Absa Bank Limited

Annual report

for the year ended 31 December 2010

Absa Bank Limited Annual report for the year ended 31 December 2010

www.absa.co.za

Member of the BARCLAYS Group

ABSA

Introduction

JSE-listed South African companies are required to produce an annual report, including annual financial statements, to shareholders.

At the Absa Group annual general meeting (AGM) held on 21 April 2011, shareholders approved the special resolutions to change the Group's articles of association with regard to the distribution to shareholders of summarised financial statements in printed format, while publishing the full set of financials on the Absa Group website. We believe this change will enable us to distribute more relevant information to all our stakeholders.

Scope and boundary of the 2010 annual report

Absa Bank is a wholly owned subsidiary of Absa Group and, as such, the majority of the disclosures in the Absa Group Annual Report 2010 are applicable to Absa Bank. The focus of this report is on the annual financial statements and corporate governance disclosures specific to Absa Bank.

Readers are referred the Absa Group Annual Report 2010 website http://absair.co.za for additional information including the Group strategy, the sustainability review, the Chairman's statement, Chief Executive's review, the Group Executive Committee, business operations and the remuneration and compliance reports.

This report covers Absa's South African operations and our African entities in the majority of the disclosures. As Absa's South African operations constitute the majority of the Bank's earnings, certain sections have a bias towards these. The report covers the period from 1 January to 31 December 2010. However, where it is informative to add information past 31 December 2010, this has been included and noted.

Since the release of Absa Bank's annual report for the year ended 31 December 2009, there has been no material change to the structure, ownership or products and services of the Bank. Therefore, the scope of the 2010 report has remained largely unchanged. Changes to the structure of the Bank during the year have been noted in the directors' report. The report covers the entire Bank, comprising retail, commercial, corporate and investment banking.

Absa's reporting ethos

Absa aims to achieve the highest standards in all the disclosures included in this report in order to provide accurate and complete information to shareholders. The board and board committees were actively involved in finalising the disclosures made.

Garth Griffin
Chairman

Maria Ramos
Chief Executive

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Who we are and what we do

Contents

Who we are and what we do

Pages 03 – 16

An overview of Absa Bank in terms of what the Bank does, its key business operations, and its directorate.

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Our company

Absa Bank Limited (Absa, Absa Bank or the Bank), listed on the JSE Limited, is one of South Africa's largest banking groups offering a complete range of banking and wealth management products and services. Absa's business is conducted primarily in South Africa.

Absa Bank is a wholly owned subsidiary of Absa Group Limited which in turn is a subsidiary of Barclays Bank PLC, which has an equity interest of 55,5% in the Group. Barclays is a major global financial services provider engaged in retail banking, credit cards, corporate and investment banking, and wealth management with an extensive international presence.

Our values

» Value our people and treat them with fairness.

» Demonstrate integrity in all our actions.

» Strive to exceed the needs of our customers.

» Take responsibility for the quality of our work.

» Display leadership in all that we do.

Our stakeholders

Absa has five stakeholder groups being:

» customers;

» employees;

» shareholders;

» communities; and

» governments and regulators.

Customer base

11,8 million

(2009: 11,7 million)

Staffed outlets

1 007

(2009: 1 062)

Total assets

R680 923 million

(2009: R673 774 million)

Our performance

Profit

Statement of comprehensive income

	2010	2009[1]	Change %
Total income (Rm)	**36 031**	35 486	2
Impairment losses on loans and advances (Rm)	**(5 578)**	(8 392)	34
Operating expenses (Rm)	**(20 440)**	(17 635)	(16)
Operating profit before income tax (Rm)	**9 265**	7 209	29
Profit attributable to ordinary equity holder of the Bank (Rm)	**6 432**	5 315	21
Headline earnings[2] (Rm)	**6 412**	5 986	7
» Retail Banking	**3 034**	1 555	95
» Absa Business Bank	**2 898**	3 210	(10)
» Absa Capital	**1 354**	1 177	15
» Head office, inter-segment eliminations and other	**(874)**	44	>(100)

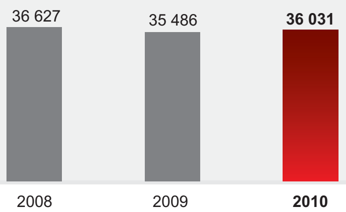
Notes

[1]*Comparatives have been reclassified.*

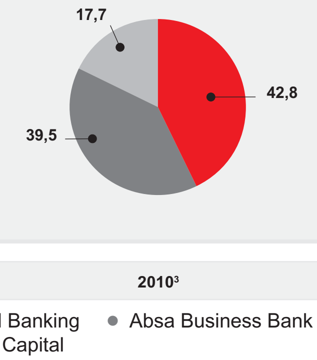
[2]*After allowing for R320 million (2009: R421 million) profit attributable to preference equity holders of the Bank.*

[3]*Calculated after the allocation of corporate, capital and funding centres.*

Total income (Rm)



Attributable earnings mix (%)



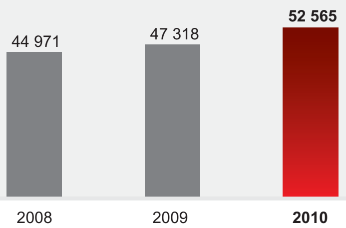
Statement of financial position

	2010	2009[1]	Change %
Loans and advances to customers (Rm)	**485 588**	490 205	(1)
Deposits due to customers (Rm)	**372 644**	349 371	7
Net asset value (Rm)	**52 565**	47 318	11
Total assets (Rm)	**680 923**	673 774	1
Risk-weighted assets (Rm)	**391 735**	359 074	9
Capital adequacy ratio (%)			
» Core Tier 1	**10,7**	10,3	
» Tier 1	**11,9**	11,6	
» Total	**14,8**	14,7	
Loans-to-deposits ratio (%)	**90,7**	94,4	

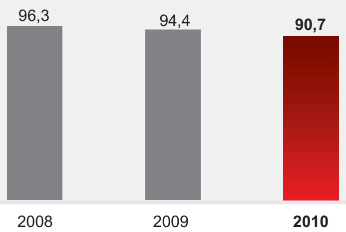
Note

[1]*Comparatives have been reclassified.*

Net asset value (Rm)



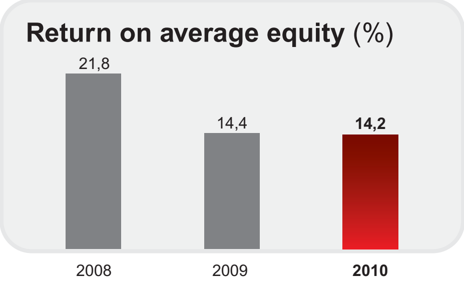
Loans-to-deposits ratio (%)



Profit

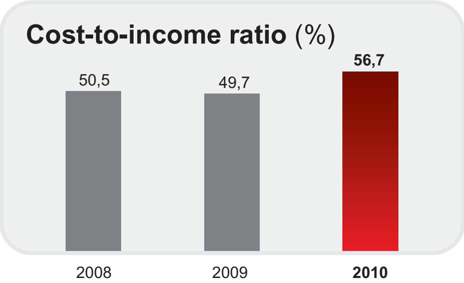
Financial returns

	2010 %	2009 %
Return on average equity	**14,2**	14,4
Return on regulatory capital	**17,5**	17,3
Return on average assets	**0,94**	0,84
Return on risk-weighted assets	**1,71**	1,68



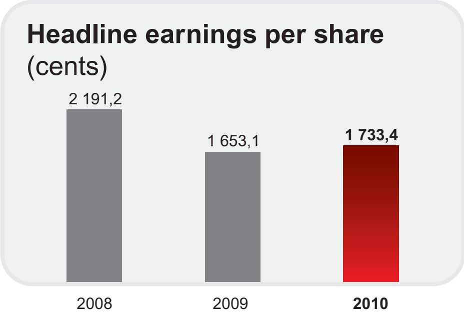
Operational performance

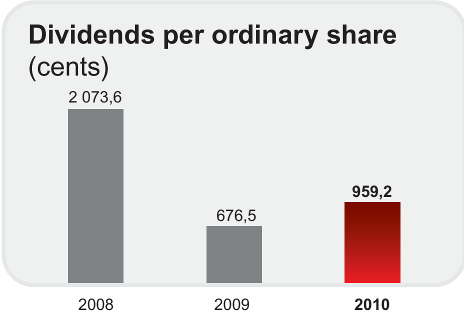
	2010 %	2009 %
Net interest margin on average interest-bearing assets	**3,69**	3,52
Impairment losses on loans and advances as a percentage of average loans and advances to customers (impairment losses ratio)	**1,15**	1,69
Non-performing advances as a percentage of loans and advances to customers	**7,6**	7,0
Non-interest income as a percentage of total operating income	**41,0**	44,0
Cost-to-income ratio	**56,7**	49,7
Cost-to-assets ratio	**3,1**	2,5
Effective tax rate, excluding indirect taxation	**27,1**	20,4



Share statistics

	2010	2009	Change %
Headline earnings per share (cents)	**1 733,4**	1 653,1	5
Diluted headline earnings per share (cents)	**1 733,4**	1 653,1	5
Basic earnings per share (cents)	**1 738,8**	1 467,8	18
Diluted earnings per share (cents)	**1 738,8**	1 467,8	18
Dividends per ordinary share relating to income for the year (cents)	**959,2**	676,5	42
Dividend cover (times)	**1,8**	2,4	
Net asset value per share (cents)	**12 955**	11 606	12
Tangible net asset value per share (cents)	**12 781**	11 464	11
Number of ordinary shares in issue (millions)	**374,1**	367,7	
Weighted average number of ordinary shares in issue (millions)	**369,9**	362,1	
Weighted average diluted number of ordinary shares in issue (millions)	**369,9**	362,1	





Our business model

Segment	Business scope
Retail Banking » Home Loans » Vehicle and Asset Finance » Card (including Woolworths Financial Services (Proprietary) Limited) » Personal Loans » Retail Bank	**Retail Banking** offers individuals a comprehensive suite of retail banking products and services. It provides these through an extensive branch and self-service terminal network and via relationship managers, internet and cellphone banking facilities.
Commercial Banking » Absa Business Bank › Corporate › Large Business › Medium Business › Small Business › Africa › Real estate investment portfolio[1]	**Absa Business Bank (ABB)** offers a comprehensive range of commercial banking products and specialised services to corporate institutions and large, medium and small businesses. ABB aims to meet the full spectrum of corporate and commercial customers' needs. Its services include assisting start-up entrepreneurs and providing non-traditional developmental credit. Offerings range from off-the-shelf transactional products to complex financial solutions. ABB's objective is to make banking, whether local or international, convenient and efficient for its customers.
Investment Banking » Absa Capital › Investment Banking › Markets › Private Equity and Infrastructure Investments » Absa Wealth	**Absa Capital** offers investment banking and wealth management services. Its primary business is to act as an intermediary between, and adviser to, suppliers and users of various forms of capital. Absa Capital has a unique business model, combining local specialist knowledge (as part of the Absa Group) and global expertise (through its close affiliation with Barclays Capital). The model centres on delivering special investment banking financing, risk management and advisory solutions across asset classes to corporations, financial institutions and government clients. These capabilities are delivered through a client-centric approach that emphasises the distribution of risk. Absa Capital remains the only South African investment bank that is fully local and fully global. Through its affiliation with Barclays Capital, its ability to deliver comprehensive international and local solutions to its clients will continue to differentiate it from its competitors.

Notes

[1]*Absa Development Company Holdings is disclosed as part of the real estate investment portfolio, together with commercial property finance equities.*

[2]*Calculated after the allocation of corporate, capital and funding centres.*

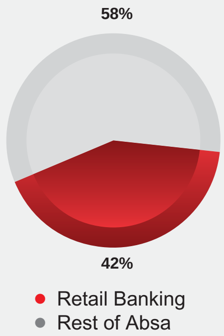
Key financial performance indicators

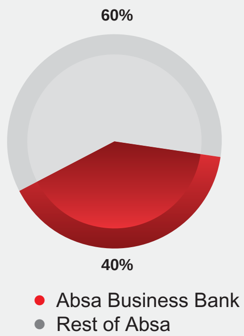
	2010	2009	Change %
Total income (Rm)	**21 168**	20 698	2
Attributable earnings (Rm)	**3 148**	1 896	66
Headline earnings (Rm)	**3 034**	1 555	95
Return on regulatory capital (%)	**20,7**	11,7	
Cost-to-income ratio (%)	**56,9**	52,8	
Impairment losses ratio (%)	**1,43**	2,23	

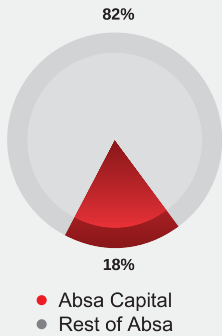
	2010	2009	Change %
Total income (Rm)	**11 243**	10 982	2
Attributable earnings (Rm)	**2 903**	3 194	(9)
Headline earnings (Rm)	**2 898**	3 210	(10)
Return on regulatory capital (%)	**22,8**	28,9	
Cost-to-income ratio (%)	**54,0**	48,2	
Impairment losses ratio (%)	**0,88**	0,86	

	2010	2009	Change %
Total income (Rm)	**4 816**	4 150	16
Attributable earnings (Rm)	**1 307**	192	>100
Headline earnings (Rm)	**1 354**	1 177	15
Return on regulatory capital (%)	**16,0**	17,3	
Cost-to-income ratio (%)	**56,6**	53,0	

Bank headline earnings contribution[2]







Our legal structure

Absa Group Limited

100%

Absa Bank Limited

Main Absa Bank segments

Retail Banking
- Home Loans
- Vehicle and Asset Finance
- Card
- Personal Loans
- Retail Bank

Commercial Banking
- Absa Business Bank

Investment Banking
- Absa Capital
- Absa Wealth

Wholly owned subsidiaries

- Absa Capital Representative Office (Nigeria) Limited
- ABSAN (Proprietary) Limited
- Ngwenya River Estate (Proprietary) Limited
- The Ballito Junction Development (Proprietary) Limited

Significant associates, joint ventures and other interests

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

Our directorate

Introduction

The Absa Bank 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 Code). The Chairman of the board is an independent director.

Changes in board membership during 2010

- The resignation of J H Schindehütte on 28 February 2010.
- The appointment of D W P Hodnett as the Financial Director on 1 March 2010.
- The appointment of C Beggs as an independent director on 23 June 2010.
- The retirement of D C Brink as Chairman on 30 September 2010.
- The appointment of G Griffin as Chairman on 1 October 2010.

Directors of Absa Bank as at 31 December 2010

Independent non-executive directors	D C Arnold[5], C Beggs, B P Connellan[4], S A Fakie, M W Hlahla[5], M J Husain, G Griffin[4] (Chairman), T M Mokgosi-Mwantembe, E C Mondlane Jr[1], T S Munday, S G Pretorius and B J Willemse.
Non-executive directors	Y Z Cuba, B C M M de Vitry d'Avaucourt[2], A P Jenkins[3] and R Le Blanc[3].
Executive directors	D W P Hodnett, M Ramos and L L von Zeuner.

Board committee membership as at 31 December 2010

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

Notes

[1]*Mozambican.*

[2]*French.*

[3]*British.*

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

[5]*Retired 21 April 2011.*

Our directorate

Biographical information

As at 31 December 2010

D C (Des) Arnold (70)

Qualifications
- CA(SA)
- FCMA
- AMP

Year appointed to the Absa Bank board: 2003

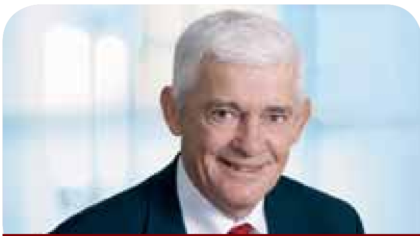
Independence
Independent director

Absa board committee memberships
- GACC (Chairman)
- GRCMC
- DAC
- BFC

Other directorships
- Director of Absa Group Limited.
- Director of Wits Health Consortium (Proprietary) Limited.
- Chairman of the Barlows Pension Fund.

Expertise and experience
Des joined the Barlows Group in 1967 and held several senior financial positions before being appointed to their board in 1993. Des served as Executive Director: Finance and Administration at Barloworld Limited until his retirement 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 was also president of the South African Institute of Chartered Accountants (SAICA) and is an honorary life member of SAICA. He has represented SAICA on the Financial and Management Accounting Committee of IFAC.



C (Colin) Beggs (62)

Qualifications
- BCom (Hons)
- CA(SA)

Year appointed to the Absa Bank board: 2010

Independence
Independent director

Absa board committee memberships
- GACC
- GRCMC

Other directorships
- Director of Absa Group Limited.
- Director of Sasol Limited.

Expertise and experience
Colin is a former senior partner and Chief Executive Officer of PricewaterhouseCoopers Inc. (PwC) in southern Africa. He retired from this position in June 2009. Colin has served on several PwC boards and councils. He was Chairman of the SAICA board in 2002/3 and is a member of the Accounting Practices Board. He is also a director of the Ethics Institute of South Africa.

B P (Brian) Connellan (70)

Qualifications
- CA(SA)

Year appointed to the Absa Bank board: 1994

Independence
Independent director

Absa board committee memberships
- GRHRC
- CoRC
- BFC

Other directorships
- Director of Absa Group Limited.
- Director of Reunert Limited.
- Director of Sasol Limited.

Expertise and experience
Brian joined the Barlows Group in 1964. He managed several subsidiaries and was appointed as a director of Barlow Rand Limited in 1985. He served as Executive Chairman of the building materials, steel and paint division until 1990. He was then appointed as Executive Chairman of Nampak Limited, a position he held until his retirement in 2000.

Y Z (Yolanda) Cuba (33)

Qualifications

» BCom (Statistics)
» BCom (Hons) (Acc)
» CA(SA)

Year appointed to the Absa Bank board: 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 of Total Facilities Management Company (Proprietary) Limited.
» Non-executive director of Life Healthcare (Proprietary) Limited.
» Non-executive director of Reatile Resources (Proprietary) Limited.
» Member of the Nelson Mandela Foundation Investment and Endowment Committee.

Expertise and experience

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

B C M M (Benoît) de Vitry d'Avaucourt (48)

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 to the Absa Bank board: 2009

Independence

Non-executive director

Absa board committee memberships

» GRHRC
» BFC

Other directorships and memberships

» Director of Absa Group Limited.
» Vice Chairman of the Association for Financial Markets in Europe.

Expertise and experience

Benoît is the Managing Director and Chief Operating Officer of Barclays Capital. He is responsible for Quantitative Analytics, Technology, Legal, Compliance and the Capital and Treasury Unit. The Capital and Treasury Unit comprises Counterparty Risk, Credit Portfolio, Treasury and Liquidity.

S A (Shauket) Fakie (57)

Qualifications

» BCom
» CA(SA)

Year appointed to the Absa Bank board: 2008

Independence

Independent director

Absa board committee memberships

» GACC

Other directorships and memberships

» Director of Absa Group Limited.
» Member of the South African Institute of Chartered Accountants.
» Member of the Australian Institute of Chartered Accountants.
» Member of the Institute of Public Finance and Audit.
» Director of several MTN subsidiary companies in Africa.

Expertise and experience

Shauket was the Auditor-General of South Africa for seven years and served as Chairman of the UN Panel of External Auditors. He was the Secretary General for the Auditors-General Association on the African continent. During his tenure as Auditor-General, Shauket 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.

Our directorate

G (Garth) Griffin (61)

Chairman (Appointed: 1 October 2010)

Qualifications
- BSc
- FIA
- FASSA

Year appointed to the Absa Bank board: 2001

Independence
Independent director

Absa board committee memberships
- GACC (permanent attendee)
- GRCMC
- DAC (Chairman)
- GRHRC
- CoRC (Chairman)
- BFC (Chairman)

Other directorships and memberships
- Director of Absa Group Limited.
- Director of Swiss Re Life and Swiss Re Africa.
- Director of Suiderland Development Corporation.
- Director of Resource Ballast Technologies
- Trustee of the University of Cape Town Foundation.

Expertise and experience
Garth worked for Old Mutual from 1970 to 1999, and was finally the Managing Director responsible for Old Mutual's worldwide asset management and unit trust businesses, as well as all activities outside South Africa. He has acted as consultant to a number of South African and international businesses, including Allan Gray/Orbis, Investec Asset Management and Old Mutual plc. He 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 the 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 (47)

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

Year appointed to the Absa Bank board: 2005

Independence
Independent director

Absa board committee memberships
- GRCMC

Other directorships
- Director of Absa Group Limited.
- Managing Director of Airports Company South Africa.
- Non-executive director and Acting Chairperson of the Industrial Development Corporation.

Expertise and experience
Monhla commenced her career at the Coalition for Women's Economic Development, a provider of microloans to women entrepreneurs in the Los Angeles area.

In 1994, she joined the Development Bank of Southern Africa where she successfully managed several large infrastructure projects. She was appointed as Managing Director and Chief Executive Officer of the Airports Company South Africa in 2001, a position she holds to date.

D W P (David) Hodnett (41)

Financial Director (Appointed: 1 March 2010)

Qualifications
- BCom
- CA(SA)
- MBA

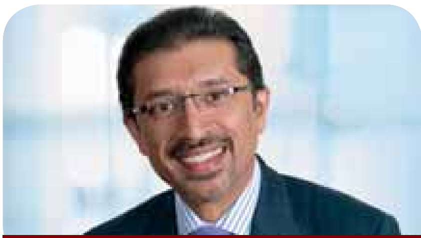
Year appointed to the Absa Bank board: 2010

Independence
Executive director

Absa board committee memberships
- CoRC

Other directorships
- Director of Absa Group Limited.

Expertise and experience
David completed his articles with KPMG where he became a partner in the financial services team. He then joined the Standard Bank group, where, for seven years, he was involved in group risk and retail credit. David joined Absa in 2008 as the Chief Risk Officer. He was appointed as Absa's Financial Director on 1 March 2010.



M J (Mohamed) Husain (50)

Qualifications
- BProc

Year appointed to the Absa Bank board: 2008

Independence
Independent director

Absa board committee memberships
- GRCMC
- DAC

Other directorships and memberships
- Director of Absa Group Limited.
- President of the International Commonwealth Lawyers Association.
- Trustee of the Wits Law School Endowment Appeal.
- Member of Eskom's Board Tender Committee.
- Director of Knowles Husain Lindsay Incorporated.
- Director of KLH Investments (Proprietary) Limited.
- Chairman of Andulela Investment Holdings Limited.

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.

A P (Antony) Jenkins (49)

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

Year appointed to the Absa Bank board: 2009

Independence
Non-executive director

Absa board committee memberships
- GACC (permanent attendee)
- GRHRC

Other directorships
- Director of Absa Group Limited.
- Director of Visa Europe Limited.

