	Government of Zambia

H	
HEPS	Headline Earnings Per Share
Homes	Homes Obligors Mortgage Enhance Securities (Proprietary) Limited

Glossary

I	
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMA	Internal Models Approach
IPO	Initial Public Offering
IRB	Internal Ratings-Based
ISDA	International Swaps and Derivatives Association
J	
JIBAR	Johannesburg Interbank Agreed Rate
JSAP	Joiners Share Award Plan
JSE	JSE Limited
K	
King II	King Report on Corporate Governance for South Africa, 2002
King III	King Report on Corporate Governance for South Africa, 2009
L	
LGD	Loss-Given Default
LTV	Loan To Value
M	
MAG	Maximum Allocation Guidelines
MRC	Market Risk Committee
N	
NBFI	Non-Bank Financial Institution
NCA	National Credit Act, No 34 of 2005
NCR	National Credit Regulator
NPA	New Product Approval
NRRF	New Regulatory Requirement Forum
O	
OTC	Over-The-Counter
P	
PD	Probability of Default
PIT	Point In Time
PLC	Public listed Company
PPG	Pinnacle Point Group
PRP	Principal Risks Policy
PSP	Performance Share Plan
R	
R	rand
RSA	Republic of South Africa
S	
SA	South Africa
SAICA	South African Institute of Chartered Accountants
SARB	South African Reserve Bank
SENS	Securities Exchange News Service
SIC	Standard Industry Classification or Standing Interpretations Committee
SME	Small and Medium Enterprises
SPE	Special Purpose Entity
STC	Secondary Taxation on Companies
T	
TST	Trans Sahara Trading (IOM) Limited
TTC	Through-The-Cycle
U	
USD/US$	United States dollar
V	
VAT	Value Added Tax
VESAS	Voluntary Executive Share Award Scheme
Z	
ZAR	South African rand

Other contact information

Shareholder contact information

Shareholder and investment queries about Absa Bank should be directed to either of the following departments:

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Ms Sarita Martin

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Telefax: +27 11 350 4009

Email: groupsec@absa.co.za

Other contacts

Group Media Relations

Mr Patrick Wadula

Telephone: +27 11 350 5768

Group Legal

Mr Marthinus van Rensburg

Telephone: +27 11 350 4313

Head office switchboard

Telephone: +27 11 350 4000

Customer support

Absa aims to maintain a high standard of customer service, but disputes may arise. Matters can be raised by contacting any one of the following:

Actionline: 0800 414 141

Absa call centre: 0860 008 600 or (+27) 011 276 4000

Customer relationship email: actionline@absa.co.za

General email enquiries: absa@absa.co.za

Customers are encouraged to first approach the specific branch, area or line manager if a dispute arises.

Reporting fraud or corruption

Absa has a dedicated telephone line to facilitate reporting possible fraud and corruption in Absa. This line is available 24 hours a day, seven days a week and is open to the general public and Absa employees.

Calls may be made anonymously. They will not be recorded and no attempt will be made to determine the telephone number of the caller. The fraud and corruption hotline is 0800 205 055

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