Expertise and experience
Antony started his finance career in Barclays 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 both London and New York. As General Manager and Executive Vice President, Citi Brands, he was responsible for most of Citi Cards with US $90 billion in receivables.

Antony rejoined Barclays as the Chief Executive of Barclaycard in January 2006, responsible for the development and operation of credit cards and card payments. He was appointed Chief Executive of Global Retail Banking and joined Barclays Executive Committee in November 2009.

Antony is also responsible for diversity and inclusion at Barclays.

R (Robert) Le Blanc (54)

Qualifications
- MSc
- MBA

Year appointed to the Absa Bank board: 2007

Independence
Non-executive director

Absa board committee memberships
- GRCMC
- DAC

Other directorships
- Director of Absa Group Limited.

Expertise and experience
Robert worked for many years at J.P. Morgan in the capital markets, fixed income, emerging markets and credit areas and later in the risk management function. He joined Barclays in 2002 as the Head of Risk Management at Barclays Capital. Robert was appointed Chief Risk Officer at Barclays in 2004 and holds this position to date.

Our directorate

T M (Thoko) Mokgosi-Mwantembe (49)

Qualifications
- BSc
- MSc (Medical Chemistry)
- Dip Education

Year appointed to the Absa Bank board: 2008

Independence
Independent director

Absa board committee memberships
- GRHRC

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.
- Director of Kutana Investment Group.
- Director of the Aveng Group.

Expertise and experience
Thoko started her career as the 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 served as Divisional Managing Director of Siemens Telecommunications (Proprietary) Limited from 2001 to 2004. In March 2004, she was afforded the opportunity to take on the role of Chief Executive Officer of Alcatel South Africa.

From November 2004 to the end of October 2008, Thoko was the Chief Executive Officer of Hewlett-Packard. She is currently the Chief Executive Officer of Kutana Investment Group.

E C (Eduardo) Mondlane, Jr (53)

Qualifications
- Political Science Extension Student (UCLA)

Year appointed to the Absa Bank board: 2007

Independence
Independent director

Absa board committee memberships
- GRCMC

Other directorships and memberships
- Director of Absa Group Limited.
- Director of Barclays Bank Mozambique.
- Managing Director of Ninham Shand Mozambique Lda.
- Member of the Advisory Board of Confederation of Economic Associations (Mozambique) and the Advisory Board of Lapdesk (South Africa).
- Chairman of Pick n Pay (Mozambique).
- Chairman of Maputo Iron & Steel Initiative.
- Director of Liberty Holdings Lda.
- Director of Ilha Quilalea Lda.

Expertise and experience
Eduardo established and operated an Africa-focused trading company based in New York. He also established the Mozambique Business Council in Washington DC. Thereafter, Eduardo worked in the aerospace industry for a number of years with Boeing Commercial Airplanes, United Technologies and Guiness Peat Aviation. 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.

T S (Trevor) Munday (61)

Qualifications
- BCom

Year appointed to the Absa Bank board: 2007

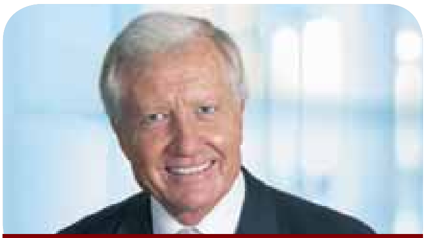
Independence
Independent director

Absa board committee memberships
- GACC
- GRCMC (Chairman)
- DAC
- CoRC
- BFC

Other directorships
- Director of Absa Group Limited.
- Chairman of Reunert Limited.
- Director of Sasol Petroleum International (Proprietary) Limited.
- Director of Sasol Synfuels International (Proprietary) Limited.
- Director of Sasol Nitro and Sasol Polymers – divisions of Sasol Chemicals Industries Limited.
- Director of Iron Mineral Beneficiation Services (Proprietary) Limited.
- Director of Life Healthcare Group.
- Director of Illovo Sugar Limited.

Expertise and experience
Trevor held various financial and commercial management positions in southern Africa and in Europe. In the late 1980s, he was appointed Finance and Commercial Director of AECI Explosives Chemicals Limited and in the early 1990s, he was appointed Managing Director of Dulux Paints.

From 1996 to 2000, Trevor served as 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 and planning. In 2003, Trevor assumed responsibility for 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. He was appointed as Deputy Chief Executive of Sasol Limited on 1 July 2005. He retired from his executive responsibilities at Sasol on 31 December 2006.



S G (Brand) Pretorius (62)

Qualifications
- MCom (Business Economics)

Year appointed to the Absa Bank board: 2009

Independence
Independent director

Absa board committee memberships
- DAC
- GRHRC (Chairman)

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

Expertise and experience
Brand started his career at Toyota South Africa in 1973. In 1988, he was appointed as Managing Director of Toyota South Africa Marketing. Brand was appointed Chief Executive Officer of McCarthy Motor Holdings in 1995. He is currently the Chief Executive of McCarthy Limited.

M (Maria) Ramos (51)

Chief Executive

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

Year appointed to the Absa Bank board: 2009

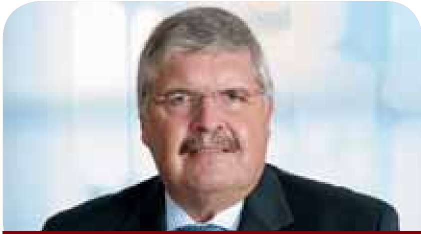
Independence
Executive director

Absa board committee memberships
- CoRC

Other directorships and memberships
- Director of Absa Group Limited.
- Member of the International Business Council Executive Committee.
- Member of the World Bank Chief Economist Advisory Panel.
- Member of Business Leadership South Africa.
- Member of the Banking Association of South Africa.
- Member of the Institute of International Finance.

Expertise and experience
Maria has formerly acted as the Director-General of the National Treasury. In 2003, Maria was appointed Group Chief Executive of Transnet Limited. Maria joined Absa as Chief Executive in March 2009, and is a member of the Barclays PLC Executive Committee.

Our directorate



L L (Louis) von Zeuner (49)

Deputy Chief Executive

Qualifications
- BEcon

Year appointed to the Absa Bank board: 2004

Independence
Executive director

Absa board committee memberships
- CoRC

Other directorships
- Director of Absa Group Limited.

Expertise and experience
Louis worked in Absa's retail and commercial banking operations since 1981, where he held various branch, regional and provincial leadership positions. Louis was appointed Operating Executive of Absa Commercial Bank in 2000. He was then appointed as an executive director of Absa Group in 2004, and Deputy Group Chief Executive in 2009.

B J (Johan) Willemse (56)

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

Year appointed to the Absa Bank board: 2008

Independence
Independent director

Absa board committee memberships
- GRCMC
- CoRC

Other directorships and memberships
- Director of Absa Group Limited.
- Independent director of Nictus Limited.
- Chairman of the Department of Agricultural Economics at the University of the Free State.
- Trustee of the University of the Free State provident fund.

Expertise and experience
Johan has served as Chief Economist of the South African Agricultural Union as well as Chief Economist of the Maize Board, consulting to agri business. In these roles, and as member of the National Agricultural Marketing Council, he has gained experience in a wide variety of economic and agricultural issues. Johan currently consults to major agricultural businesses in South Africa on agricultural business strategy and markets.

Governance, risk and controls

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Governance, risk and controls

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Governance, compliance and risk management remain a cornerstone of the Bank's operations.

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Report from the Chairman of the Directors' Affairs Committee

Garth Griffin
Chairman: Directors' Affairs Committee

Note:

This report and the corporate governance statement set out on the pages that follow, are that of the Absa Group, and was published in the Absa Group annual report for 2010. Absa Bank is a major wholly owned subsidiary of Absa Group.

Highlights

» Moving towards the adoption of King III.

» Ensuring board continuity and balance through new appointments:

› The appointment of D W P Hodnett as Group Financial Director on 1 March 2010.

› The appointment of C Beggs as an independent director on 23 June 2010.

› The appointment of G Griffin as the Group Chairman on 1 October 2010.

Report from the Chairman of the Directors' Affairs Committee

Introduction

The Absa Group board of directors is the foundation of corporate governance in the Group and oversees processes that ensure that its relationships with management, shareholders and other stakeholders are underpinned by sound, ethical corporate governance principles.

The Directors' Affairs Committee (DAC) is the appointed board subcommittee advising the board on governance matters.

Absa's approach to corporate governance

Absa recognises the need to conduct the affairs of the enterprise with integrity and in line with best corporate governance practices. For that reason, Absa is fully committed to the principles of the Code of Corporate Practices and Conduct (the Code) as set out in the King Report on Corporate Governance for South Africa 2002 (King II). The board and the DAC are of the opinion that the Group and its subsidiaries complied with and applied the requirements of King II throughout 2010.

Barclays Bank PLC subscribes to the UK Combined Code on Corporate Governance, which has recently been revised and renamed the UK Corporate Governance Code (the UK Code). Absa Group, as a subsidiary of Barclays Bank PLC, takes cognisance of the UK Code and also strives to adhere to the international best practice guidelines as set out therein.

The King Code of Governance Principles for South Africa 2009 (King III)

King III, which was published on 1 September 2009, took effect for financial years commencing from 1 March 2010, and is formally applicable to Absa from our 2011 financial year.

Absa welcomes the principles introduced in King III and is firmly committed to implementing the recommendations contained therein. The board is satisfied that the Group, to a large extent, already applies the fundamental principles suggested by King III and has identified particular areas where improvements will be effected to bring the Group fully in line with the specific recommendations.

A King III Steering Committee (the steerco) has been established to ensure effective application of the various principles of the code throughout the Group. After extensive study of the code, a detailed project plan was compiled and nine specific task teams were identified to implement the new recommendations. Each task team is responsible for developing specific project plans to ensure that the applicable principles are implemented in a structured and robust manner, within set timeframes. The steerco co-ordinates and tracks progress made and provides feedback to the board and the board will monitor the progress made.

2010 review

In addition to reviewing the King Ill principles, the DAC's key activities and decisions during 2010 included:

- considering current and emerging trends in corporate governance and the Group's governance objectives for 2010, as well as benchmarking the Group's governance systems and objectives against local and international best practice;
- reviewing the size, diversity, demographics, skills and experience of the board, perceived gaps in the board's composition, and the board's succession plans;
- considering candidates and recommending to the board the appointment of a new Group Financial Director (D W P Hodnett), a new independent director (C Beggs) and the appointment of a new Group Chairman (G Griffin);
- conducting an effectiveness evaluation of the board to review its performance in meeting its key responsibilities and reporting on this to the board; and
- evaluating the directors' performance and reporting on this to the board.

The 2010 corporate governance statement

The 2010 corporate governance statement is set out on the pages that follow and contains details of the Group's corporate governance framework. King III and the UK Code have guided the disclosures provided in this statement.

The statement covers:

- Absa's corporate governance structure;
- the Absa Group board, with a specific focus on:
  - the board composition;
  - meetings;
  - procedures;
  - appointments and succession planning;
  - director training and development;
  - the assessment of the board's performance; and
  - board committees with specific reference to membership composition, meeting procedures, principal function and mandates;
- board and committee meeting attendance;
- the Group Exco; and
- authorities and procedures.

Absa Group's 2010 corporate governance objectives

- Ensuring an effective and transparent corporate governance structure in the Absa Group.
- Benchmarking Absa's governance structure with applicable legislation and corporate governance codes of best practice.
- Understanding of duties and responsibilities of directors and the appropriate board and board committee composition.
- Agreeing, with management, Absa's strategy and long-term plans, and reviewing management's implementation thereof.
- Fair and responsible remuneration, in line with corporate and regulatory best practice.
- Robust timelines for board and board committee meetings.
- Effective compliance with the laws, rules, codes and standards across the Group.
- Instilling a culture of integrity, ethics and responsible corporate citizenship.
- Adopting an approach inclusive of all Absa's stakeholders; effective governance of communication, relationships and conduct with stakeholders.
- Advancing the principles and practice of sustainable development, and integrating non-financial reporting with financial reporting.

Report from the Chairman of the Directors' Affairs Committee

Focus for 2011

We consider the objectives set in 2010 to be largely appropriate for 2011 as well. However, there will be two specific focus areas:

Corporate governance and the Companies Act of 2008

The Companies Act of 2008 is anticipated to be effective from 1 April 2011. The provisions of this Act, which replaces the previous Companies Act of 1973 (as amended), will impact several corporate governance processes within the Group. Through a detailed gap analysis, the Group has identified possible changes to be effected to its governance structure and processes as from 2011, including the following:

- The duties and liabilities of directors and prescribed officers.
- The appointment and removal of directors.
- Board meeting procedures.
- Annual general meeting (AGM) notice and procedure and the adoption of shareholder resolutions.
- The establishment of a board social and ethics committee, should exemption not be granted.
- Alignment of the memorandum and articles of association, as appropriate.
- Continuous compliance with the consequent amendments to the JSE Listings Requirements and the Banks Act.

Information technology (IT) governance and board oversight

King III requires some very specific actions by the board to ensure appropriate governance of IT within a company. This is particularly relevant to a banking group, with its very significant reliance on IT.

Conclusion

The DAC is satisfied that the Group, through the DAC and the board, has maintained appropriate standards of corporate governance. The Group has well-functioning processes and procedures to ensure adherence to the required standards and we are satisfied that corporate governance in the Group is such as to ensure the maintenance of the standards expected of us by our various stakeholders.

Garth Griffin

Chairman: Directors' Affairs Committee

9 March 2011

Corporate governance statement

Introduction

Absa Group's board is responsible for ensuring that the Group's operations, processes and activities are underpinned by a strong system of governance that is fully integrated into all aspects of its business. Moreover, the board remains accountable for the ongoing sustainability of the Group.

Since the publication of King III during 2009, the Group has used the opportunity to review and formalise its governance frameworks to incorporate all aspects of sustainable development, i.e. its impact on the broader society and the environment, in addition to the financial impacts. This process will be continued through 2011.

King III focus areas

The board is of the view that the Group substantially applies the principles of King III. Absa will be focusing on certain initiatives to further strengthen the Group's application of the principles. Key amongst these are the following:

» A full review of stakeholder relationships.
» Establishing a more formal IT governance structure.
» Enhanced implementation of the combined assurance model.
» Further enhancement of the Group's code of ethics.

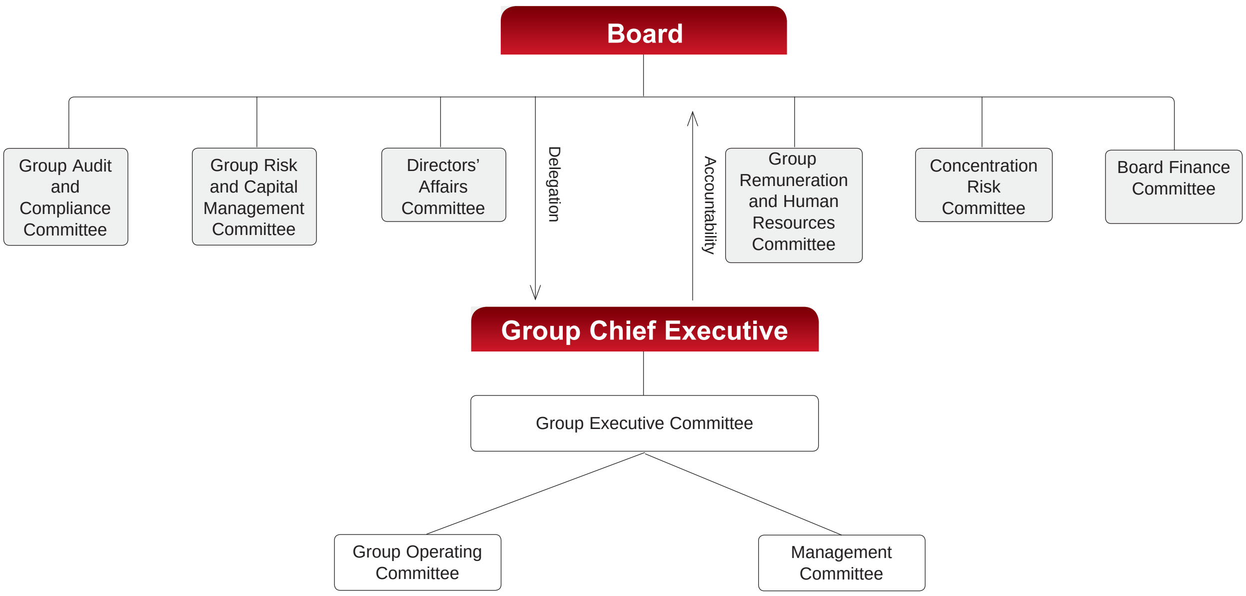
Full and transparent disclosure is critical to the board and the enhanced standards of disclosure in terms of integrated reporting will be developed as direction is confirmed by the Integrated Reporting Committee (of SAICA). The extent of independent assurance of the Group's sustainability reporting will also be reviewed.

The board acknowledges that maintaining good corporate governance is an ongoing process and will closely monitor the Group's King III application.

Corporate governance structure

The Absa Group board takes overall responsibility for the Group's governance and compliance with the various laws and regulations applicable to the Group. Further information on Absa's compliance with these laws and regulations can be found in the compliance report.

Absa Group's governance structure



Corporate governance statement

Group board membership[4]

Member	Appointment date
Chairman	
G (Garth) Griffin	15 October 2001 (as Chairman 1 October 2010)
Independent non-executive directors	
D C (Des) Arnold	11 April 2003
C (Colin) Beggs	23 June 2010
B P (Brian) Connellan	27 August 1994
S A (Shauket) Fakie	1 January 2008
M W (Monhla) Hlahla	23 December 2005
M J (Mohamed) Husain	28 November 2008
T M (Thoko) Mokgosi-Mwantembe	28 November 2008
E C (Eduardo) Mondlane, Jr[3]	26 September 2007
T S (Trevor) Munday	16 April 2007
S G (Brand) Pretorius	1 January 2009
B J (Johan) Willemse	1 January 2008
Non-executive directors	
Y Z (Yolanda) Cuba	6 December 2006
B C M M (Benoît) de Vitry d'Avaucourt[1]	23 March 2009
A P (Antony) Jenkins[2]	23 March 2009
R (Robert) Le Blanc[2]	4 June 2007
Executive directors	
D W P (David) Hodnett	1 March 2010
M (Maria) Ramos	1 March 2009
L L (Louis) von Zeuner	1 September 2004

Notes
[1]*French*
[2]*British*
[3]*Mozambican*
[4]*As at 31 December 2010.*

Further reading
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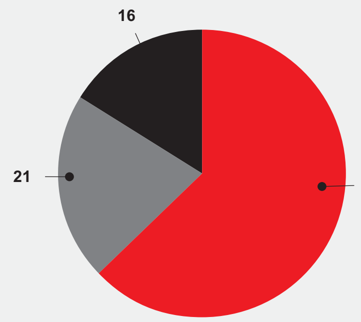
Absa Group board

Board composition

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

The Absa Group board has an appropriate balance of independent, non-executive and executive directors. The board comprises a majority of independent directors (non-executive directors who are independent as defined in the King II report). The Chairman of the board is an independent director. The practice of appointing the Chairman on an annual basis will be introduced in 2011 in accordance with the recommendations of King III.

Board composition as at 31 December 2010 (%)



● Independent non-executive directors (12)
● Non-executive directors (4) ● Executive directors (3)

Independence

The DAC assesses the independence of each director against the criteria set out in King II, the JSE Listings Requirements, the UK Code and other corporate governance principles. The Group had 12 independent non-executive directors as at 31 December 2010, forming a majority on the board.

Executive directors

There were three executive directors on the board and several executive directors on the boards of the Group's main subsidiaries as at 31 December 2010. Executive directors are required to retire from the board (as executive directors) at 60.

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

Board meetings

The board meets regularly. Board meetings, as well as additional information and training sessions, 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, video conferencing and/or teleconferencing facilities are made available to include them in the proceedings. Reasons for non-attendance are provided to the Group 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 all 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 under exceptional circumstances.

Board procedures and related matters

The board has full control over all the companies in the Group. In terms of the board charter, the board delegates authority on certain matters to executive management, but reserves matters such as setting the Group strategy and long-term plans, as well as monitoring executive management's implementation of approved plans and strategies, to the board itself.

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 the Group between board meetings.

Further reading

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2010 meeting attendance 33

Corporate governance statement

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 Group Chief Executive and individual board members;
- board composition;
- 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:
  - the Group's objectives, strategy, short-term and medium-term plans and the monitoring of performance against agreed criteria;
  - annual financial statements, interim reports, dividends and related financial matters;
  - Absa's code of ethics;
  - the appointments to and removals from the board (including the Chairman, Group Chief Executive, and executive and non-executive directors);
  - delegations of authority to the Group Chief Executive;
  - board committee mandates, authorities and membership;
  - Absa's risk appetite;
  - significant Company policies;
  - 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 interactions with executive management

The board meets with management annually to agree on the Group's strategy and to consider long-term issues facing the Group as well as the environment in which Absa operates. In addition, board members interact with management at scheduled board information and training sessions as well as board committee meetings, thus providing a broad range of interaction.

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 Group Secretary.

The non-executive directors meet without the presence of management before 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 the Group, 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 the Group's expense, should they consider it necessary.

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 Group's 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 AGM, accompanied by the appropriate biographical details. Non-executive directors are required to retire at the AGM 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 Group directors who have served on the board for longer than nine years are subject to annual re-election by shareholders at the AGM.

The board also assesses whether the independence of these directors has been impaired. Directors who have served on the board for more than nine years are 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 Group Chief Executive and executive directors, based on recommendations from the DAC. Where appropriate, these recommendations are supported by recommendations of the 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 shareholders at the AGM. Before appointment, potential board appointees must undergo a fit and proper test in terms of the JSE Listings Requirements and the Banks Act.

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Corporate governance statement

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 the Group's business plans and strategy, as well as the need to transform the board and ensure greater diversity. The GRHRC makes recommendations about 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 new and existing directors. The workshops cover topics such as the Group's business, corporate governance, fiduciary duties and responsibilities, new laws and regulations and risk management. Directors (particularly new directors) are encouraged to attend development programmes that focus on the duties, responsibilities, powers and potential liabilities of directors.

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 Group 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 may be provided internally or by external service providers. Sessions are also hosted for board committee members on specialist topics. Director participation in the training that the Group provides is monitored. Directors are also encouraged to attend external courses that focus on governance and the financial services industry.

Performance assessment

Chairman and non-executive directors

The Group Chairman performs an annual evaluation of individual non-executive directors. The Chairman's findings are presented to the DAC, which makes recommendations to the board based on the information supplied. The DAC is responsible for evaluating the Group 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 Group Chairman meets with each director individually to discuss any matters that arise from the evaluation process.

Board remuneration and share ownership

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 Group Chairman and the Group Chief Executive for review by the board.

The remuneration of non-executive directors is submitted to shareholders for approval at the AGM.

Non-executive directors must hold a minimum of 1 000 Absa ordinary shares throughout their tenure. Non-executive directors do not receive share options or incentive awards.

Further reading

Directors' interest in Absa shares 119

Board committees

The board takes full ownership of certain key decisions to ensure it retains proper direction and control of the Group. 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 and are reviewed annually. A comprehensive framework setting out the authorities and responsibilities of the boards and committees in the Group 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 recognises that it is ultimately accountable and responsible for the performance and affairs of the Group. Delegating various functions and authorities to committees and management does not absolve the board and its directors of their duties and responsibilities.

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. Board members have unrestricted access to committee minutes and papers. Board committees are empowered to take independent outside professional advice when they believe it to be necessary.

The membership and principal functions of the board committees are set out in the pages that follow. The board is of the view that these committees have effectively discharged their responsibilities as contained in their respective terms of reference during the year under review.

Corporate governance statement

GACC membership[1]

Member	Appointment date
D C Arnold (Chairman)	April 2003
C Beggs	June 2010
S A Fakie	April 2008
T S Munday	April 2007

Note
[1]*As at 31 December 2010.*

Further reading

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Group Audit and Compliance Committee (GACC)

Composition and meeting procedures

The GACC is chaired by an independent director.

All the members of the GACC are independent directors. In addition, two further non-executive directors, Y Z Cuba (a representative of Batho Bonke Capital (Proprietary) Limited) and A P Jenkins (a representative of Barclays), are standing invitees to the committee meetings.

Meetings of the committee are attended by the Group Chief Executive, Deputy Group Chief Executive, Group Financial Director, Chief Risk Officer, Chief Internal Auditor, the external auditors, Group Compliance Officer and, by invitation, members of executive management, including those involved in control and finance, and the Group Chairman (who is not a member of the committee). All the members of the committee are financially literate.

Prior to every GACC meeting, the committee Chairman meets privately with the Chief Internal Auditor, Group Compliance Officer, external auditors and relevant members of management. At every committee meeting, time is reserved for separate private discussions of committee members only. This is then followed by the Chief Internal Auditor and external auditors meeting privately with the committee. Such private discussions provide an opportunity for committee members to communicate candidly without management present. Thereafter, management joins the meeting and it proceeds according to the agenda.

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

Seven meetings of the committee were held in 2010.

Role, purpose and principal functions

The GACC assists the board with regard to reporting financial information, selecting and properly applying accounting principles and policies, monitoring the Group's internal control systems and various compliance-related matters. In accordance with the King III principle regarding audit committees, the GACC also oversees the Group's external reporting process. Other aspects for which the GACC is responsible include business continuity and the management and governance of the Group's relationship with and independence of the external auditors.

Group Risk and Capital Management Committee (GRCMC)

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, R Le Blanc. Meetings of the committee are attended by the Group Chief Executive, Deputy Group Chief Executive, Group Financial Director, Chief Risk Officer, the external auditors, Group Compliance Officer and, by invitation, other members of executive management.

Six meetings of the committee were held in 2010.

Role, purpose and principal functions

The GRCMC assists the board with regard to risk and capital management and ensuring compliance with the requirements of the Banks Act. In addition, the purpose of the committee is to review, on behalf of the board, management's recommendations on risk, in particular:

- consider and recommend to the board the Group's risk appetite;
- review, on behalf of the board, the Group's risk profile;
- monitor current and planned levels of capital relative to regulatory and economic capital requirements and the plans of the Group;
- satisfy itself on the design and completeness of the Group's internal control and assurance framework relative to the risk profile, including the principal risk categories; and
- commission, and receive and consider reports on key risk issues.

Directors' Affairs Committee (DAC)

Composition and meeting procedures

The DAC is chaired by the Group Chairman and consists of a majority of independent directors. It also includes a Barclays-nominated director, R Le Blanc, and is attended by the three executive directors.

Six meetings of the committee were held in 2010.

Role, purpose and principal functions

This committee assists the board with regard to corporate governance, board nominations and related matters.

GRCMC membership[1]

D C Arnold

C Beggs

G Griffin

M W Hlahla

M J Husain

R Le Blanc

E C Mondlane, Jr

T S Munday (Chairman)

B J Willemse

Note

[1]*As at 31 December 2010.*

Further reading

GRCMC meeting attendance 33

DAC membership[1]

D C Arnold

G Griffin (Chairman)

M J Husain

R Le Blanc

T S Munday

S G Pretorius

Note

[1]*As at 31 December 2010.*

Further reading

DAC meeting attendance 33

Corporate governance statement

GRHRC membership[1]

B P Connellan

B C M M de Vitry d'Avaucourt

G Griffin

A P Jenkins

T M Mokgosi-Mwantembe

S G Pretorius (Chairman)

Further reading

GRHRC meeting attendance 33

BFC membership[1]

D C Arnold

B P Connellan

Y Z Cuba

B C M M de Vitry d'Avaucourt

G Griffin (Chairman)

T S Munday

Further reading

BFC meeting attendance 33

CoRC membership[1, 2]

B P Connellan

G Griffin (Chairman)

D W P Hodnett

T S Munday

M Ramos

L L von Zeuner

B J Willemse

Notes

[1]*As at 31 December 2010.*

[2]*The composition of the CoRC was approved by the Registrar of Banks in terms of section 73(1)(a) of the Banks Act.*

Group Remuneration and Human Resources Committee (GRHRC)

Composition and meeting procedures

The GRHRC is chaired by an independent director and comprises mainly independent directors. The Group Chief Executive, the Deputy Group Chief Executive, the Chief Human Resources Executive and the Group Financial Director attend meetings by invitation, but do not participate in discussions and decisions regarding their remuneration and benefits.

Five meetings of the committee were held in 2010.

Role, purpose and principal functions

This committee assists with and advises the board on various strategic human resource matters; more specifically remuneration and incentive arrangements, transformation, talent management, succession planning for strategic positions, employee 'franchise health' and retirement benefit design and governance.

Board Finance Committee (BFC)

Composition and meeting procedures

The BFC is chaired by the Group Chairman, who is an independent director, as are the majority of the members of this committee. The three executive directors also attend meetings.

Six meetings of the committee were held in 2010.

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 the Group's annual budget before submission to the board for approval. It also finally approves the final interim and annual results announcements and dividend declarations after consideration by the board and in terms of a specific mandate and guidance from the board.

Concentration Risk Committee (CoRC)

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 the Group's qualifying capital and reserves.

Composition and meeting procedures

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

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

Board and board committee meeting attendance

This table outlines details of board members' attendance of board and board committee meetings[1] for 2010.

Name	Absa Group and Absa Bank Limited board meetings	GACC (seven meetings held)	GRCMC (six meetings held)	DAC (six meetings held)	GRHRC (five meetings held)	BFC (six meetings held)	Total
Current directors							
D C Arnold	6/6	7/7[2]	6/6	6/6		6/6	31/31
C Beggs	4/4	3/4	2/2				9/10
B P Connellan	6/6				5/5	6/6	17/17
Y Z Cuba	5/6	[3]				6/6	11/12
B C M M de Vitry d'Avaucourt	5/6				5/5	4/6	14/17
S A Fakie	6/6	7/7					13/13
G Griffin (Group Chairman)	5/6	6/6	6/6	6/6[2]	1/1	1/1[2]	25/26
M W Hlahla	5/6		3/6				8/12
D W P Hodnett	5/5	[3]	[3]	[3]	[3]	[3]	5/5
M J Husain	6/6		6/6	5/6			17/18
A P Jenkins	4/6	[3]			3/5		7/11
R Le Blanc	5/6		5/6	6/6			16/18
T M Mokgosi-Mwantembe	5/6				4/5		9/11
E C Mondlane, Jr	5/6		5/6				10/12
T S Munday	6/6	7/7	6/6[2]	6/6		6/6	31/31
S G Pretorius	6/6			4/6	5/5[2]		15/17
M Ramos	6/6	[3]	[3]	[3]	[3]	[3]	6/6
L L von Zeuner	6/6	[3]	[3]	[3]	[3]	[3]	6/6
B J Willemse	6/6		5/6				11/12
Previous directors							
D C Brink (former Group Chairman)	5/5		4/4	5/5	3/4	5/5	22/23
J H Schindehütte	1/1						1/1

Notes

[1]*Excludes the CoRC, which meets as and when required.*
[2]*Denotes Chairman.*
[3]*Denotes attendance/standing invitee/ex officio.*

From this table, it can be seen that board member attendance exceeded 90% of meetings over the year. In addition to the above, board members were expected to be available for meetings with the regulator, a two-day board strategy meeting and a further two training sessions.

Corporate governance statement

Exco membership[1]

Member	Appointment date
D W P (David) Hodnett	5 January 2008
V J (Venete) Klein[2]	1 July 2005
W T (Willie) Lategan	1 January 2007
J (Jan) Lubbe	1 September 2010
B (Bobby) Malabie	1 March 2010
F C S (Fergus) Marupen	12 April 2010
D R (Daphne) Motsepe	22 January 2010
V (Alfie) Naidoo	1 February 2005
H (Happy) Ntshingila	1 February 2008
G R (Gavin) Opperman	22 January 2010
M (Maria) Ramos	1 March 2009
S (Stephen) van Coller	1 October 2009
L L (Louis) von Zeuner	1 September 2004

Notes
[1]*As at 31 December 2010.*
[2]*V J Klein retired on 31 December 2010.*

In addition to the board committees noted on the previous pages, directors also serve on a number of other committees and forums where their independence and experience can be of value to the Group.

Group Executive Committee (Group Exco)

Composition and meeting structure

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

A Management Committee and an Group Operating Committee are in place, under the chairmanship of the Group Chief Executive and Deputy Group Chief Executive respectively. The Management Committee meets weekly and its main functions are to monitor the Group's financial performance, focus on the risk environment and evaluate high-priority issues affecting the Group.

The Group Operating Committee meets fortnightly and its main functions are:

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

Authorities and procedures

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

Members of Group Exco are generally not permitted to hold any significant external directorships, unless the external appointment is taken up at Absa's request. In terms of the board charter, the proposed appointment must first be discussed with the Group Chairman and thereafter approved by the DAC. In line with strict governance practices, executive directors are restricted from accepting appointments as non-executive directors of any company where an Absa Group non-executive director already serves.

The role of the subsidiary boards

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

Absa is in the process of finalising a governance framework between the Group and its subsidiaries. Standard reporting and repository software is being rolled out across the entire Group to assist in this regard. The Legal Entity Review Committee (LERC), a subcommittee to the Group Investment Committee (GIC), has the overall responsibility for the governance of the legal entity life cycle (formation/acquisition to deregistration/liquidation) of both consolidated subsidiaries and consolidated and non-consolidated special purpose entities in the Group.

Although the African subsidiaries are subjected to different legislation particular to those countries, they are also included in the Group's governance framework as far as practically possible.

The subsidiary boards meet approximately five times a year, usually before Group board meetings. The Group Chairman, G Griffin, currently serves on the boards of the major financial services subsidiaries because of his expertise in this field. Mr E Mondlane, Jr serves on the board of Barclays Bank Mozambique.

Group Secretary

All directors have access to the suitably qualified and experienced Group Secretary. The Group 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 the Group.

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

Interaction between Absa and Barclays

Absa Group and Barclays work together to maximise value for all stakeholders while complying with all relevant laws, regulations and standards. Absa Group 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.

Corporate governance statement

Democracy support

In line with the Group's support of the principle of multiparty democracy, as contained in the founding provisions of the South African Constitution, Absa contributed R2,6 million (2009: R2,6 million) through the board approved Democracy Support Programme for the year ended 31 December 2010.

All political parties that are registered in terms of section 15 of the Electoral Commission Act, No 57 of 1996, and have three or more seats in the National Assembly, benefit from this programme.

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 directors for the financial statements.

Report from the Chairman of the Group Audit and Compliance Committee

Des Arnold
Chairman: Group Audit and Compliance Committee

Note:

This report set out on the pages that follow, is that of the Absa Group, and was published in the Absa Group annual report for 2010. Absa Bank is a major wholly owned subsidiary of Absa Group.

Highlights

» Increased attention on IT controls and processes.

» Enhanced the control and compliance environment.

» Embedment of the business continuity management processes.

Report from the Chairman of the Group Audit and Compliance Committee

Introduction

The recent global financial crisis stressed the need for sound control and compliance procedures. In addition, King III emphasises that organisations must have independent audit committees that oversee audit, control and reporting activities.

Ensuring accurate and transparent disclosure to stakeholders is therefore a key responsibility of audit committees. It instils trust in an organisation and its board and management. It also allows shareholders and other stakeholders to make informed decisions relating to the organisation. In providing a comprehensive picture of the organisation's performance and its ability to create value, it is becoming increasingly important to provide both financial and non-financial information in an integrated manner and to obtain the appropriate assurances for such information.

Absa's 2010 report aims to provide a view of the Group's performance through the disclosure of key sustainability indicators. In addition to the external audit required for the Group's annual financial statements, assurance has been obtained for specific 2010 non-financial indicators on a limited basis.

Set out on the pages to follow is my report in terms of section 270A(f) of the Companies Act, 1973 (as amended). The report provides an overview of the Group Audit and Compliance Committee (GACC) and its activities and how it has discharged its responsibilities in 2010.

Control and compliance framework

Audit and compliance governance

Strong internal control and compliance contributes significantly to the sustainability of the organisation as a whole. The GACC assists the board with regard to oversight of external disclosure (including the annual report, accounting policies and reporting of financial information), monitoring the Group's internal control systems and oversight of compliance related matters.

The GACC consists of four independent directors, and the board representatives of Batho Bonke Capital (Proprietary) Limited and Barclays, who are mandatory invitees to the committee. All members of the GACC are financially literate and are experienced finance professionals. Adequate training is conducted annually to ensure that members can effectively discharge their duties. The GACC may also consult specialists in the discharge of its duties.

Meetings of the committee are held at least once a quarter and are attended by the Group Chief Executive, the Deputy Group Chief Executive, the Group Financial Director, the Chief Risk Officer, Chief Internal Auditor and the external auditors, the Group Compliance Officer and, by invitation, members of executive management, including those involved in controls and finance, as well as the Group Chairman (who is not a member of the committee).

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Prior to every GACC meeting, the committee Chairman meets privately with the Chief Internal Auditor, Group Compliance Officer, the external auditors and relevant members of management. At every committee meeting, time is reserved for separate private discussions of committee members only. Such private discussions provide an opportunity for committee members to communicate candidly without management present. This is then followed by the Chief Internal Auditor and the external auditors meeting privately with the committee. Thereafter management joins the meeting and it proceeds according to the agenda.

The Chief Internal Auditor and the external auditors, as well as the Group Compliance Officer, have unrestricted access to the Chairman of the GACC, which ensures that their independence is in no way impaired. The GACC delegates its authority with regard to the monitoring and control of compliance issues to the Chief Compliance Officer.

The legal responsibilities of the GACC are set out in the Companies Act and Banks Act. In addition to these responsibilities, international best practice with regard to compliance and reporting are included in the terms of reference of the GACC.

Senior management in all the divisions play a key role in the design and implementation of accounting, IT and compliance controls. Further, they set the leadership tone by ensuring that their people clearly understand the necessity to engender a strong control environment. Controls are then established in line with applicable best practice and are evaluated for effectiveness in terms of Sarbanes-Oxley and other recognised tools. Senior management are required to regularly assess and report their divisions' compliance with such controls and implement corrective action, where required. Their reports are regularly presented to the GACC and, where appropriate, presentations are requested from management for the further information of the GACC. Internal audit considers the effectiveness of senior management's assessment of the control environment of all divisions in confirmation of this important first line of defence.

External audit

The GACC ensures that the appointment of the Group's external auditors complies with the Companies Act and any other legislation impacting the appointment of auditors. The committee makes sure that the Group's auditors are independent and determines the external auditors' fees and terms of engagement.

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, quality control, business insight and independence.

Further reading

Audit fees paid 185

Report from the Chairman of the Group Audit and Compliance Committee

Absa also has an audit partner rotation process according to the relevant legal and regulatory requirements. The GACC is satisfied with the performance and 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 (who retires at the end of the year) and J Bennett (new first time appointment) respectively. This is subject to the board's endorsement and the approval of 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 that falls outside those described in Absa's non-audit services policy and that could compromise the external auditors' independence.

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

The GACC ensures that the policy for non-audit services is reviewed annually and that the approval process is followed for assignments and reported to the GACC. During 2010, total non-audit fees amounted to R52 million. A large portion of these fees relate to services performed on behalf of Barclays who are responsible for the costs involved.

Internal audit

Absa has a dedicated internal audit function, the core purpose of which is to perform independent reviews of the internal control environment (including information technology controls) to ensure that the Group complies with the relevant laws, regulations and supervisory requirements. The work for the year is summarised in a plan that is considered by the GACC to ensure adequate coverage of all key risk areas and accounting controls across all entities in the Group. The GACC approves the appointment of the Chief Internal Auditor. The Chief Internal Auditor reports to the Group Chief Executive from an administrative perspective, and to the GACC functionally, and has unrestricted access to the GACC. The Chief Internal Auditor attends GACC meetings and provides the GACC with written assessments of the internal control environment.

The GACC has reviewed the evaluation of the work conducted by the internal audit function, their findings and suggested improvements to controls where necessary. The GACC has assessed the performance and qualifications of the internal audit function and found them to be satisfactory.

Group Financial Director and Group Finance

The Group Financial Director and the finance function are key roleplayers in ensuring accurate reporting and financial control. The Group Financial Director is responsible for managing Absa's external reporting and its internal financial reporting. He attends GACC meetings in an ex officio capacity.

During 2010, the GACC conducted a review of the effectiveness of the Group Financial Director and the finance function, which they found to be satisfactory.

Absa Group Compliance

An effective and independent compliance function is a key contributor to good corporate governance and is a requirement in terms of King III, the Banks Act and various relevant legislation. Absa Group Compliance has dedicated independent centres of excellence in all business units that monitor, control and report on compliance issues. The appointment of the Group Compliance Officer is approved by the GACC. The Group Compliance Officer reports to Group Financial Director from an administration perspective and to the GACC functionally. The Group's compliance plan for the year is reviewed and approved by the GACC to ensure adequate coverage of all the key areas. Findings are reported regularly to the GACC. The GACC is of the opinion that this function effectively discharged its responsibility in 2010.

Integrated reporting

King III advocates that JSE listed companies with financial years commencing from 1 March 2010 are required to produce integrated reports which enables stakeholders to evaluate an organisation's performance and to make an informed assessment about its ability to create value.

The Group will provide its first integrated report to stakeholders for the year ended 31 December 2011. In preparation of this, the focus in 2010 has been on providing disclosures pertaining to the items that are material to the Group and obtaining assurance on a number of non-financial key performance indicators on a limited basis. The GACC is satisfied that this approach will further strengthen the Group's application of the King III principles.

2010 control and compliance landscape

New legislation, and regulatory and supervisory requirements impacted the compliance and control landscape in 2010. The GACC remained focused on managing the impacts specifically relating to external disclosure, internal controls and compliance.

During 2010, 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, profit and dividend announcements and the annual report;

» 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 GRCMC to ensure that all risks to which the Group is exposed are identified and managed in a well defined control environment;

Report from the Chairman of the Group Audit and Compliance Committee

- ensuring that controls and procedures relating to the IT environment and processes were adequately considered by internal audit, including recovery procedures;
- recommending to the board the appointment of external auditors and fees payable to the external auditors;
- evaluating the performance of the external auditors;
- reviewing and approving external audit plans, findings and reports;
- ensuring that the appointment of the external auditors complied with the Corporate Laws Amendment Act and any other legislation relating to external auditors;
- approving the Group'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 Group Financial Director and the adequacy of resources of the finance function and experience of the senior members of management responsible for the finance function;
- considering tax provisions and related tax matters; and
- reviewing the Absa values, code of ethics and code of conduct.

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

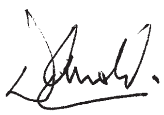
- attended all meetings of the GRCMC;
- regularly met separately with the external auditors, Chief Internal Auditor, Group Compliance Officer and Chief Risk Officer;
- regularly met with executive management including separate meetings with the Group Financial Director;
- reported to the board after each committee meeting;
- attended audit committee forum meetings held under the auspices of the Institute of Directors;
- attended Barclays training in London and Mauritius;
- attended Barclays Bank Mozambique's board audit and risk committee meetings; and
- attended Governance and Control Committee meetings for Retail Banking, ABB and Absa Financial Services.

Focus for 2011

During 2011, emphasis will be placed on ensuring that the GACC meets the requirements as set out in the Companies Act, Banks Act and the principles and recommendations of King III. This will result in the effective oversight of external disclosure, the monitoring of the Group's internal control systems and oversight of compliance related matters. Specific emphasis will be placed on reviewing disclosures made by the Group to ensure they are aligned with best practice and that the accounting policies and standards applied are appropriate. The Group's integrated reporting journey will continue to receive attention, with the intent of improving non-financial disclosures and assurance.

Conclusion

The GACC operates under written terms of reference, reviewed and approved by the board annually. The board is of the view that the GACC has effectively discharged its responsibilities as contained in the respective terms of reference during the year under review.



Des Arnold

Chairman: Group Audit and Compliance Committee

9 March 2011

Risk report for Absa Bank Limited

Highlights

- » Strong capital position maintained.
- » Investment grade credit rating maintained.
- » Focus on quality of new business.
- » Reduction in arrears/impairments through investing in collection activity.
- » Traded market risk and revenue down on muted markets and client volumes, but delivering a favourable revenue- to-risk ratio.
- » Interest rate risk in the banking book managed to low levels.
- » Significant increase in surplus liquid assets held.

Introduction

In 2010 world financial markets found themselves operating under a cloud of uncertainty as to when the economic recovery would come, and what form it would take. In order to safeguard the interests of stakeholders during this period, the Bank placed high importance on ensuring robust risk management processes were in place to ensure that the Bank could respond effectively and timeously to the various pressures and demands of the environment.

Approach to risk management

Risk management is a key pillar of the One Absa strategy and the Bank applies a structured and disciplined approach to the management of risk throughout the organisation. A policy known as the Principal Risk Policy (PRP) has been developed and approved by the board. The PRP sets out the detail and scope of the risks, the business responsibility for managing the various risks and high level procedures for risk management.

Risk governance

The Bank's approach to risk governance aims to balance the demands of dynamic and efficient business decision-making with the requirements of control and transparency.

The responsibility for risk governance lies at all levels of the organisation, from directors at board level to individual employees tasked with responsibility for managing risk. Senior management sets risk management policies to be followed on an organisation-wide basis within the risk appetite set by the board. These policies are clearly communicated throughout the Bank and apply to all business units, wholly owned subsidiaries and majority shareholdings where the Bank has control of the management of the entity.

Oversight of risk management resides with two board committees, namely, the Group Risk and Capital Management Committee (GRCMC) and the GACC.

The Group Risk and Capital Management Committee (GRCMC)

The GRCMC assists the board in fulfilling its responsibilities in managing risk and complying with those requirements of the Banks Act that relate to risk and capital management. The GRCMC determines and recommends the Bank's risk appetite to the board and then reviews and monitors the Bank's risk profile against the risk appetite on a quarterly basis. The GRCMC also approves control frameworks for various principal risks and assists in determining capital target ranges and monitoring capital levels of the Bank.

The membership of the GRCMC consists of nine non-executive directors, eight of whom are independent directors. The GRCMC meets on a quarterly basis.

During 2010, GRCMC meetings were also attended by the CE, Deputy Group Chief Executive, Group Financial Director, Chief Risk Officer and Group Treasurer. The GRCMC meetings are attended by both internal and external auditors in accordance with the Bank's governance processes and in line with regulatory provisions.

The GRCMC meetings that took place during 2010 were convened in accordance with the mandate contained in its terms of reference and in accordance with applicable regulations. The GRCMC was provided with the required representations and information by management at each meeting, which enabled the GRCMC to properly review and monitor the various risks and, in so doing, effectively comply with its mandate. Adequate training is conducted annually to ensure that members can effectively discharge their duties.

In order to execute his responsibilities, the Chairman of GRCMC attended all meetings of the GACC, met with the Chief Risk Officer and executive management on a regular basis, and reported to the board after each committee meeting.

The GRCMC is satisfied that the risk management processes and systems provide comprehensive and adequate oversight over the risk exposures of the Bank. The GRCMC is satisfied that management was able to effectively respond to, and manage, the risks that arose from time to time.

Risk landscape during 2010

The Bank's risk landscape during 2010 was affected by the continuing hesitant economic recovery. In an attempt to safeguard the interest of stakeholders, the Bank focused on ensuring that robust risk management policies were in place and, in particular, focused on the following key areas:

- credit risk management;
- liquidity management;
- maintaining adequate capital buffers; and
- enhancing the level of integration of operational risk management tools and processes.

GRCMC core activities

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

- Recommending the Bank's risk appetite to the board, for approval and monitoring, on a quarterly basis the actual risk against the board-approved appetite.
- Assisting the board in executing its duties regarding risk and capital management as required by the Banks Act, and in particular assisting the board with:
  - evaluating the adequacy and efficiency of the risk policies, procedures, practices and controls applied in the day-to-day management of the business;
  - identifying the build-up and concentration of risks and developing a risk-mitigation strategy to ensure the Bank is able to optimally manage these risks;

Risk report for Absa Bank Limited

- › overseeing the independent risk management function, coordinating the globalised monitoring of risk management, and facilitating and promoting communication regarding risk policies, procedures, practices and controls and other related matters; and
- › establishing a process that relates capital to risk undertaken and defines capital adequacy goals with respect to risk, strategic focus and business plans of the Bank.

- » Monitoring the Bank's emerging risk profiles and reporting 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 the Bank.
- » Reviewing the adequacy and effectiveness of the PRP, the completeness of principal risks coverage and the ongoing effectiveness of the framework as implemented by the Bank.
- » Assessing the Bank's risk management approach and practices in light of the global financial crisis.
- » Liaising with the GACC to ensure appropriate oversight of key controls and in turn, considering and acting on concerns raised by the GACC.
- » Ensuring the appropriate disclosure by the Bank of its risk management and capital management status and activities.

Risk management activities

During the year, the GRCMC obtained sufficient and appropriate information regarding the performance of the principal risks against the relevant risk parameters set by the board. This included information regarding the process employed by executive management for monitoring and managing these risks.

The key highlights and achievements during 2010 are listed below:

Capital management

Capital management remained a key focus area due to global banking conditions and the subdued economic growth. Capital levels were adequately maintained at all times and R1 billion subordinated debt was issued in May 2010, as part of the ongoing management of Tier 2 capital levels.

The total target for 2010 capital adequacy levels set by the board is as follows:

- » Absa Bank Limited: 11,5% to 13,5%.

The capital levels of Absa Bank Limited are well above the target range.

Further focus areas were:

- » revisions to the capital plans in response to the impact of credit model refinements carried out on RWA's during 2010; and
- » evaluating Basel amendments and planning for the impact of its proposed regulatory changes.

Credit risk

Wholesale and retail credit risks remained high on the risk management agenda.

In the retail credit environment, impairments reduced across the Bank. Impairment losses on loans and advances as a percentage of loans and advances in 2010 were 1,1% (2009: 1,6%). Existing credit models were reviewed and recalibrated to reflect the current economic conditions. The areas where the aforesaid improvements were implemented were card, cheque, unsecured loans, instalment credit agreements and mortgages.

Credit risk management strategies were aligned with retail business strategies (including entry level banking, customer centricity and Africa), in support of the One Absa strategy. Enhanced pricing, profitability modelling and RWA management was achieved.

In the wholesale credit environment, inflows to the watchlist moderated in the second half of the year and impairments remained in line with the Bank's 2009 experience. Significant progress was made in preparing for the Advanced Internal Ratings Based (AIRB) measurement approach for the wholesale portfolio.

Improvements were made to the credit risk regulatory capital reporting process and credit risk governance.

Market risk

Traded market risk remained at low levels and was managed within the risk appetite set. Traded market risk and revenue were down because of muted market conditions and lower customer volumes, but a favourable risk-adjusted return was achieved. Total daily value at risk (DvaR) reduced year on year from R31,7 million to R27,9 million. Traded market risk measurement systems were upgraded during the year to enhance performance and scalability.

For non-traded market risks, the focus remained on interest rate risk and equity investment risk. The following was achieved:

» interest rate risk within the banking book was managed to low levels;
» cash flow hedging reserves were further bolstered during the year, as a result of favourable mark-to-market adjustments; and
» equity investment risk exposure in the banking book was managed down. Valuations stabilised in line with portfolio movements and the prevailing market conditions.

Liquidity risk

Management of liquidity risk received increasing attention. Focus was placed on improving the liquidity position of the Bank and the following was achieved:

» a significant increase in surplus liquid assets held over 2010. As at the reporting date, R17 billion of surplus liquid assets was held in respect of Absa Bank Limited, which is an increase of R13 billion on the previous year;
» improvement in the contractual mismatch position over the year owing to prudent liquidity risk management practices and a further extension of the funding term; and
» preparation was made for revised regulatory requirements and steps were taken to ensure the Bank is able to respond effectively to these changes.

Regulatory risk

An increasing amount of new regulatory legislation was tabled which is due to be implemented in 2011, as well as certain improvements and changes to existing legislation. As a result of these developments, focus was placed on the following areas:

» the impact of new legislation on risk management and the Bank's processes;
» support in respect of new and amended regulatory requirements including the Financial Advisory and Intermediary Services (FAIS) Act No. 37 of 2002, Companies Act and Consumer Protection Act, No 68 of 2008 projects; and
» enhancement of controls and policies, in response to new regulatory provisions and amendments including, internet gambling and oversight of general compliance governance.

Risk report for Absa Bank Limited

Risk appetite

The Bank's formalised risk appetite framework, which is embedded within key decision-making processes, supports the implementation of the Bank's strategy. The Bank's risk appetite framework aims to maximise returns without exposing the Bank to levels of risk that are outside of its appetite; and is defined as the level of risk that the Bank is willing to accept in fulfilling its business objectives. The risk appetite framework impacts the Bank's strategy, capital and portfolio management and the day-to-day operations of the Bank.

The risk appetite framework is developed utilising a formal quantitative method and stress testing techniques based on advanced risk analysis. The framework, set by the board, is used as a basis for setting business unit targets and risk taking limits across the Bank. Stress testing and scenario analysis are closely aligned with the risk appetite process and are utilised to evaluate the reasonableness of the appetite levels set on a forward looking basis.

Risk appetite methodology

The Bank's risk appetite can be categorised in the following four broad areas:

» earnings volatility in comparison to targets;

» capacity to absorb unexpected losses;

» capital ratio targets; and

» desired dividend payout levels.

The objectives of the risk appetite framework are to:

» assist in protecting the Bank's financial performance;

» improve management responsiveness and debate regarding the Bank's risk profile;

» assist executive management to improve control and coordination of risk-taking across businesses; and

» enable unused risk capacity to be identified in pursuit of profitable opportunities.

Stress testing

Stress testing is embedded in the risk management of the Bank and is a key focus during the strategic planning processes. Through the use of stress testing and scenario analysis the Bank is able to assess the performance of its portfolios under the anticipated economic environment and evaluate the impact on its portfolios during adverse and more favourable economic conditions.

The stress tests simulate the statement of financial position and profit and loss effects of stresses across the Bank, analysing the impact on profits and the ability to maintain appropriate capital ratios. Insights gained are fully integrated into the management process that considers forward looking trends and the Bank's financial performance and capital management over a three to five year horizon. Stress testing also forms an integral part of evaluating the Bank's risk appetite for reasonableness under specifically designed scenarios. Stress tests are regularly discussed with the regulator.

Risk appetite outcomes are validated by estimating the Bank's sensitivity to adverse changes in the business environment, which includes operational risk events that may impact the Bank as a whole. Bank-wide stress tests allow senior management to gain a better understanding of how portfolios are likely to react to changing economic and geopolitical conditions and how the Bank can best react to them.

Besides Bank-wide stress testing, a number of stress tests are performed as part of the wider risk management process. Specific stress test analysis is used across all risk types on a more granular level in order to gain a better understanding of the risk profile and the potential effects of changes in external factors. These stress tests are performed at a range of different levels, from analysis covering specific stresses on individual sub-portfolios, to portfolio level stresses. In addition, a programme of reverse stress testing has been initiated in order to evaluate the impact of events not previously experienced by the Bank which is utilised to evaluate the impact of low probability, but plausible scenarios.

Risk disclosure

As part of the preparation for King III, which comes into effect in 2011, the Bank has enhanced its risk management disclosures by combining accounting and regulatory disclosures to provide greater transparency to stakeholders in evaluating the Bank's performance.

Outlook for 2011

The Bank will continue to monitor the economic recovery and ensure that it effectively and timeously adapts its risk management policies, procedures, risk appetite and stress tests to deal with the changing demands and challenges of the economic environment. The Bank remains committed to developing and enhancing appropriate risk management procedures and practices, to keep pace with applicable regulatory requirements and what is considered best practice in the industry.

Strategic areas of focus in terms of risk management are the enhancement of the Bank's risk appetite and stress testing frameworks to allow the Bank to continuously evaluate its strategy and planning processes under challenging market conditions. Key focus areas are as follows:

- further embedding of stress testing and scenario analysis into the planning and continuous evaluation of the Bank's financial performance and capital management over a three to five year horizon; and
- enhancement and continuous evaluation of risk appetite and liquidity management to ensure that the Bank is prepared for the implementation of the proposed Basel amendments and to ensure that the Bank is able to respond effectively to these changes.

In terms of risk management further strategic areas of focus are as follows:

Liquidity and capital management:

- Liquidity and capital management remains critical to the sustainable growth of the Bank. The Bank will ensure it stays abreast of international and local regulatory changes. This will ensure that the Bank achieves best practice in the measurement and management of risks associated with liquidity and capital management.

Risk report for Absa Bank Limited

Credit risk management:

» a key component will be the quality of new business written and the Bank will take steps to embed improvements made in the decision-making process that forms part of writing new business;
» with regard to retail credit risk, the Bank will continue to focus on impairments and related collections as well as stabilising the debt counselling book; and
» the Bank will continue to prepare for the change to the AIRB approach for wholesale credit risk.

Market risk:

» the Bank will focus on testing and embedding models to measure the new trading book capital charges for stress and incremental risk as required under the Basel market risk amendments; and
» the Bank will continue to manage the structural banking book interest rate hedging programme effectively and efficiently.

Regulatory risk:

» the Bank will focus on implementing new regulatory and legislative requirements and will ensure that all the relevant processes, systems and governance measures comply with the new requirements.

Conclusion

Risk management remains an integral part of the Bank's operations. The GRCMC is satisfied that, during 2010, the risks were managed within the risk appetite set by the board and that sufficient monitoring, reporting and controls exist to ensure that risks are effectively managed.

Risk management disclosures

Risk disclosures contained in this report form part of the standard disclosures of the Bank's audited annual financial statements and have been indicated as audited:

» Credit risk: tables 7 to 9 and 11 to 23.
» Market risk: tables 24, 26 to 28 and 30 to 31.
» Liquidity risk: tables 32 and 33.

Capital management

Introduction

Capital management is a key focus area for the Bank. 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 are based on a number of factors including return on economic capital (RoEC) and return on regulatory capital (RoRC), and are part of the internal capital adequacy assessment process (ICAAP).

Strategy

The strategic objectives for capital management are:

» meeting the capital ratios required by its regulators and the target ranges set by the Bank's board;

» maintaining an adequate level of available capital resources as cover for the EC requirements calculated at a 99,95% confidence level;

» generating sufficient capital to support asset growth;

» maintaining an investment grade credit rating; and

» achieving a return above the cost of equity (COE).

Governance

Capital is managed as a board level priority in the Bank, with the board assessing and approving the capital management policy, capital target ranges and capital strategy.

The Bank has a dedicated team that manages and executes these responsibilities. This team presents regular capital reports to the Group Alco, Exco, GRCMC and the board. Risk oversight of the capital management function is provided by the GRCMC, under a specific mandate from the board.

Highlights

» Strong capital position maintained.

» Board approved capital target ranges incorporate capital buffers above minimum regulatory requirements.

» Investment grade credit rating maintained.

Key performance indicators[1]

Absa Bank

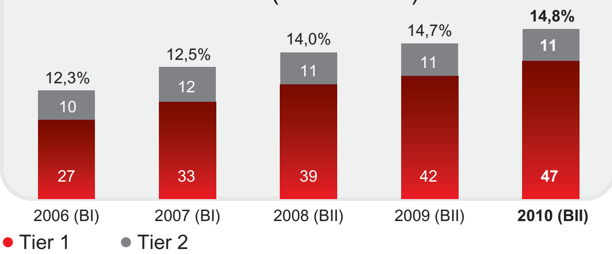
	2010	2009	Minimum regulatory require-ments
Capital adequacy ratios (%)			
Core Tier 1	**10,7**	10,3	5,25
Tier 1	**11,9**	11,6	7,00
Total	**14,8**	14,7	9,75
Capital supply and demand for the year (Rm)			
Free cash flow generated	**1 532**	1 419	
Qualifying capital	**57 801**	52 787	
Total RWAs	**391 735**	359 074	
Key metrics (%)			
Average cost of capital[2]	**14,00**	14,00	

Notes

[1]*Reported ratios include unappropriated profits.*

[2]*The average cost of capital is based on the Capital Asset Pricing Model (CAPM).*

Historical capital adequacy – Absa Bank Limited (Rbn and %)



Notes

BI: Basel I

BII: Basel II

Capital management

2010 in review

During the year under review the Bank maintained its strong capital adequacy position. The Bank continued to focus on RWAs demand management, free capital generation and the replacement of maturing capital instruments. In this regard:

» growth in credit RWAs was impacted by the slowdown in credit growth during the year, and the review and recalibration of existing models to ensure they reflected recent economic experiences;

» focus was placed on RWAs relief by tightening of risk parameters and methodologies, and taking cognisance of the risk and reward profile associated with assets; and

» the Bank generated free capital of R1,5 billion, after the provision for a dividend cover of 2,5 times headline earnings for the year.

Approach to capital management

The proper planning and management of capital is essential to the Bank to ensure that it has sufficient and appropriate structured capital levels to support its risk appetite, business activities, credit rating and regulatory requirements.

The capital management framework adopted by the Bank provides the basis for effective capital planning and structuring, capital issuance, Basel alignment, EC utilisation and economic profit. It provides end-to-end integration of the Bank's strategy, risk management and financial processes. The purpose of the framework is to ensure capital consumption in the business divisions has an impact on performance measurement, which in turn translates into management performance assessment, product pricing requirements and the achievement of the Bank's desired strategic positioning.

ICAAP process

The Bank has adopted a building block approach to achieve a robust and integrated capital management framework. EC forms the foundation of this and is the primary means by which the Bank assesses the impact of a changing business environment and strategy on its risk profile and the need for capital.

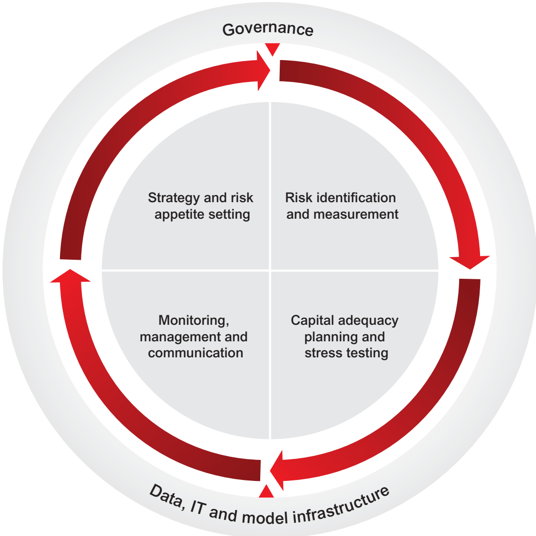
EC is also a measure of capital required to maintain or achieve a target debt rating. Besides its application in capital management, EC is a key component of Bank level and business unit level applications such as capital management, stakeholder communication, risk-adjusted performance measurement and pricing/structuring.

While the ICAAP is intended to align with regulatory requirements under Pillar 1 and Pillar 2 of Basel II, the main guiding principle in designing the ICAAP for the Bank has been suitability for capital management and other internal applications. The Bank considers its ICAAP to be in line with international best practice and that it addresses the core banking principles of the regulations.

These processes are conducted within an environment with established governance practices and oversight, and are supported by adequate data, IT and model infrastructure.

Stress testing is performed to identify early warning thresholds and risk events that may adversely impact the Bank's risk profile. It is also used to formulate appropriate management action. From an ICAAP perspective, stress testing represents the link between risk management and capital management. As a result of global events, stress testing has become increasingly important in assessing appropriate levels of capital.

The building blocks of Bank's ICAAP are as follows:



2010 capital management disclosures

Risk-weighted assets

RWAs are determined by applying the following:

» AIRB approach for retail credit;

» Foundation Internal Ratings Based (FIRB) approach for wholesale credit;

» Advanced Measurement Approach (AMA) for operational risk[1];

» In respect of traded market risk, Internal Models Approach (IMA) for general position risk, and Standardised Approach (SA) for issuer specific risk;

» Internal Ratings Based (IRB) market-based simple risk weight approach for equity investment risk in the banking book; and

» SA for credit risk in all African entities.

Note

[1]*AMA for operational risk except for an insignificant portion of the Bank that utilises the Basic Indicator approach or SA.*

Capital management

Bank RWAs and minimum required capital – Table 1:

Basel II measurement approach	2010 Rm	Required capital at 9,5%[1] Rm	2009 Rm	Required capital at 9,5%[1] Rm
Credit risk	**294 136**	**27 943**	256 995	24 415
Portfolios subject to the AIRB approach	**155 841**	**14 805**	133 010	12 636
Portfolios subject to the FIRB approach	**138 285**	**13 137**	123 245	11 708
Portfolios subject to the SA	**10**	**1**	740	71
Equity investment risk				
Market based approach (simple risk-weighted method)	**28 670**	**2 724**	32 194	3 058
Market risk	**9 013**	**856**	9 662	918
SA	**2 752**	**261**	2 267	215
IMA	**6 261**	**595**	7 395	703
Operational risk[2]				
AMA	**48 819**	**4 638**	47 030	4 468
Non-customer assets	**11 097**	**1 054**	13 193	1 253
	391 735	**37 215**	359 074	34 112

Notes

[1]*The required capital is the regulatory minimum excluding the bank specific (Pillar 2b) add on.*

[2]*AMA for operational risk, except for an insignificant portion of the Bank that utilises the Basic Indicator approach or SA.*

Capital requirements

The Bank manages its capital in accordance with the minimum regulatory requirements, EC requirements as well as the target ranges approved by the board, as follows:

» from a **regulatory perspective**: net qualifying capital (Tier 1 plus Tier 2 capital) must sufficiently exceed Basel II minimum capital requirements to have a buffer for prudence;

» from an **economic perspective:** available capital resources must be sufficient to meet EC requirements over a three-year period; and

» in accordance with **board approved target ranges:** these are derived from the stress testing results, and are set above the minimum regulatory requirements.

Capital adequacy

The Bank sets target capital ranges/levels to ensure that the objectives of capital management are met. Appropriate capital management actions are taken if these target ranges/levels are at risk of being breached.

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 and 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.

Target capital ratios for the Bank for 2010 were set by taking the following into account:

» the optimisation of the cost of capital given the regulatory constraints on capital composition;

» the preference of rating agencies for permanent capital;

» stressed scenarios;

» Basel proposed amendments; and

» peer analysis.

Target capital levels Absa Bank Limited – Table 2:

South Africa		2010		2009		2010 Total target capital adequacy ratio	
Operations	**Regulator**	**Tier 1 ratio %**	**Total capital adequacy %**	Tier 1 ratio %	Total capital adequacy ratio %	**Regulatory minimum %**	**Board[1] target %**
Absa Bank Limited[2]	SARB	**11,9**	**14,8**	11,6	14,7	**9,75**	**13,00**

Notes

[1]*The board approved the following target ranges for 2011:*

	Total	*Total Tier 1*	*Core Tier 1*
Absa Bank Limited	*11,50% – 13,50%*	*9,50% – 11,50%*	*8,50% – 10,50%*

[2]*Statutory ratios include unappropriated profits.*

Capital supply

The Bank increased its total qualifying capital supply by R5,0 billion (2009: R3,2 billion).

Qualifying capital

Regulatory guidelines define three tiers of capital:

Primary (Tier 1)	Secondary (Tier 2)	Tertiary (Tier 3)
» Primary capital consists of issued ordinary share capital, non-cumulative non-redeemable preference share capital, retained earnings, hybrid debt instruments (in terms of Basel II) and certain accounting reserves. » Primary capital is reduced by 50% of the amount that expected losses exceed eligible provisions and 50% of first loss credit enhancement provided in respect of securitisation schemes. Further deductions against Tier 1 capital include goodwill and certain investments. » Primary capital is the highest tier of capital and can be used to meet trading and banking activity requirements.	» Secondary capital includes cumulative preference shares and subordinated debt (prescribed debt instruments). » Secondary capital is reduced by 50% of the amount that expected losses exceed eligible provisions and 50% of first loss credit enhancement provided in respect of securitisation schemes. » Secondary capital can also be used to meet trading and banking activity requirements.	» Tertiary capital comprises prescribed unsecured subordinated debt with minimum original maturity of two years. » The use of Tier 3 is restricted to trading activities only. » It is not eligible to support counterparty or settlement risk.

Capital management

Movements in qualifying capital – Table 3:

	Bank 2010 Qualifying capital Rm
Balance at the beginning of the year	**52 787**
Share capital, premium and reserves	**4 288**
Tier 2 subordinated debt issued	**1 000**
Tier 2 subordinated debt matured	**(1 500)**
Regulatory deductions[1]	**1 226**
Balance at the end of the year	**57 801**

Note

[1]*Regulatory deductions decreased during the year, thereby increasing capital.*

Breakdown of the Bank's capital – Table 4:

	2010 Qualifying capital Rm	2010 %[2]	2009 Qualifying capital Rm	2009 %[2]
Primary capital				
Ordinary share capital	**303**	**0,1**	303	0,1
Ordinary share premium	**11 465**	**2,9**	10 465	2,9
Preference share capital and premium	**4 644**	**1,2**	4 644	1,3
Reserves[3]	**32 045**	**8,2**	28 757	8,0
Deductions	**(1 877)**	**(0,5)**	(2 430)	(0,7)
50% of amount by which expected loss exceeds eligible provisions	**(1 389)**	**(0,4)**	(1 968)	(0,6)
50% of first loss credit enhancement provided in respect of a securitisation scheme	**—**	**—**	(95)	(0,0)
Other deductions	**(488)**	**(0,1)**	(367)	(0,1)
	46 580	**11,9**	41 739	11,6
Secondary capital				
Subordinated redeemable debt	**12 611**	**3,3**	13 111	3,7
Deductions	**(1 390)**	**(0,4)**	(2 063)	(0,6)
50% of amount by which expected loss exceeds eligible provisions	**(1 390)**	**(0,4)**	(1 968)	(0,6)
50% of first loss credit enhancement provided in respect of a securitisation scheme	**—**	**—**	(95)	(0,0)
	11 221	**2,9**	11 048	3,1
	57 801	**14,8**	52 787	14,7

Notes

[2]*Percentage of capital to RWAs.*

[3]*Reserves include unappropriated banking profits.*

Focus for 2011

In the year ahead, focus will be placed on:

- RWAs optimisation for the Bank;
- determining and planning for the appropriate capital level and structure following proposed regulatory amendments;
- continuing refinement of capital allocation methodologies to support risk based performance measurement and strategic planning; and
- engaging with investors and rating agencies to discuss the impact of proposed regulatory changes and the appetite and pricing for capital instruments with new characteristics.

Credit risk

Introduction

Credit risk is the risk of loss to the Bank arising from the failure of a customer or counterparty to fulfil its payment obligations. Credit risk arises mostly from lending and related banking activities, including underwriting, dealing in traded products such as derivative contracts, as well as securities borrowing and lending products. It may also arise when fair values of the Bank's exposure to financial instruments decline.

Strategy

Credit risk is a core component of lending quality and the impacts on the risk versus reward model. Credit risk has been under increased focus due to the recent recessionary conditions and subdued growth.

The Bank's credit risk strategy involves:

» maintaining an appropriate credit risk environment through continuous investment in skilled and experienced staff;

» operating under a sound credit-granting process using the flexibility of industry leading systems;

» maintaining an appropriate credit administration, measurement and monitoring process;

» ensuring adequate and operationally effective controls over credit risk;

» optimising the use of available credit bureau data to make informed decisions and to build robust models (risk and reward);

» pro-actively managing credit risk through the economic cycle and ensuring the desired return/ economic profit is maintained;

» managing credit risk and the mitigation thereof within the risk appetite boundaries of the Bank;

» maintaining an efficient and robust credit life cycle; and

» measuring credit risk inherent in the portfolio using models which are relevant and accurately calibrated.

Governance

During 2010 the governance frameworks were reviewed to redefine and articulate the roles and responsibilities of stakeholders in the credit risk management process.

Highlights

» Focus on quality of new business.

» Progress made relating to the migration towards AIRB.

» Focus on rehabilitating customer arrears and reducing impairments.

» Improved use of data to optimise management of risk/reward.

» Enhanced governance and operational effectiveness.

» Refreshed and rebuilt capital models for retail credit portfolios.

Key performance indicators

	2010	2009
Growth in gross loans and advances (%)	(1)	(5)
Non-performing advances as a % of gross loans and advances	7,6	7,0
Impairment losses ratio	1,1	1,6
Total credit impairments as % of total gross loans and advances (%)	2,6	2,5

Credit risk

The credit risk policy frameworks provide structures within which credit risk is managed and for which compulsory credit policies are prescribed. These policies are approved by the Credit Risk Committee (CRC) and are supported by business unit (BU) policies, approved at BU level. BU management is responsible for implementing relevant credit policies. Various credit cluster committees exist to perform reviews and provide adequate oversight for the specific risk in a particular business area.

The following types of credit risk are managed:

- Commercial and consumer loans and advances
- Credit card lending
- Trading transactions

Wholesale portfolios

- Call loans
- Cheque accounts
- Commercial property finance
- Corporate term loans
- Credit cards
- Guarantees
- Instalment sales
- OTC and derivatives
- SME working capital facilities
- Other

Retail portfolios

- Residential homeloans
- Vehicle and asset finance
- Personal loans
- Overdrafts
- Credit cards
- Credit exposure of similar types above which was originated by joint ventures

Additional oversight is in place by virtue of the requirement to report to the GCCs, CRC and ultimately the GRCMC to ensure that there are adequate reviews of controls, risk trends and that credit risk is managed effectively.

2010 in review

Wholesale credit risk

One of the main focus areas has been the initiatives to migrate the wholesale portfolio to the AIRB approach. Various work streams are active to ensure readiness during 2011 and significant progress has been made with the migration to the AIRB approach.

Absa Business Bank

Notwithstanding the signs that the South African economy was moving out of recession, customers in the wholesale environment, particularly in industries such as transport, manufacturing and commercial real estate, remained under pressure during 2010. Uncertainty about the sustainability of the economic recovery resulted in a lack of commitment to infrastructure and working capital investment, with customers instead focusing on measures to de-leverage their balance sheets. During the second half of the year there was a moderation in inflows to the watchlist. However, asset prices of commercial properties came under pressure, and as expected, impairments remained in line with numbers experienced in 2009.

The credit quality of the performing book has shown significant improvement and the customers' probability of default over the next 12 months is on a long-term average level for most of the industries.

Absa Capital

The gradual increase in economic activity and recovery in local equity markets have served to improve the credit quality (in the form of probability of default) across the majority of industries within the Absa Capital portfolio. Although these levels have not yet returned to pre-crisis levels, the improvement has been consistent since the height of the crisis in early 2009 and is expected to continue as the local macro-economic environment stabilises further and major sovereign debt issues are resolved.

The subdued demand for credit within corporate South Africa has resulted in low levels of asset growth and an overall decrease in the value of credit limits extended. However, the improved credit quality within the portfolio has reduced portfolio impairment levels significantly from mid-crisis levels, and active management of defaulted and watchlisted customers have reduced identified impairments to pre-crisis levels.

Absa Capital has continued to improve on its existing portfolio of credit risk models, and the infrastructure used to deliver them to users, within the credit sanctioning and approval process. As part of the migration to AIRB, the credit life cycle has been augmented with the inclusion of risk-based pricing metrics using AIRB parameters, thereby providing further insight into the drivers of credit risk within the portfolio.

Retail credit risk

The year in review witnessed a substantial improvement in the retail impairment charge in comparison to the 2009 charge. This improvement was driven by improved ability of customers to make payments, improved quality of new loans as well as substantial investments made in the collections infrastructure.

Since June 2008, there has been a reduction of 650 bps in interest rates which is assisting customers in affording and repaying debt.

Early indications are that the risk profile of tranches of accounts booked within the last 12 months is performing within expectations. The quality of the overall portfolio is expected to improve as these tranches flow through.

The Bank continued to invest in collections capabilities during 2010. Non-performing loans increased during the year due to the build-up of delinquencies in prior years and the Bank's strategy, which views a sale-in-execution as the last possible option.

Due to the significant economic volatility in recent years, a full review was performed on all of the Bank's financial (risk and reward) models. There has also been a focus on improving the quality and quantity of data available for use in developing these models.

Securitisation

Abacus has reduced by R6 billion during the year due to natural amortisation of the underlying notes. Abacas commercial paper and floating rate notes also decreased during the year due to natural amortisation. The approximate decrease was R2 billion.

Homes securitisation exposure increased to R4,5 billion during the year. This was due to the look through approach being applied to the scheme subsequent to a re-tranche, increasing the securitisation programme size to R5 billion. This change in method is because it is more efficient to hold capital on all underlying assets as opposed to holding capital on the deduction of the first loss tranche due to its significant increase in size.

The Sanlam Homeloans Securitisation joint venture with Sanlam was purchased in full by the Bank and the scheme wound up, i.e. the underlying notes were redeemed out of the scheme, the issued notes repaid and underlying assets transferred to Absa Home Loans.

Credit risk

Approach to credit risk

Credit risk measurement and control is applied on a tailored basis across various BUs due to meet the specific requirements of the credit portfolios.

Currently, 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.

Basel II approaches adopted

In terms of the approaches used under Basel II, and with approval of the SARB, the following reporting mechanisms are used across the various approaches:

Approaches	Standardised	Foundation IRB	AIRB
Reporting of balances	» Statutory reserve and liquid assets	» Domestic corporate portfolios, public sector entities » Local government municipalities » Sovereign, banks and securities firms	» Domestic retail portfolios (including SMEs)
Assessment applied	» Standard risk weight percentage as prescribed in the regulations relating to banks	» Statistical, structural and expert based models either developed internally or based on service of external vendors	» Automated application and behavioural scoring based on statistical models

Probability of default (PD)

The PD measures the likelihood of a customer defaulting on its obligations within the next 12 months and is a primary component of the internal risk rating calculated for all customers. The Bank uses two types of PDs, namely:

- 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.

Both types of PDs are used extensively in the Bank's decision processes and several types of rating approaches are employed across the Bank.

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 (see table 5).

Exposure at default (EAD)

The EAD denotes the total amount the Bank expects to be outstanding from a particular customer at the time of default. The Bank calculates these estimates for each facility using models developed on the basis of internal and external default data as well as the experience of credit experts in relation to particular products or customer groups.

EAD estimates incorporate both on- and off-statement of financial position exposures resulting in a capital requirement which incorporates existing exposures, as well as exposures which are contingent on a counterparty's use of an available facility. Standard parameters for credit conversion as prescribed by the local regulator are used for those portfolios on the FIRB approach.

Loss given default (LGD)

The third major risk component measures the loss expected on a particular facility in the event of default and therefore recognises any credit risk mitigants the Bank may employ such as collateral or credit risk derivatives. LGD estimates are calculated as a percentage of EAD using models based on internal and external loss data as well the judgement of credit experts and are primarily driven by the type and value 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). Standard parameters are used for those portfolios on the FIRB approach, as prescribed by the regulator.

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.

These components 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 Bank'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 compared to impairment figures but it should be noted that while they may be similar, they are calculated on a different basis and for distinctly different purposes and should therefore not be expected to match one another.

EL is therefore a statistical estimate of the average loss for the loan portfolio over 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 more stable over time. It is primarily used in the capital measurement processes.

Credit risk

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 may be performed as illustrated in the table below:

Mapping of DG to PD band and alphanumeric agency grades – Table 5:

Default grade bucket	Note	Absa DG to PD mapping			Alphanumeric scale mapping		
		Min PD (>)	Max PD (<)	PD Midpoint	Standard and Poor's	Moody's	Fitch
1	1	0,0000	0,0200	0,0100	AAA	Aaa	AAA
2		0,0200	0,0300	0,0250	AA	Aa	AA
3		0,0300	0,0500	0,0400	A+	A1	A+
4		0,0500	0,1000	0,0750	A/A–	A2/A3	A/A–
5		0,1000	0,1500	0,1250	BBB+	Baa1	BBB+
6		0,1500	0,2000	0,1750	BBB+/BBB	Baa1/Baa2	BBB+/BBB
7		0,2000	0,2500	0,2250	BBB	Baa2	BBB
8		0,2500	0,3000	0,2750	BBB/BBB–	Baa2/Baa3	BBB/BBB–
9		0,3000	0,4000	0,3500	BBB–	Baa3	BBB–
10	2	0,4000	0,5000	0,4500	BBB–/BB+	Baa3/Ba1	BBB–/BB+
11		0,5000	0,6000	0,5500	BB+	Ba1	BB+
12		0,6000	1,2000	0,9000	BB	Ba2	BB
13		1,2000	1,5500	1,3750	BB/BB–	Ba2/Ba3	BB/BB–
14		1,5500	2,1500	1,8500	BB/BB–	Ba2/Ba3	BB/BB–
15		2,1500	3,0500	2,6000	BB–	Ba3	BB–
16		3,0500	4,4500	3,7500	B+	B1	B+
17		4,4500	6,3500	5,4000	B+/B	B1/B2	B+/B
18		6,3500	8,6500	7,5000	B	B2	B
19		8,6500	11,350	10,0000	B–	B3	B–
20	3	11,350	18,650	15,0000	CCC+	Caa1	CCC+
21		18,650	100,00	30,0000	CCC	Caa2	CCC
Default		100,00	100,00	100,00	D	D	D

The Bank DG grading represents a through the cycle view of the distribution of the book.

[1]***Default grades 1 – 10:*** *assets falling within these DG buckets are regarded as 'Investment Grade' and, when converted to a rating agency equivalent, these correspond to a BB rating and better.*

[2]***Default grades 10 – 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.*

[3]***Default grades 20 – 21:*** *the probability of default of financial assets in these grades have deteriorated to such an extent that they are included in a watchlist for regular review. Assets so classified must have well defined weaknesses that exacerbate the probability of default. These assets are characterised by the distinct possibility that the borrower will default, and should the collateral pledged be insufficient to cover the asset, the Bank will sustain some loss when default occurs.*

Credit risk mitigation, collateral and other credit enhancements

The Bank employs a number of techniques to mitigate credit risk:

- » enhancing its position as a lender in a range of transactions, from retail mortgage lending to large wholesale financings, by structuring a security interest in a physical or financial asset (collateral);
- » netting of debtor and creditor balances under regulatory and internal policy, which requires a formal agreement with the customer to net the balances and a legal right to set-off (on- and off-statement of financial position); and
- » selective hedging through credit derivatives.

Depending on the Bank's assessment of a customer's financial capacity, financing may be granted on an unsecured basis. However, generally one or more forms of security are sought in the credit approval process.

The use and approach to credit risk mitigation (CRM) varies by product type, portfolio, customer and business strategy. Minimum standards, as prescribed in the applicable policies and business processes, are applied across the Bank and cover:

- » general requirements including acceptable risk mitigation types and any conditions or restrictions applicable to those mitigants;
- » the maximum LTV ratios, minimum haircuts or other volatility adjustments applicable to each type of mitigant, including, where appropriate, adjustments for currency mismatch, obsolescence and any time sensitivities on asset values;
- » the means by which legal certainty is to be established, including the required documentation and all necessary steps required to establish legal rights;
- » acceptable methodologies for the initial and any subsequent valuations of collateral and the frequency with which they are to be revalued;
- » actions to be taken in the event of the current value of mitigation falling below required levels;
- » management of the risk of correlation between changes in the credit risk of the customer and the value of CRM, for example, any situation where customer default materially impacts the value of a mitigant and applying a haircut or recovery value adjustment which reflects the potential correlation risk;
- » management of concentration risks, for example, setting thresholds and controls on the acceptability of credit risk mitigants and/or lines of business that are characterised by a specific collateral type or structure; and
- » collateral management to ensure that CRM is legally effective and enforceable.

The Bank's policies with respect to assessing, acquiring and managing collateral for capital calculation purposes are aligned with regulatory requirements but, are in certain cases more specific to ensure robust and efficient processes which exceed the minimum regulatory requirements.

Collateral types used by the Bank, grouped by type of asset – Table 6:

The following types of collateral are currently held against assets subject to credit risk and are consistent with accepted market practice:

Assets subject to credit risk of financial position	Type of collateral[1]
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 » Charges on properties » Cession of loan accounts » Debentures » Government 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

Note

[1]*This list is not exhaustive. There may be other forms of collateral that may be recognised by the Bank.*

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 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, therefore relying heavily on the Bank's collateral and document management systems. For larger wholesale exposures and capital market transactions, 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 they remain fit for purpose and consistent with accepted market practice.

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 borrower, 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 use 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.

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.

Credit risk

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:

Fair value collateral for loans past due but not impaired and individually impaired – Table 7 (audited):

	Bank	
	2010 Rm	2009[1] Rm
Retail Banking	**34 391**	38 156
Cheque accounts	**27**	31
Instalment credit agreements	**2 810**	4 636
Mortgages	**31 434**	33 362
Personal and term loans	**120**	127
Absa Business Bank	**7 743**	7 434
Corporate	**1 596**	1 313
Large and Medium	**5 655**	5 601
Other	**169**	242
Small	**323**	278
Absa Capital	**241**	327
	42 375	45 917
Carrying values of loans past due but not impaired (refer to table 21)	**5 906**	4 568
Carrying values of loans individually impaired (refer to table 22)	**54 989**	54 263

Note

[1] *Comparatives have been reclassified.*

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 due to the Bank using a probability of default model when assessing the impairments raised against these assets.

Enforcement of collateral

Carrying value of assets held by the Bank at the reporting date as a result of the enforcement of collateral was as follows:

Loans and advances to customers – Table 8 (audited):

	Bank	
	2010 Rm	2009 Rm
Residential properties		
Opening balance	**344**	340
Acquisitions	**240**	103
Disposals	**(135)**	(99)
Closing balance	**449**	344

Concentration risk

Due to the composition of the Bank's business portfolios, a certain degree of risk concentration in the collateral portfolios is evident. 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; and
- commercial property finance: limits are placed on the type of asset (e.g. 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, sophisticated simulation-based exposure models that support a rigorous credit analysis, ongoing monitoring of these counterparties and the Bank's mark-to-market (MTM) exposure.

Concentration risk – Table 9 (audited):

	Bank				
	2010				
	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	**12 912**	**—**	**—**	**—**	**12 912**
Statutory liquid asset portfolio	**48 215**	**—**	**—**	**—**	**48 215**
Loans and advances to banks	**3 025**	**447**	**19 354**	**807**	**23 633**
Trading and hedging portfolio assets	**40 502**	**72**	**19 787**	**1 226**	**61 587**
Other assets	**10 468**	**7**	**580**	**114**	**11 169**
Loans and advances to customers	**479 799**	**3 120**	**1 146**	**1 523**	**485 588**
Loans to Absa Group companies	**8 071**	**—**	**—**	**—**	**8 071**
Investment securities	**6 349**	**—**	**—**	**—**	**6 349**
Subject to credit risk (refer to table 11)	**609 341**	**3 646**	**40 867**	**3 670**	**657 524**
Off-statement of financial position exposures					
Financial guarantees	**552**	**—**	**47**	**—**	**599**
Guarantees	**10 342**	**710**	**—**	**—**	**11 052**
Irrevocable debt facilities	**45 433**	**524**	**391**	**—**	**46 348**
Letters of credit	**4 650**	**3**	**—**	**—**	**4 653**
Subject to credit risk (refer to table 11)	**60 977**	**1 237**	**438**	**—**	**62 652**

	2009[1]				
	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	482 138	3 383	4 423	261	490 205
Loans to Absa Group companies	16 232	—	—	—	16 232
Investment securities	9 215	—	21	—	9 236
Subject to credit risk (refer to table 11)	604 212	3 903	40 607	1 890	650 612
Off-statement of financial position exposures					
Financial guarantees	944	—	63	—	1 007
Guarantees	9 829	—	—	—	9 829
Irrevocable debt facilities	53 048	866	432	—	54 346
Letters of credit	4 577	3	1	—	4 581
Subject to credit risk (refer to table 11)	68 398	869	496	—	69 763

Note

[1]*Comparatives have been reclassified.*

Credit risk

The following table reflects the Bank's credit exposures at their carrying amounts, as categorised by the industry sectors of counterparties at the reporting date.

Analysis of credit risk concentration by industry – Table 10:

	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	**—**	**—**	**—**	**108**	**—**
Construction and property	**—**	**—**	**—**	**28**	**67**
Consumer (home loans)	**—**	**—**	**—**	**—**	**—**
Consumer (other personal lending)	**—**	**—**	**—**	**—**	**18**
Electricity	**—**	**—**	**—**	**2 392**	**3**
Finance	**12 912**	**—**	**23 633**	**47 449**	**10 942**
Government	**—**	**48 215**	**—**	**8 919**	**3**
Manufacturing	**—**	**—**	**—**	**632**	**—**
Mining	**—**	**—**	**—**	**171**	**4**
Other	**—**	**—**	**—**	**130**	**111**
Services	**—**	**—**	**—**	**759**	**15**
Transport	**—**	**—**	**—**	**694**	**3**
Wholesale	**—**	**—**	**—**	**305**	**3**
Subject to credit risk	**12 912**	**48 215**	**23 633**	**61 587**	**11 169**

	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

Note

[1]*Comparatives have been reclassified.*

Bank

2010 Loans and advances to customers Rm	Investment securities Rm	Financial guarantees Rm	Guarantees Rm	Irrevocable facilities Rm	Letters of credit Rm	Total Rm
20 660	—	—	270	—	24	21 062
43 847	280	—	1 766	44	356	46 388
242 888	—	—	—	—	—	242 888
28 603	—	—	—	—	98	28 719
2 660	—	—	58	2 135	1	7 249
66 191	2 572	164	3 134	39 991	1 594	208 582
7 753	185	250	428	—	205	65 958
12 302	22	—	1 848	—	273	15 077
6 265	1 284	185	311	898	880	9 998
26 988	1 498	—	2 133	2 975	1 136	34 971
4 014	508	—	186	172	11	5 665
7 101	—	—	644	—	55	8 497
16 316	—	—	274	133	20	17 051
485 588	6 349	599	11 052	46 348	4 653	712 105

2009[1] Loans and advances to customers Rm	Investment securities Rm	Financial guarantees Rm	Guarantees Rm	Irrevocable facilities Rm	Letters of credit 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
42 427	638	256	441	41 642	1 437	175 249
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	27 103
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
490 205	9 236	1 007	9 829	54 346	4 581	704 143

Credit risk

Wrong-way risk

Wrong-way risk is an additional form of concentration risk and arises when there is a strong correlation between the counterparty's PD and the MTM value of the underlying transaction. The Bank distinguishes between two types of wrong-way risk, namely:

» specific wrong-way risk, which may arise in transactions with certain structural features, such as the collateralisation of a loan with the borrower's, or a related party's shares; and

» general or conjectural wrong-way risk, which may arise where the credit quality of the counterparty is related to the value of the transaction for non-specific reasons (for example, where both the credit quality of the counterparty and the value of the derivative are strongly related to a macro-economic variable).

The Bank aims to limit these risk types. However, it recognises the necessity for engaging in certain transactions which could expose it to specific wrong-way risk (such as the funding of broad-based black economic empowerment (BBBEE) transactions). Wrong-way risk is explicitly considered in the credit process where it is managed and controlled through the use of credit limits and cover ratios which are monitored on a daily basis.

Counterparty credit risk

Counterparty credit exposure arises from the risk that parties are unable to meet their payment obligations under certain financial contracts, such as derivatives and securities financing transactions (e.g. repurchase agreements). Unlike credit risk, counterparty credit risk implies the bilateral risk of loss.

For allocation of EC to OTC derivative exposures, EAD estimates are treated as MTM loan equivalents, where the amount of capital allocated to a particular transaction is driven by the:

» borrower's netting arrangements;

» borrower's TTC PD;

» trade's residual maturity;

» nature of each trade; and

» net EAD and corresponding LGD.

For RC calculation purposes, the Current Exposure Method (CEM) is applied to OTC derivative exposures.

The Bank mainly relies on cash, government bonds and negotiable certificates of deposits (NCDs) as collateral for derivative contracts.

The Bank intends to apply for permission to use the Internal Model Method (IMM) in the calculation of its RC requirements for these portfolios once the AIRB method for wholesale credit exposures has been embedded. However, during the reporting period ended 31 December 2010, all calculations were based on the CEM. The Bank's policies for establishing impairment allowances for traded products' counterparties are based on the applicable accounting requirements.

Basel II and accounting principles

Impairments

Relevant accounting impairment policy versus expected loss regulatory policy

IFRSs govern reporting practices of banks and, in part, overlap with the requirements of Pillar 3 and regulation 43 of the Banks Act. IFRS 7 prescribes disclosure requirements pertaining to financial instruments for accounting purposes and, as such, is based on a similar set of data used for Pillar 3 reporting purposes. Regulation 43 requires banks to disclose certain accounting definitions and information, in particular, with respect to impairments, past due loans and advances and charge-offs. The Bank regularly reconciles the data used for both financial (IFRS) and regulatory (Pillar 3) disclosure.

Impairment methods of assessment and use of allowance accounts

The Bank establishes, through charges against profit, an impairment allowance for the incurred loss inherent in the lending book. Under IFRS, impairment allowances are recognised where there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition of the asset, and where these events had an impact on the estimated future cash flows of the financial asset or portfolio of financial assets. To determine if a loss event has occurred, historical economic information similar to the current economic climate, overall customer risk profile, payment record and the realisable value of any collateral, are taken into consideration.

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 borrower.
- 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.

Impairments in respect of assets which are individually significant or which have been flagged as being in default, are measured individually, and where a portfolio comprises homogeneous assets and appropriate statistical techniques are available, it is measured collectively. The amount of loss is measured as the difference between the asset 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. Two key aspects in the cash flow calculation are the valuation of all security and the timing of all asset realisations, after allowing for all collection and recovery costs.

For the purposes of a collective evaluation of impairment, financial assets are grouped, based on similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for such groups of assets, being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets.

Specific impairment is triggered when a contractual payment is missed. The impairment calculation is based on a roll-rate approach, where the percentage of assets moving from the initial delinquency state to default is derived from statistical probabilities, based on experience. The PD is calculated within a certain outcome period. The outcome period is defined as the timeframe within which assets default. Recovery amounts and contractual interest rates are calculated using a weighted average for the relevant portfolio.

Future cash flows for a group of financial assets which are collectively evaluated for impairment purposes are estimated based on the contractual cash flows of the assets within the group and the historical loss experienced for assets with similar credit risk characteristics to those in the group.

The impairment allowance also takes into account the expected severity of loss at default, or the LGD, which is the amount outstanding subsequent to write-offs and therefore not recoverable.

Recovery varies by product and depends, for example, on the level of security held in relation to each loan as well as the Bank's position relative to other claimants. The LGD estimates are based on historical default experience. Historical loss experience data is adjusted to incorporate current economic conditions into the data set, which conditions did not exist at the time of loss experience and/or to remove the effects of conditions in the historical period that do not currently exist.

Credit risk

Unidentified impairment allowances are raised when observable data indicates a measurable decrease in the estimated future cash flows from a group of financial assets since its original recognition, even though the decrease cannot yet be identified for the individual assets in the group. The unidentified impairment calculation is based on the asset's probability of moving from the performing portfolio to the defaulted portfolio as a result of a risk condition which has already occurred, but will only be identifiable at a borrower level at a future date.

An 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 (portfolio impairment) and the impairment being identified at an individual account level (specific impairment). The emergence periods, based on actual experience, vary across businesses and are reviewed annually. The PD for each exposure class is based on historical default experience, scaled for the emergence period relevant to the exposure class. This PD is then applied to the total population on which no specific impairments have been recognised.

Where total EL of all credit risk assets exceeds total impairments, the difference is deducted from eligible capital. In the instance that total impairments exceed total EL, the difference is added to eligible capital, subject to a maximum of 0,6% of total RWAs.

Differences in impairment calculations across retail and wholesale operations

Corporate accounts which are deemed to contain heightened levels of risk are recorded on graded problem loan lists, known as either watchlists or early warning lists (EWL). These are updated monthly and circulated to the relevant risk control points. Once listing has occurred, exposure is carefully monitored and, where possible, exposure reductions are effected. The lists are graded in line with the perceived severity of the risk attached to the lending. Businesses with exposure to corporate customers are escalated through three categories of increasing concern. When an account becomes impaired, it would normally but not necessarily, have passed through all three categories, which is reflective of the need for increased monitoring and control. Where a borrower's financial health presents grounds for concern, it is immediately placed into the appropriate category. All borrowers are subject to a full review of all facilities on, at least, an annual basis. Interim reviews may be performed if circumstances dictate.

Within the Retail Banking portfolios, which tend to comprise homogeneous assets, statistical techniques more readily allow impairment to be monitored on a portfolio basis. It is consistent with the Bank's policy of raising an impairment allowance as soon as objective evidence of impairment is identified as a result of one or more loss events that have occurred, subsequent to initial recognition. Models in use are based upon customers' personal and financial performance information over recent periods, which serve as a predictor for future performance. The models' output are regularly reviewed against actual performance and, where necessary, amended to optimise their effectiveness.

Credit rating downgrade

The Bank enters into derivative contracts with rated and unrated counterparties. To mitigate counterparty credit risk, the Bank stipulates credit protection terms, such as limitations on the amount of unsecured credit exposure it will accept, collateralisation in the event of a MTM credit exposure exceeding the current amount and collateralisation and/or termination of a contract when certain credit events occur, including but not limited to, a downgrade of the counterparty's public credit rating.

Certain counterparties may require the Bank to provide similar credit protection terms, to which it may agree from time to time, on a restrictive basis. Rating downgrades as a collateralisation or termination event are generally only conceded to highly rated counterparties, and whenever possible, on a reciprocal basis.

The impact on the Bank in terms of the additional amount of collateral required in the event of a credit downgrade is determined by the negative MTM value on derivative contracts. Where the impact on the Bank's liquidity is deemed to be material, the potential exposure is taken into account in model stress testing. However, generally, the extent of legal commitments resulting in additional collateral requirements caused by a rating downgrade is not material and would not have an adverse effect on the Bank's financial position.

As at the reporting date, the additional collateral required to be posted for a one-notch downgrade was R33,2 million and for a two-notch downgrade R133,1 million.

Strategic focus for the year ahead

Wholesale credit risk

The focus of the Bank's wholesale credit risk environment will be to obtain approval from the SARB for migrating the wholesale portfolio from the FIRB to the AIRB approach. To this end, the wholesale operations have engaged with the local regulator regarding a wide variety of models developed for the purposes of migrating to the AIRB approach. Furthermore, significant steps have been taken to instil a risk-sensitive culture within the wholesale environment including ensuring that AIRB parameters such as EAD and LGD become integral components of the pricing and credit sanctioning processes.

As part of the continued effort towards AIRB approval, Absa Capital and ABB have further aligned a number of infrastructure areas, policies and procedures to create synergies between the two BUs. As a material component of the path towards AIRB, both BUs have focused significant time and resources on data quality and the continuous improvement thereof. This will remain a key focus of the year ahead with dedicated resources ensuring that the momentum created by achievements in this field so far is maintained.

Retail credit risk

The Bank's retail operations will continue to enhance its strategies dealing with legal accounts and accounts under debt counselling. Customers are being encouraged to make payments, even if they cannot make full instalments.

As the Bank relies on data driven strategies, automated controls were implemented during 2010 to ensure that data quality remains of the utmost importance.

The secured portfolio is expected to continue to mature as new business levels are anticipated to experience steady growth with an easing of the credit cycle. Greater focus will be placed on expanding the unsecured portfolio with an increased focus on personal loans.

Absa Capital securitisation

Basel amendments will most likely be implemented in 2012. It is anticipated that the amendments will have no material impact on the Bank's securitisation business.

The retention and due diligence policy set by the Financial Services Authority (FSA) in the United Kingdom (UK) requires originators or bank sponsors of securitisation schemes to hold 5% net economic interest within the scheme. For investments in third party securitisation notes, a due diligence is required to ensure that either the originator or bank sponsor hold the required 5% net economic interest. These rules are expected to be finalised by the end of the first quarter of 2011.

Further areas of focus in 2011 for securitisation are:

- reducing on-statement of financial position exposures;
- winding down of Abacas underlying notes through natural amortisation;
- re-tranching securitisation programmes and originating further mortgage and vehicle finance assets in the second half of 2011; and
- providing further liquidity facilities during the year to Nitro Securitisation (originated by FirstRand Limited).

IFRS disclosures

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. 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.

Credit risk

The following table indicates the maximum exposure, at the reporting 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.

Credit risk exposures relating to on-statement of financial position assets – Table 11 (audited):

	Bank	
	2010 Rm	2009[1] Rm
Balances with the SARB	**12 912**	10 983
Cash, cash balances and balances with central banks (refer to note 2)	**12 912**	10 983
Land Bank bills	**50**	493
RSA government bonds	**34 602**	25 467
Reverse repurchase agreements	**2 685**	1 941
SARB debentures	**—**	223
Treasury bills	**10 878**	5 819
Statutory liquid asset portfolio (refer to note 3)	**48 215**	33 943
Other loans and advances to banks	**18 061**	26 104
Reverse repurchase agreements	**5 572**	8 932
Loans and advances to banks (refer to note 4)	**23 633**	35 036
Debt instruments	**11 694**	10 715
Derivative assets	**43 329**	31 686
Money market assets	**1 902**	4 129
Trading portfolio assets (refer to note 5)	**56 925**	46 530
Derivatives designated as cash flow hedging instruments	**3 813**	1 946
Derivatives designated as fair value hedging instruments	**849**	612
Hedging portfolio assets (refer to note 5)	**4 662**	2 558
Accounts receivable	**3 292**	4 880
Collateral	**4 171**	740
Settlement accounts	**3 706**	269
Other assets (refer to note 6)	**11 169**	5 889

Credit risk exposures relating to on-statement of financial position assets, net of impairments – Table 11 (audited): *(continued)*

	Bank 2010 Rm	2009[1] Rm
Retail Banking	**314 324**	310 230
Cheque accounts	**1 917**	2 080
Credit cards	**13 454**	12 672
Instalment credit agreements	**39 538**	38 531
Loans to associates and joint ventures	**4 827**	6 187
Microloans	**1 359**	2 044
Mortgages	**241 427**	239 467
Other advances	**20**	65
Personal and term loans	**11 782**	9 184
Absa Business Bank	**120 727**	122 268
Corporate	**24 075**	22 285
Large and Medium	**74 117**	74 967
Other	**17 468**	20 065
Small	**5 067**	4 951
Absa Capital	**50 028**	57 231
Other	**509**	476
Loans and advances to customers (refer to note 8)	**485 588**	490 205
Loans to Absa Group Companies	**8 071**	16 232
Debt instruments	**6 349**	9 236
Investment securities (refer to note 11)	**6 349**	9 236
Total assets subject to credit risk (refer to table 17)	**657 524**	650 612
Assets not subject to credit risk[2]	**23 399**	23 162
Total assets per the statement of financial position	**680 923**	673 774

Notes

[1]*Comparatives have been reclassified.*

[2]*Includes coins and bank notes, prepayments, constructed assets held for sale, repossessed properties, deferred costs, cash under management, investments in equity instruments, deferred tax assets, intangible assets, investment properties and property and equipment which are not subject to credit risk.*

Credit risk exposures relating to off-statement of financial position items – Table 12 (audited):

	Bank 2010 Rm	2009 Rm
Financial guarantees	**599**	1 007
Guarantees	**11 052**	9 829
Irrevocable debt facilities	**46 348**	54 346
Letters of credit	**4 653**	4 581
	62 652	69 763

Credit risk

Financial instruments designated at fair value through profit or loss – Table 13 (audited):

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 2010 Rm	Bank 2009 Rm
Assets		
Statutory liquid asset portfolio (refer to note 3)	**3 463**	3 636
Loans and advances to banks (refer to note 4)	**7 047**	2 403
Loans and advances to customers (refer to note 8)	**9 974**	8 462
Investment securities (refer to note 11)	**5 156**	7 492
	25 640	21 993
Liabilities		
Deposits from banks (refer to note 17)	**5 499**	8 014
Other liabilities (refer to note 19)	**—**	274
Deposits due to customers (refer to note 21)	**16 855**	12 553
Debt securities in issue (refer to note 22)	**3 544**	4 648
Borrowed funds (refer to note 24)	**739**	718
	26 637	26 207

At the reporting date, the Bank did not use credit derivatives as a mechanism to hedge its exposure to credit risk for financial instruments designated at fair value.

Contractual obligation at maturity of financial liabilities designated at fair value through profit and loss – Table 14 (audited):

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			
	2010		2009	
	Carrying value Rm	Contractual obligation Rm	Carrying value Rm	Contractual obligation Rm
Liabilities				
Deposits from banks (refer to note 17)	**5 499**	**7 584**	8 014	8 117
Other liabilities (refer to note 19)	**—**	**—**	274	274
Deposits due to customers (refer to note 21)	**16 855**	**21 913**	12 553	12 539
Debt securities in issue (refer to note 22)	**3 544**	**3 924**	4 648	4 735
Borrowed funds (refer to note 24)	**739**	**756**	718	811
	26 637	**34 177**	26 207	26 476

Decrease in fair value attributable to changes in credit risk during the year – Table 15 (audited):

	Bank	
	2010 Rm	2009 Rm
Assets		
Loans and advances to customers	**(10)**	(9)

Cumulative increase in fair value attributable to changes in credit risk – Table 16 (audited):

	Bank	
	2010 Rm	2009 Rm
Assets		
Loans and advances to customers	**4**	15
Investment securities	**—**	26

The following approaches are used by the Bank in determining changes in fair value due to changes in credit risk for loans and receivables designated at fair value through profit or loss:

» Internal risk grading approach: the cumulative changes 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 changes 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 changes in fair value due to change in credit risk was recognised.

Credit risk

Financial assets subject to credit risk

Financial assets subject to credit risk – Table 17 (audited):

For the purposes of the Bank's disclosure regarding credit quality, the maximum exposure to credit risk of financial assets at the reporting 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 table 18)	**12 912**	**48 215**	**23 633**
Past due but not impaired (refer to table 21)	—	—	—
Impaired (refer to table 22)	—	—	—
Impairment allowance (refer to table 23)	—	—	—
Identified impairments	—	—	—
Identified collective	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Identified individual	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Unidentified impairments	—	—	—
Carrying value of financial assets (refer to table 11)	**12 912**	**48 215**	**23 633**

	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 table 19)	10 983	33 943	35 036
Past due but not impaired (refer to table 21)	—	—	—
Impaired (refer to table 22)	—	—	—
Impairment allowance (refer to table 23)	—	—	—
Identified impairments			
Identified collective	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Identified individual	—	—	—
Non-performing loans	—	—	—
Other	—	—	—
Unidentified impairments	—	—	—
Carrying value of financial assets (refer to table 11)	10 983	33 943	35 036

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 investment securities 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

2010

	Trading portfolio assets[2] Rm	Hedging portfolio assets Rm	Other assets[3] Rm	Loans and advances to customer Rm	Loans to Absa Group companies Rm	Investment securities[2] Rm	Total Rm
	56 925	4 662	10 957	437 517	8 071	6 349	609 241
	—	—	4	5 906	—	—	5 910
	—	—	226	54 989	—	—	55 215
	—	—	(18)	(12 824)	—	—	(12 842)
	—	—	(18)	(11 936)	—	—	(11 954)
	—	—	—	(9 706)	—	—	(9 706)
	—	—	—	(9 069)	—	—	(9 069)
	—	—	—	(637)	—	—	(637)
	—	—	(18)	(2 230)	—	—	(2 248)
	—	—	—	(1 808)	—	—	(1 808)
	—	—	(18)	(422)	—	—	(440)
	—	—	—	(888)	—	—	(888)
	56 925	4 662	11 169	485 588	8 071	6 349	657 524

2009

	Trading portfolio assets[2] Rm	Hedging portfolio assets Rm	Other assets[3] Rm	Loans and advances to customers Rm	Loans to Absa Group companies Rm	Investment securities[2] Rm	Total Rm
	46 530	2 558	5 841	443 388	16 232	9 236	603 747
	—	—	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	490 205	16 232	9 236	650 612

Credit risk

Financial assets neither past due nor impaired

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:

Credit risk exposures relating to on-statement of financial position assets – Table 18 (audited):

	Bank			
	2010			
	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total Rm
Balances with the SARB	12 912	—	—	12 912
Cash, cash balances and balances with central banks	12 912	—	—	12 912
Land Bank bills	50	—	—	50
RSA government bonds	34 602	—	—	34 602
Reverse repurchase agreements	2 685	—	—	2 685
Treasury bills	10 878	—	—	10 878
Statutory liquid asset portfolio	48 215	—	—	48 215
Other loans and advances to banks	18 050	11	—	18 061
Reverse repurchase agreements	5 572	—	—	5 572
Loans and advances to banks	23 622	11	—	23 633
Debt instruments	11 694	—	—	11 694
Derivative assets	41 036	2 204	89	43 329
Money market assets	1 889	13	—	1 902
Trading portfolio assets	54 619	2 217	89	56 925
Derivatives designated as cash flow hedging instruments	3 813	—	—	3 813
Derivatives designated as fair value hedging instruments	849	—	—	849
Hedging portfolio assets	4 662	—	—	4 662
Accounts receivable	3 079	1	—	3 080
Collateral	4 171	—	—	4 171
Settlement accounts	3 526	180	—	3 706
Other assets	10 776	181	—	10 957

Credit risk exposures relating to on-statement of financial position assets – Table 18 (audited): *(continued)*

	Bank			
	2010			
	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total Rm
Retail Banking	84 932	182 010	7 389	274 331
Cheque accounts	410	1 383	—	1 793
Credit cards	3 139	8 464	545	12 148
Instalment credit agreements	5 758	28 139	1 195	35 092
Loans to associates and joint ventures	792	3 870	164	4 826
Microloans	152	807	220	1 179
Mortgages	72 745	132 777	2 869	208 391
Other advances	20	—	—	20
Personal loans	1 916	6 570	2 396	10 882
Absa Business Bank	50 868	57 700	4 178	112 746
Corporate	16 865	5 499	71	22 435
Large and Medium	28 301	37 511	2 634	68 446
Other	4 979	11 084	1 238	17 301
Small	723	3 606	235	4 564
Absa Capital	32 119	17 478	334	49 931
Other	470	39	—	509
Loans and advances to customers	**168 389**	**257 227**	**11 901**	**437 517**
Loans to Absa Group companies	**8 071**	**—**	**—**	**8 071**
Debt instruments	5 087	1 262	—	6 349
Investment securities	**5 087**	**1 262**	**—**	**6 349**
Total (refer to table 17)	**336 353**	**260 898**	**11 990**	**609 241**

Credit risk

Credit risk exposures relating to on-statement of financial position assets – Table 19 (audited): *(continued)*

	Bank 2009[1]			
	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	40 481	215 060	15 973	271 514
Cheque accounts	294	1 534	134	1 962
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	161 241	10 710	207 725
Other advances	73	—	—	73
Personal and term loans	1 503	6 237	887	8 627

Note

[1]*Comparatives have been reclassified.*

Credit risk exposures relating to on-statement of financial position assets – Table 19 (audited): *(continued)*

	Bank 2009[1]			
	DG 1 – 11 Rm	DG 12 – 19 Rm	DG 20 – 21 Rm	Total Rm
Absa Business Bank	40 926	70 205	3 737	114 868
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
Small	262	3 876	322	4 460
Absa Capital	34 344	21 849	337	56 530
Other	476	—	—	476
Loans and advances to customers	116 227	307 114	20 047	443 388
Loans to Absa Group companies	16 232	—	—	16 232
Debt instruments	7 025	2 211	—	9 236
Investment securities	7 025	2 211	—	9 236
Total (refer to table 17)	269 053	314 639	20 055	603 747

Note

[1]*Comparatives have been reclassified.*

Credit risk

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 reporting date, the carrying amount of assets renegotiated[1], and transferred to neither past due nor impaired classification[2] in the last 12 months was as follows:

Loans and advances to customers – Table 20 (audited):

	Bank	
	2010 Rm	2009[3] Rm
Retail Banking	**1 868**	1 583
Cheque accounts	**2**	6
Instalment credit agreements	**143**	1
Microloans	**6**	2
Mortgages	**1 701**	1 561
Other advances	**—**	2
Personal and term loans	**16**	11
Absa Business Bank	**955**	891
Absa Capital	**154**	142
	2 977	2 616

Notes

[1]*Only assets included in loans and advances at the reporting 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.*

[3]*Comparatives have been reclassified.*

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 and customer risk assessments. The renegotiated term of the contract is limited by the maximum legally allowed financing term for the specific product.

Financial assets that are past due but not impaired

These are assets when contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate, based on the level of collateral available as security

The age of loans and advances to customers and other assets that are past due but not impaired is as follows:

Financial assets that are past due but not impaired – Table 21 (audited):

Bank

	2010					
	Past due up to 1 month Rm	**Past due 1 – 2 months Rm**	**Past due 2 – 3 months Rm**	**Past due 3 – 4 months Rm**	**Past due older than 4 months Rm**	**Total Rm**
Accounts receivable	—	—	—	—	4	4
Other assets	—	—	—	—	4	4
Retail Banking	604	69	55	51	2 151	2 930
Cheque accounts	10	—	—	—	—	10
Mortgages	594	69	55	51	2 151	2 920
Absa Business Bank	1 944	348	331	34	313	2 970
Corporate	436	—	—	—	—	436
Large and Medium	1 427	312	310	20	218	2 287
Other	13	29	11	5	5	63
Small	68	7	10	9	90	184
Absa Capital	—	—	—	—	6	6
Loans and advances to customers	2 548	417	386	85	2 470	5 906
Total (refer to table 17)	2 548	417	386	85	2 474	5 910

	2009[1]					
	Past due up to 1 month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm	Total Rm
Accounts receivable	40	—	—	5	—	45
Other assets	40	—	—	5	—	45
Retail Banking	713	53	66	62	1 355	2 249
Cheque accounts	1	1	1	2	20	25
Instalment credit agreements	22	4	2	2	42	72
Mortgages	690	48	63	58	1 293	2 152
Absa Business Bank	830	534	126	108	720	2 318
Large and Medium	812	528	122	56	636	2 154
Other	1	1	—	6	10	18
Small	17	5	4	46	74	146
Absa Capital	1	—	—	—	—	1
Loans and advances to customers	1 544	587	192	170	2 075	4 568
Total (refer to table 17)	1 584	587	192	175	2 075	4 613

For details of the collateral held against the above loans and advances to customers, refer to table 6.

Note

[1]*Comparatives have been reclassified.*

Credit risk

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; and
- the borrower is overdue.

In the wholesale portfolio, the identified impairment is calculated on accounts that are reflected on management watchlists and accounts currently going through the legal workout process.

In the retail portfolio, the identified impairment is calculated on both an individual and collective basis. For accounts currently residing in the legal environment, impairment is held against individual exposures. Where retail exposures are identified as delinquent (one or more payments down) but not currently in the legal process, they are impaired collectively, given the level of delinquency. For accounts purposes, these accounts are considered to be identified impairments.

Analysis of identified impairment – Table 22 (audited):

	Bank					
	2010			2009[1]		
	Original carrying amount Rm	Impairment allowance Rm	Revised carrying amount Rm	Original carrying amount Rm	Impairment allowance Rm	Revised carrying amount Rm
Accounts receivable	226	(18)	208	7	(4)	3
Other assets	226	(18)	208	7	(4)	3
Retail Banking	47 095	(9 610)	37 485	45 605	(8 603)	37 002
Cheque accounts	242	(122)	120	177	(77)	100
Credit cards	2 954	(1 626)	1 328	3 266	(1 952)	1 314
Instalment credit agreements	6 025	(1 522)	4 503	5 751	(1 134)	4 617
Microloans	588	(384)	204	788	(358)	430
Mortgages	35 702	(5 277)	30 425	34 632	(4 668)	29 964
Personal and term loans	1 584	(679)	905	991	(414)	577
Absa Business Bank	7 344	(1 984)	5 360	7 411	(1 955)	5 456
Corporate	1 384	(147)	1 237	1 353	(201)	1 152
Large and Medium	4 860	(1 227)	3 633	4 948	(1 229)	3 719
Other	674	(514)	160	630	(405)	225
Small	426	(96)	330	480	(120)	360
Absa Capital	550	(342)	208	1 247	(419)	828
Loans and advances to customers	54 989	(11 936)	43 053	54 263	(10 977)	43 286
Total (refer to table 17)	55 215	(11 954)	43 261	54 270	(10 981)	43 289

For details of the collateral held against the above loans and advances to customers, refer to table 6.

Note
[1]*Comparatives have been reclassified.*

Reconciliation of total impairments (identified and unidentified)

Reconciliation of total impairments (identified and unidentified) – Table 23 (audited):

Bank

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
	2010					
Retail Banking	**9 139**	**(671)**	**—**	**(3 302)**	**4 866**	**10 032**
Absa Business Bank	**2 328**	**(87)**	**—**	**(1 081)**	**1 173**	**2 333**
Absa Capital	**547**	**(8)**	**(2)**	**(191)**	**113**	**459**
Total (refer to table 17)	**12 014**	**(766)**	**(2)**	**(4 574)**	**6 152**	**12 824**

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
	2009[1]					
Retail Banking	6 330	(763)	—	(3 785)	7 357	9 139
Absa Business Bank	1 925	(167)	(1)	(571)	1 142	2 328
Absa Capital	242	(6)	(2)	(7)	320	547
Total (refer to table 17)	8 497	(936)	(3)	(4 363)	8 819	12 014

Note

[1]*Comparatives have been reclassified.*

Write-offs

Once an advance has been identified as impaired and an impairment allowance has been raised, circumstances may change and indicate that the prospect of further recovery does not exist. Write-offs will occur when, and to the extent that, the debt is considered irrecoverable.

The timing and extent of write-offs is driven across all portfolios by a write-off policy that is based on an age-driven concept. However, a write-off can also be triggered by a specific event, such as the conclusion of insolvency proceedings or other formal recovery actions which makes it possible to quantify the extent of the advance which is beyond a realistic prospect of recovery. Nonetheless, impaired loans are reviewed at least quarterly, ensuring that irrecoverable advances are being written off in a timely and systematic way and in compliance with local regulations.

Assets are only written off once all the necessary procedures have been completed and the amount of the loss has been determined. Recoveries of amounts, previously written off, are reversed and accordingly decrease the amount of the reported loan impairment charge in the statement of comprehensive income.

Net present value unwind on non-performing book

The impairment allowance contains a net present value adjustment that represents the time value of money of expected cash flows. Such time value of money reduces as the point of cash flow is approached. The time based reduction in time value of money is recognised in the statement of comprehensive income as interest received on impaired assets.

Market risk

Highlights

- Traded market risk and revenue down on muted markets and customer volumes, but a favourable risk-adjusted return achieved.
- Interest rate risk in the banking book managed to low levels.
- Reserves more sensitive to market interest rate movements due to additional statutory liquid assets purchased and hedges executed during the year.
- Equity investment risk exposure in the banking book managed down.

Key performance indicators

		2010	2009
Average traded market risk DVaR (Rm)	⇩	**27,85**	31,65
Traded market risk RC (at 8% of RWAs) (Rm)	⇩	**721**	773
Banking book AEaR for a 2% interest rate shock (% of Bank NII)	⇔	**<5%**	<5%
Equity investments in the banking book RWAs (Rm)	⇩	**28 670**	32 194

Introduction

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.

Strategy

The Bank's market risk management objectives are:

- understanding and controlling market risk through robust measurement, controls and oversight;
- facilitating business growth within a controlled and transparent risk management framework;
- ensuring traded market risk resides primarily in Absa Capital; and
- ensuring a higher degree of interest rate mismatch margin stability and lower interest rate risk over an interest rate cycle in the banking book.

Governance

Market risk is managed in terms of the Bank's market risk policy framework, as approved by the GRCMC, and in accordance with the PRP requirements. The board approves the market risk appetite for trading and non-trading activities, on the recommendation of the GRCMC. A market risk limits framework is set within the context of the approved market risk appetite. The Group Chief Risk Officer appoints a Principal Risk Officer (PRO) for market risk, who is responsible for the market risk policy framework.

The head of each BU, assisted by an independent business risk management team, is accountable for all market risks associated with its activities. Each BU is responsible for the identification, measurement, management, control and reporting of market risk as outlined in the market risk policy framework. Market risk oversight and challenge is provided as set out in the governance structure below:

Market risk governance structure

	Committees			Teams
Board level	Group Risk and Capital Management Committee (GRCMC)			
Group level	Market Risk Committee (MRC)	Group Alco	Group Investment Committee (GIC)	» Chief Risk Officer (CRO) » Principal Risk Owner (PRO) » Group market risk team
Business unit level	Trading Risk Committee (TRC)	Business and cluster Alcos	Business Investment Committees	Independent business risk management teams
	Traded Position Risk Review forum (TPRR)			
	Absa Capital Valuation Governance forum			

All market risks are reported to the GRCMC on a quarterly basis, along with a monthly highlights dashboard. The MRC meets monthly to review, approve and make recommendations concerning the market risk profile including risk appetite, policies, limits and utilisation. The Group Alco meets monthly to review market risk capital requirements and performance against statement of financial position management objectives.

Absa Capital's market risk is managed by the Absa Capital market risk team and is reviewed monthly by the TRC, with a weekly traded positions risk review. The Absa Capital product control team's responsibilities include valuation control, independent price testing and bid-offer testing, the results of which are reviewed monthly by the Absa Capital Valuation Governance Forum. Absa Capital's asset and liability risks are monitored monthly by the Absa Capital Alco.

Group Treasury manages non-traded asset and liability market risks.

Equity investments are managed in terms of the new ventures and asset policy framework, which requires a specific sign-off procedure to be followed prior to the approval of an investment, and requires regular post-implementation performance reviews. The GIC considers, approves and monitors all investments or divestments of the Bank in accordance with its terms of reference, the new ventures and asset policy framework, the directives of the CE and the board. Where appropriate, the GIC grants sub-mandates to business management to facilitate smaller transactions. At the BU level, the GIC is supported by the Absa Capital Investment Committee and the Absa Business Bank Investment Committee. The market risk team independently monitors equity investment risk at a consolidated level.

Market risk

2010 in review

- **Traded market risk:** market volatility continued to diminish into 2010 which, together with the resultant lower customer volumes, contributed to a lower trading risk profile as well as lower trading revenue. The trading revenue-to-risk ratio, however, remained favourable. Traded market risk measurement systems were further upgraded during the year to ensure enhanced performance and scalability to support trading expansion plans. Regulatory approval was maintained for use of the internal models approach to measure general trading position risk regulatory capital requirements during 2010 and for 2011.
- **Interest rate risk in the banking book:** the Bank continued to manage its structural and non-structural banking book interest rate risk to low risk appetite levels. Cash flow hedging reserves were further bolstered as a result of favourable MTM movements on 'receive fix swaps' in the structural products and equity hedging programme, which will be released to the statement of comprehensive income on an accrual basis over the average life of the programme, subject to market movements. With local interest rates reaching exceptionally low levels during the year, efficient management of the structural hedging programme was a key focus towards preserving the average 'receive fixed programme rate'. The Bank remains exposed to interest rate reset risk, arising from the timing difference between predominantly prime linked assets being funded with liabilities with a 3 month repricing profile after hedging. This timing difference continued to have an adverse statement of comprehensive income impact during the year of decreasing interest rates experienced in 2010. Prepayment and recruitment risk that may arise from fixed rate product offerings to customers continued to be managed on customer behaviour risk principles.
- **Equity investment risk in the banking book:** with capital and funding considered increasingly scarce resources, capital and funding intensive equity investments were managed down. Private equity investment valuations stabilised in line with portfolio movements and market conditions.

Risk analyses are provided in the subsections that follow for each of the material market risks that the Bank is exposed to, namely traded market risk and non-traded interest rate and equity risk in the banking book.

Approach to market risk

Traded market risk

Objectives and policies

Traded market risk is predominantly the result of facilitating customers in wholesale markets, which involves market making, offering hedge solutions, pre-hedging and assisting customers to execute large trades. Not all customer trades are hedged instantaneously or completely, giving rise to traded market risk. The Bank's policy is to concentrate its traded market risk exposure within Absa Capital.

In Absa Capital, market risk occurs in both the trading book and the banking book, as defined for regulatory purposes. Interest rate risk in Absa Capital's banking book is subjected to the same rigorous measurement and control standards as described below for its trading book, but the associated sensitivities are reported as part of the interest rate risk in the banking book sensitivity analyses on pages 100 to 103.

Measurement and control

A suite of complementary techniques is used to measure and control traded market risk on a daily basis, which includes DVaR, tail risk and stress testing.

Daily value at risk (DVaR)

DVaR is an estimate of the potential loss that might arise from unfavourable market movements if 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.

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 backtesting and regulatory capital calculation purposes respectively. This internal model has been approved by the SARB to calculate regulatory capital for the trading book. The model approval covers general position risk across all approved interest rate, foreign exchange, commodity, equity and traded credit products. Issuer specific risk is currently reported in accordance with the regulatory standardised approach.

DVaR is an important market risk measurement and control tool and consequently the performance of the model is regularly assessed for continued suitability. The main approach employed is a technique known as backtesting, which counts the number of days when daily trading losses exceed the corresponding DVaR estimate. The regulatory standard for backtesting is to measure daily losses against DVaR assuming a one-day holding period and a 99% level of confidence. The regulatory green zone of four or less exceptions over a 12-month period is consistent with a good working DVaR model. Backtesting reports are monitored daily. For Absa Capital's trading book, green model status was maintained throughout 2009 and 2010.

When reviewing DVaR estimates, a number of considerations should be taken into account. These are:

- 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;
- DVaR is based on positions as at close of business and consequently intra-day risk, the risk from a position bought and sold on the same day, is not captured; and
- prudent valuation practices are used in the DVaR calculation when there is difficulty obtaining rate/price information.

To complement DVaR, tail risk metrics, stress testing and other sensitivity measures are used.

Tail risk metrics

Tail risk metrics highlight the risk beyond the percentile selected for DVaR. The two tail risk metrics chosen for daily monitoring, using the current portfolio and two years of price and rate history, are:

- the average of the worst three hypothetical losses from the historical simulation; and
- expected shortfall (also referred to as expected tail loss), which is the average of all hypothetical losses from the historical simulation beyond the 95^{th} DVaR percentile.

Market risk

Stress testing

Stress testing provides an indication of the potential size of losses that could arise in extreme conditions, which assists in identifying risk concentrations across business lines and assists senior management in capital planning decisions. Absa Capital performs two main types of stress/scenario testing. Firstly, risk factor stress testing is carried out, where extended historical stress moves are applied to each of the main risk categories, including interest rate, equity, foreign exchange, commodity and credit spread risk. Secondly, the trading book is subjected to multi-factor scenarios that simulate past periods of significant market disturbance and hypothetical extreme yet plausible events. Scenarios are reviewed at least annually.

Stress results are monitored daily in accordance with a stress limits and triggers framework. If a potential stress loss exceeds the corresponding trigger, the positions captured by the stress test are reviewed, discussed and minuted by the Absa Capital market risk team and the respective Absa Capital business heads, including the merits of the position and the appropriate course of action.

Risk limits

Risk limits are set and reviewed at least annually to control Absa Capital's trading activities in line with the defined risk appetite of the Bank. Criteria for setting risk limits include relevant market analysis, market liquidity and business strategy. Trading risk limits are set at aggregate, risk category and lower levels and are expressed in terms of DVaR. This is further supported by a comprehensive set of non-DVaR limits, including foreign exchange position limits, interest rate delta limits, option based limits, tail risk and stress triggers and limits. Performance triggers are also used as part of the risk management process.

Interest rate risk in the banking book

Objectives and policies

Interest rate risk is the risk that the Bank's financial position may be adversely affected by 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 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 managing 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 is in place to ensure that retained risk remains within approved risk appetite.

Risk management strategies considered include:

» Strategies regarding changes in the volume, composition, pricing and interest rate risk characteristics of assets and liabilities.
» 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 Group Treasury's balance sheet management role, interest rate exposures arising from the repricing mismatches of assets and liabilities in the domestic banking book are transferred from the BUs to Group Treasury through matched funds transfer pricing. These positions are aggregated and the net exposure is hedged with the market via Absa Capital. As a result of mainly timing considerations, interest rate risk may arise when some of the net position remain with 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 Group Treasury. Structural balances are typically hedged using a portfolio of swaps where the maturity is based on the assumed stability of the underlying balance.

Measurement and control

The techniques used to measure and control interest rate risk in the banking book include repricing profiles, annual earnings at risk, DVaR and tail metrics, economic value of equity sensitivity and stress testing.

Repricing profiles

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 due to the broad customer base (numerically and by depositor type). Currently, the contractual profiles of assets are not adjusted for customer prepayment features. Repricing profiles are monitored monthly.

Annual earnings at risk (AEaR)

AEaR measures the sensitivity of net interest income over the next 12 months to a specified shock in interest rates. AEaR is assessed across a range of interest rate scenarios, including parallel and key rate shocks, yield curve twists and inversions, as appropriate for each business. The AEaR calculation takes the assumed behavioural profile of relevant structural product balances into account. Currently, the contractual profiles of assets are not adjusted for customer prepayment features. AEaR is monitored monthly against approved internal limits, which limits are calibrated for a standardised 200 bps adverse shock.

Daily value at risk (DVaR)

Apart from Absa Capital, the Bank uses a simplified approach to calculate interest rate risk in the banking book DVaR at a 95% confidence level, which is monitored against approved internal limits. It is used as a complementary tool to AEaR. DVaR is also supplemented by tail metrics. DVaR is monitored daily.

Economic value of equity (EVE) sensitivity

EVE sensitivity measures the sensitivity of the present value of the banking book, at a specific point in time to a specified shock to the yield curve. Like DVaR, EVE is a present value sensitivity, and complementary to income sensitivity measures such as AEaR. EVE sensitivity is monitored monthly.

Stress testing

Stress testing is carried out by Group Treasury to supplement DVaR and AEaR metrics. The stress testing consists of a combination of stress scenario and historical stress movements applied to the banking book. Stress results are monitored at least monthly.

Prepayment and recruitment risk

Embedded customer optionality risk may also give rise to interest rate risk in the banking book. This risk arises from a customer's right to buy, sell or in some manner alter the cash flow of a financial contract. Embedded customer optionality is distinct from direct optionality, which arises through the underlying product structure (e.g. capped rate loan products). The Bank's policy requires such direct option risk to be hedged explicitly.

Market risk

Prepayment risk arises in relation to transactions where a customer option is embedded in the product. This risk most commonly arises in relation to fixed rate loans offered to retail customers, where the customer has an option to repay the loan prior to contractual maturity and where the Bank is unable to collect full market related compensation. The risk is controlled through book and term limits, funding (hedging) new loans according to the expected repayment profile and tracking deviations of actual customer behaviour from the expected profile. The risk is monitored monthly.

Recruitment risk arises when the Bank commits to provide a product at a predetermined price for a period into the future. Customers have an option to take up this offer. Controls include campaign rules, pre-funding of anticipated take-up and management of the resultant residual risk.

Embedded customer optionality risk was not material during 2009 or 2010.

Foreign exchange risk

The Bank is exposed to two sources of foreign exchange risk, namely, transactional and translational risk.

Transactional foreign exchange risk

Transactional foreign exchange risk arises as a result of banking assets and liabilities which are not denominated in the functional currency of the transacting entity. The Bank's policy is for transactional foreign exchange risk to be concentrated and managed within the Absa Capital trading book.

In accordance with the Bank's policy, there were no significant net open currency positions outside the Absa Capital trading book at either 31 December 2009 or 2010 that gave rise to material foreign exchange gains and losses being recognised in the statement of comprehensive income or in equity as a result of a foreign exchange rate shock.

Translational foreign exchange risk

Translational foreign exchange risk arises from capital resources (including investments in subsidiaries and branches, intangible assets, non-controlling interest, deductions from capital and debt capital instruments) and RWAs being denominated in foreign currencies. Changes in foreign exchange rates result in changes in the South African rand (ZAR) equivalent value of foreign currency denominated capital resources and RWAs.

Translational foreign currency risk can be mitigated through derivatives or borrowings in the same currency as the functional currency involved, designated as net investment hedges, or through economic hedges.

The impact of a change in the exchange rate between ZAR and any of the relevant currencies, would be:

» a higher or lower ZAR equivalent value of non-ZAR denominated capital resources and RWAs. This includes a higher or lower currency translation reserve within equity, representing the translation of non-ZAR subsidiaries and branches net of the impact of foreign exchange rate changes on derivatives and borrowings designated as hedges of net investments;

» a higher or lower profit after tax, arising from changes in the exchange rates used to translate items in the statement of comprehensive income; and

» a higher or lower value of available-for-sale investments denominated in foreign currencies, impacting the available-for-sale reserve.

The Bank's translational foreign exchange risk arises primarily from its investments in foreign branches.

Translational hedging considerations include exchange control regulations, the strategic nature of the investment, materiality of the risk, prevailing foreign exchange rates, market liquidity, cost of hedging and the impact on capital ratios. Based on these considerations, no foreign currency net investment hedges were in place during 2010.

Translational foreign exchange risk may give rise to sensitivity of the Bank's capital ratios, from the ratio of foreign currency capital resources to foreign currency RWAs. To minimise volatility of capital ratios caused by foreign exchange rate movements, the Bank aims to maintain an appropriate foreign currency capital structure by maintaining the ratio of foreign currency capital resources to foreign currency RWAs at appropriate levels.

Translational foreign exchange risk is monitored regularly to consider the need for mitigating actions towards minimising material fluctuations. A sensitivity analysis is provided in table 30.

Asset management structural market risk

Asset management structural market risk arises where the fee and commission income earned by asset management products and businesses is affected by a change in market levels, primarily through the link between income and the value of assets under management. The risk is measured in terms of AEaR, to reflect the sensitivity of annual earnings to shocks in market rates, notably interest rates and equity. It is the Bank's policy that businesses monitor and report this risk and regularly assess potential hedging strategies. Asset management structural market risk was not material during 2009 or 2010.

Equity risk in the banking book

Objectives and policies

Equity investment risk refers to the risk of adverse changes in the value of listed and unlisted equity investments. These investments are longer-term investments held in the banking book for non-trading purposes. Investments are entered into for one or more of the following reasons:

» enhancing long term sustainable income;
» positioning the Bank strategically for future markets/benefits;
» achieving BU growth objectives;
» improving internal efficiencies in a cost effective way; and/or
» improving the Bank's asset or customer base.

The Bank's governance of equity investments is based on the following key fundamental principles:

» a formal approval governance process;
» a segregation of governance committees based on the nature of investment and discretion limits;
» key functional specialists reviewing investment proposals;
» adequate monitoring and control after the investment decision has been implemented; and
» ongoing implementation of best practice based on current market trends, hurdle rates and benchmarks.

Equity investments are managed in terms of the new ventures and asset policy framework in accordance with the purpose and strategic benefits of such investments, rather than on MTM considerations only. Consideration is given to the merits of investment proposals, the impact of the proposal on the investment portfolio, the effectiveness of the exit strategy and the likelihood of achieving the targeted return in terms of that particular investment. Criteria considered for new investments and investment reviews cover a comprehensive set of financial, commercial, legal (and technical, where required) matters. The performance of these investments is monitored relative to the objectives of the portfolio.

Market risk

The majority of the Bank's equity investments are held in Absa Capital and ABB. Absa Capital's investments range across different industries and are monitored in terms of risk and return by the Private Equity and Capital Management departments within Absa Capital. ABB is mainly focused on commercial property investments across a range of property sectors, which are monitored in terms of risk and return by the ABB Specialist Equity department.

Relevant accounting policies

IAS 39 requires all equity investments to be fair valued, except for unquoted equity investments, the fair value of which cannot be reliably measured and is then measured at cost. Accounting policies regarding subsidiaries and investments in associates and joint ventures are discussed separately in note 1.3 of the Bank's financial statements.

The fair value of equity investments is determined using appropriate valuation methodologies which, depending on the nature of the investment, 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.

Listed and unlisted investments are either designated at fair value through profit or loss or as available-for-sale. Investments in entities that form part of the venture capital and similar activities of the Bank have been designated at fair value through profit or loss. The designation has been made in accordance with IAS 39, based on the scope exclusion that is provided in IAS 28. The relevant accounting policies for equity investments are discussed in note 1.7 of the Bank's financial statements.

Measurement and control

Equity investment risk is monitored monthly in terms of regulatory and economic capital requirements, complemented by a range of additional risk metrics and stress testing. The equity investment risk profile is further tracked across a range of dimensions such as geography, industry and currency. The risk monitoring is done in accordance with a risk appetite, mandate and scale limits framework.

The Bank has adopted the market-based simple risk weighted approach to calculate RWAs and regulatory capital for equity risk in the banking book. According to this approach, RWAs are calculated by using weightings of 300% and 400% for listed and unlisted equity investments respectively. RC requirements in respect of investments in associates and joint ventures, defined as financial companies as specified by the regulations relating to banks, are calculated with reference to either the pro rata consolidation methodology or the deduction approach.

Economic capital for equity risk in the banking book is based on investment type and portfolio risk modelling, subject to a floor of 50% of statement of financial position value.

Defined benefit pension risk

The Bank maintains different pension plans with defined benefit and defined contribution structures for former and current employees. In respect of defined benefit plans, the ability to meet the projected pension payments is maintained through investments and regular contributions. Market risk arises because the estimated market value of the pension plan assets might decline, or their investment returns might reduce, or because the estimated value of the pension liabilities might increase, resulting in a funding deficit. In these circumstances, the Bank could be required or might choose to make additional contributions to the defined benefit plan. Financial details of the pension plans are provided in note 39 of the Bank's financial statements.

2010 market risk disclosures

Traded market risk

Analysis of traded market risk exposure

The following table reflects the 95% DVaR statistics for Absa Capital's trading book activities as measured by the Bank's internal models approach for general trading position risk.

Absa Capital's traded market risk exposure, as measured by average total DVaR, decreased by 12% to R27,85 million (2009: R31,65 million). This was mainly due to a R4,62 million decrease in average foreign exchange DVaR from lower customer trading activity in line with South African rand strength and reduced volatility. Expected shortfall showed a similar decrease, averaging R39,04 million over 2010.

Absa Capital trading book DVaR summary – Table 24 (audited):

	Year ended 31 December 2010			As at 31 December 2010	Year ended 31 December 2009			As at 31 December 2009
	Average Rm	High[1] Rm	Low[1] Rm	Rm	Average Rm	High[1] Rm	Low[1] Rm	Rm
Interest rate risk[2]	22,15	36,64	10,16	17,36	23,96	38,85	10,90	18,10
Foreign exchange risk	7,47	38,09	1,57	3,56	12,09	42,01	0,61	2,60
Equity risk	9,17	26,95	2,54	5,02	10,91	27,69	6,53	10,96
Commodity risk	1,41	4,78	0,30	0,71	0,59	3,00	0,01	0,69
Diversification effect	(12,35)	n/a	n/a	(9,24)	(15,90)	n/a	n/a	(9,27)
Total DVaR[3]	27,85	46,55	15,13	17,41	31,65	56,44	15,36	23,08

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.*

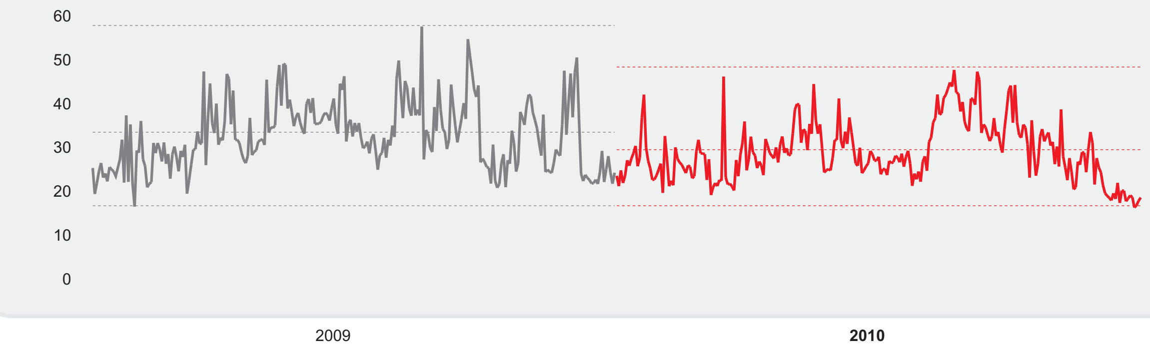
[2] *Credit spread risk remains small and is reported together with interest rate risk.*

[3] *The total value at risk over a 10-day holding period at a 99% confidence level as at the reporting date was R97,67 million (2009: R118,52 million).*

Market risk

The following graph shows the daily history of Absa Capital's total trading book DVaR for 2009 and 2010, along with the period averages, highs and lows. In comparison with 2009, the 2010 DVaR demonstrated reduced variability, lower average risk levels and a reduction in large DVaR days. Absa Capital does, on some occasions in the conduct of customer transactions, take on significantly larger than usual market risk. However, this is always undertaken within the Bank's market risk governance framework.

Absa Capital trading book DVaR (daily values, period average, high and low) (Rm)

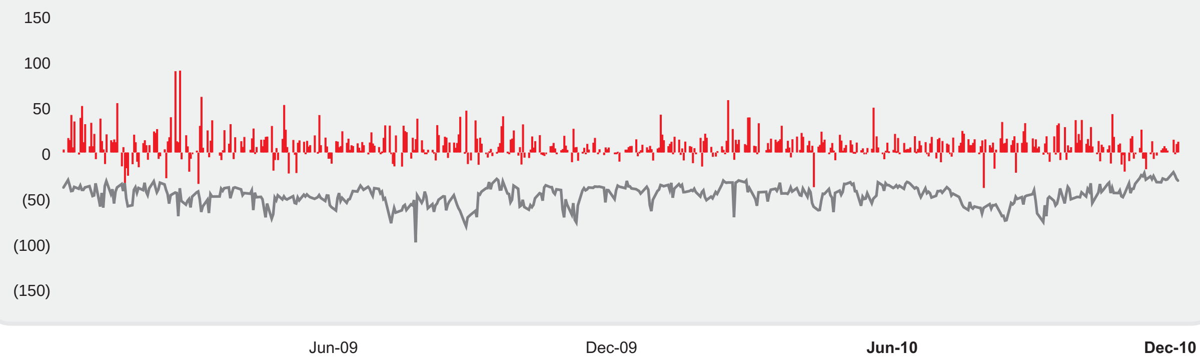


Comparison of value at risk estimates with trading revenues

The following graph compares the total value at risk (VaR) estimates over a one-day holding period at a 99% confidence level with the daily revenues generated by the trading units from 2009 to 2010. Revenue as reported here relates to actual trading book revenue only and excludes fees, commissions, bid-ask spreads and net interest income, as required for regulatory backtesting purposes.

Over the 12 months to the reporting date, there were no instances where an actual daily trading loss exceeded the corresponding VaR estimate. This compares to one exception over the 12 months to the previous reporting date.

Absa Capital daily trading book revenue backtested against regulatory value at risk (Rm)



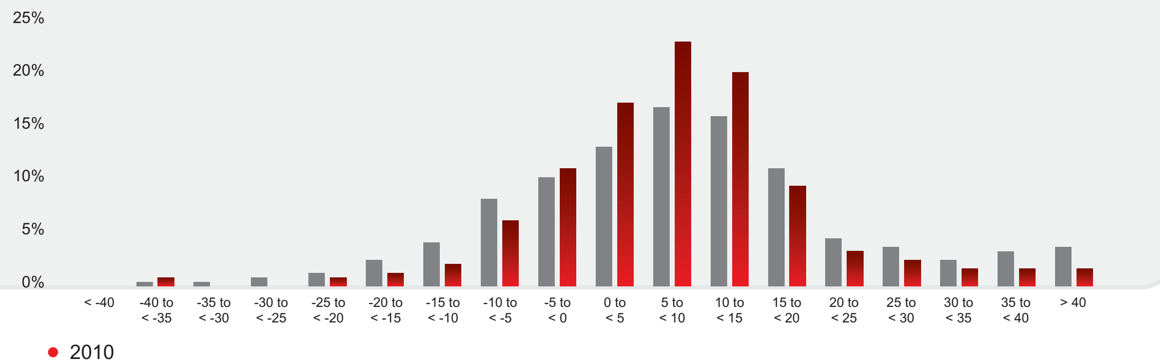
● Actual daily profit and loss —— Regulatory backtesting VaR (1 day, 99%)

Analysis of trading revenue

The following histograms show the distribution of daily trading revenue for the Absa Capital trading book for the 12 months of 2009 and 2010. Revenue includes net trading book income, excluding net fees and commissions.

The distributions are skewed to the profit side. The average daily trading revenue for 2010 decreased from 2009 due to fewer large profit days. The percentage of positive revenue days improved to 78% in 2010 from 73% in 2009, indicating fewer loss days compared to 2009.

Absa Capital daily trading book revenue (Rm) achieved per % of business days



Minimum regulatory capital requirement for traded market risk

The Bank's traded market risk minimum regulatory capital requirement comprises two elements:

» Trading book positions where the market risk is measured under a SARB approved internal VaR model. The capital requirement is calculated based on the internal model with a 10-day holding period at a 99% confidence level, and other regulatory 60-day averaging and capital multiplier specifications. This approach currently applies to close to 100% of the Bank's general position risk across interest rate, foreign exchange, commodity, equity and traded credit products. A description of the Bank's internal model and controls may be found earlier on in this section.

» Trading book positions which have not yet met SARB or the Bank's internal conditions for inclusion within the approved internal model. The capital requirement is calculated using standardised regulatory rules. This approach currently applies to the Bank's issuer specific risk exposures.

The total traded market risk minimum capital requirement decreased by 7% or R52 million year on year to the reporting date, driven by a decrease in general position risk measured under the internal models approach.

Market risk

Minimum regulatory capital requirement (at 8% of RWA) for traded market risk – Table 25:

	Minimum capital As at 31 December 2010 Rm	As at 31 December 2009 Rm
Internal models approach (DVaR model based)	**501**	592
Standardised approach	**220**	181
Interest rate risk	**134**	82
Equity risk	**36**	73
Options	**50**	26
Total traded market risk capital requirement	**721**	773

Interest rate risk in the banking book

Three separate interest rate sensitivity analyses for the Bank's banking book are set out below, namely the repricing profile of the book, the potential effect of changes in market interest rates on annual earnings and equity reserves.

Interest rate sensitivity analysis – repricing profile

The repricing profile of the Bank's domestic banking book 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. Accordingly, future net interest income remains vulnerable to a decrease in market interest rates. However, asset sensitivity, as represented by the cumulative 12-month interest rate gap, decreased from 2009 to 2010.

Expected repricing profile – Table 26 (audited):

	31 December 2010			
	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	128 494	(33 570)	(26 521)	(33 699)
Derivatives[2]	(120 901)	32 111	24 474	64 316
Net interest rate sensitivity gap	7 593	(1 459)	(2 047)	30 617
Cumulative interest rate gap	7 593	6 134	4 087	34 704
Cumulative gap as a percentage of the Bank's total assets (%)	1,1	0,9	0,6	5,1

Notes

[1]*Includes exposures in the Absa Capital banking book.*

[2]*Derivatives for interest rate risk management purposes (net nominal value).*

Expected repricing profile – Table 26 (audited): *(continued)*

	31 December 2009			
	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	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 the Bank's total assets (%)	3,8	3,0	1,4	4,4

Notes

[1]*Includes exposures held in the Absa Capital banking book.*

[2]*Derivatives for interest rate risk management purposes (net nominal value).*

Interest rate sensitivity analysis – impact on earnings

The following table shows the annual earnings at risk from impacts to net interest income for 100 and 200 bps up and down movements in market interest rates for the Bank's banking book. Assuming no management action is taken in response to market interest rate movements, a hypothetical immediate and sustained parallel decrease of 200 bps in all market interest rates would, as at the reporting date, result in a pretax reduction in projected 12-month net interest income of R376 million. A similar increase would result in an increase in projected 12-month net interest income of R328 million. AEaR therefore remains low, at well below 5% of the Bank's net interest income, for a 200 bps rate shock. The Bank remains primarily exposed to South African market interest rates.

Annual earnings at risk for a 100 and 200 bps change in market interest rates – Table 27 (audited):

	Change in market interest rates			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
As at 31 December 2010				
Change in projected net interest income[1] (Rm)	**(376)**	**(176)**	**157**	**328**
Percentage of the Bank's net interest income (%)	**(1,8)**	**(0,8)**	**0,7**	**1,5**
Percentage of the Bank's equity (%)	**(0,7)**	**(0,3)**	**0,3**	**0,6**
As at 31 December 2009				
Change in projected net interest income[1] (Rm)	(736)	(367)	395	805
Percentage of the Bank's net interest income (%)	(3,7)	(1,8)	2,0	4,0
Percentage of the Bank's equity (%)	(1,6)	(0,8)	0,8	1,7

Note

[1]*Includes exposure held in the Absa Capital banking book.*

Market risk

Interest rate sensitivity analysis – impact on equity reserves

Market interest rate changes may 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; and
- higher or lower values of derivatives held in the cash flow hedging reserve.

The pretax effect from net interest income sensitivity is reported in the preceding sensitivity analysis. The effect of taxation can be estimated using the 2010 tax rate.

The equity reserve 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 MTM 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 market interest rates.

The increased sensitivity of cash flow hedge reserves from 2009 to 2010 is due to an increase in interest rate swaps executed to hedge the fixed rate exposure associated with structural balances and fixed rate retail and commercial deposits. The increased sensitivity of available-for-sale reserves from 2009 to 2010 is due to additional statutory liquid assets purchased during the year, classified as available-for-sale.

Sensitivity of reserves to market interest rate movements – Table 28 (audited):

	2010			2009		
	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 bps parallel move in all yield curves						
Available-for-sale reserve	**(841)**	**(875)**	**(675)**	(580)	(580)	(177)
Cash flow hedging reserve	**(1 731)**	**(1 794)**	**(1 506)**	(1 476)	(1 670)	(1 471)
Total	**(2 572)**	**(2 655)**	**(2 238)**	(2 056)	(2 056)	(1 754)
As a percentage of Bank equity at 31 December (%)	**(4,9)**	**(5,0)**	**(4,3)**	(4,3)	(4,3)	(3,7)
– 100 bps parallel move in all yield curves						
Available-for-sale reserve	**841**	**875**	**675**	580	580	177
Cash flow hedging reserve	**1 731**	**1 794**	**1 506**	1 476	1 670	1 471
Total	**2 572**	**2 655**	**2 238**	2 056	2 056	1 754
As a percentage of Bank equity at 31 December (%)	**4,9**	**5,0**	**4,3**	4,3	4,3	3,7

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.*

Interest rate sensitivity analysis – return on average balances

Interest return on average balances – Table 29:

Average balances and weighted average effective interest rates were as follows:

	Bank					
	2010			2009		
	Average balance (audited) Rm	Average rate[1] %	Interest income/ (expense) Rm	Average balance (audited) Rm	Average rate %	Interest income/ (expense) Rm
Assets						
Statutory liquid asset portfolio	**35 331**	**8,44**	**2 983**	30 395	5,86	1 781
Loans and advances to banks and customers	**527 057**	**8,97**	**47 281**	520 440	11,30	58 791
Investment securities	**13 482**	**3,32**	**448**	13 423	3,72	499
Other interest[2]	**—**	**—**	**1 552**	—	—	1 462
Interest earning assets	**575 870**	**9,08**	**52 264**	564 258	11,08	62 533
Non-interest earning assets	**103 705**	**—**	**—**	144 581	—	—
Total assets	**679 575**	**7,69**	**52 264**	708 839	8,82	62 533
Liabilities						
Deposits due to customers and from banks	**360 213**	**(4,86)**	**(17 513)**	408 874	(6,28)	(25 679)
Debt securities in issue	**163 762**	**(7,85)**	**(12 850)**	171 029	(9,34)	(15 976)
Borrowed funds	**13 198**	**(12,02)**	**(1 586)**	12 005	(8,45)	(1 015)
Other interest[2]	**—**	**—**	**929**	—	—	25
Interest bearing liabilities	**537 173**	**(5,77)**	**(31 020)**	591 908	(7,20)	(42 645)
Non-interest bearing liabilities	**92 266**	**—**	**—**	60 930	—	—
Total liabilities	**629 439**	**(4,93)**	**(31 020)**	652 838	(6,53)	(42 645)
Equity						
Capital and reserves						
Attributable to equity holders of the Bank:						
Ordinary share capital	**219**	**—**	**—**	192	—	—
Share premium	**10 934**	**—**	**—**	9 778	—	—
Preference share capital	**1**	**—**	**—**	1	—	—
Preference share premium	**4 644**	**—**	**—**	4 644	—	—
Other reserves	**3 295**	**—**	**—**	3 393	—	—
Retained earnings	**30 918**	**—**	**—**	37 877	—	—
	50 011	**—**	**—**	55 885	—	—
Non-controlling interest	**125**	**—**	**—**	116	—	—
Total equity	**50 136**	**—**	**—**	56 001	—	—
Total equity and liabilities	**679 575**	**(4,56)**	**(31 020)**	708 839	(6,02)	(42 645)
Net interest margin on average interest earning assets		**3,69**			3,52	
Net interest margin on average assets		**3,13**			2,81	

Daily averages were used to calculate the average balances.

Notes

[1]*The average prime rate for the year was 9,87% (2009: 10,89%).*

[2]*Also includes fair value adjustments on hedging instruments and hedged items.*

Market risk

Foreign currency translation risk in the banking book

The Bank's translational foreign exchange exposure arises primarily from its net investment in a foreign branch. The following table shows the carrying value of the foreign currency net investment and the pretax impact on equity of a 5% change in the exchange rate between ZAR and the relevant functional foreign currency.

The Bank's total foreign currency net investment exposure remains low and decreased by 8% from the previous year.

Foreign currency translation sensitivity analysis – Table 30 (audited):

Functional foreign currency	Sterling Rm
As at 31 December 2010	
Foreign currency net investment	**1 043**
Impact on equity from a 5% currency translation shock	**52**
As at 31 December 2009	
Foreign currency net investments	1 135
Impact on equity from a 5% currency translation shock	57

Equity investment risk

Equity investment risk in the banking book (regulatory definition)

The equity portfolio is subject to regulatory and economic capitalisation under equity risk in the banking book rules of the Banks Act. According to these rules, the equity portfolio excludes third-party equity investments under management for which the Bank does not bear the risk.

The RWAs of the Bank's equity investments in the banking book are reported in the capital management section of this Bank risk management report.

Equity sensitivity analysis of the Bank's investments

Note 11 of the consolidated financial statements provides a breakdown of investment securities. In respect of listed and unlisted equity investments reported in this note, an analysis is provided of the estimated sensitivity impact on pretax profit and loss and equity for a reasonably possible 5% variance in equity market values based on the accounting treatment of these investments.

Equity sensitivity analysis – impact on pretax profit and loss and equity – Table 31 (audited):

	2010					2009				
	Impact of a 5% reduction in fair value			Impact of a 5% increase in fair value		Impact of a 5% reduction in fair value			Impact of a 5% increase in fair value	
	Profit and loss Rm	Equity Rm	Fair value Rm	Profit and loss Rm	Equity Rm	Profit and loss Rm	Equity Rm	Fair value Rm	Profit and loss Rm	Equity Rm
Listed equity investments[1]	**(47)**	**(3)**	**985**	**47**	**3**	(79)	(4)	1 652	79	4
Unlisted equity investments[1]	**(271)**	**(7)**	**5 572**	**271**	**7**	(290)	(8)	5 961	290	8
	(318)	**(10)**	**6 557**	**318**	**10**	(369)	(12)	7 613	369	12

Note

[1]*Excludes debt instruments and all associates and joint ventures.*

Strategic focus for the year ahead

Traded market risk: the Basel II market risk amendments package agreed in July 2009 is in the process of being adopted into bank regulations. This will see the introduction of new trading book capital charges, of which notably the stressed VaR and incremental risk charges will translate into an increase in the Bank's trading risk regulatory charge. In order to achieve readiness for these requirements, model development and testing began in 2010 and which will be finally embedded during 2011. In view of the likely increase in trading book regulatory capital charges, the focus in 2011 will remain on efficient use of risk capital across trading desks and products, and on the relatively low capital consuming customer flow and cash equities business. Expansion of customer risk solutions for sub-Saharan Africa markets also remains a strategic focus for 2011.

Interest rate risk in the banking book: with local interest rates expected to remain at low levels for some time, efficient management of the structural banking book interest rate risk hedging programme will remain a strategic focus area in 2011, towards preserving the average receive fixed programme rate.

Equity investment risk in the banking book: given the capital and funding intensive nature of equity investments, there will be continued focus on reducing non-core portfolios to release capacity, which process began in 2010.

Liquidity risk

Highlights

- Liquidity risk management process remained robust and comprehensive.
- Significant increase in surplus liquid assets held.
- Continued improvement in wholesale funding term.
- Cost of liquidity remained high during 2010 impacting on profitability, but started reducing towards the end of the year.

Key performance indicators

	2010 %	2009 %
Long-term funding ratio[1]	25,6	23,5
Loan to deposit ratio[2]	90,7	94,4

Notes

[1]*The ratio is shown in respect of the Company and reflects the average over the calendar year.*

[2]*The ratio reflected here is in respect of the Bank.*

Introduction

Liquidity risk is the risk that a bank is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, the consequences of which may be the failure to meet obligations to repay depositors and to fulfil commitments to lend. Liquidity risk, more generally, is the risk that an entity will be unable to continue operating as a going concern due to a lack of funding.

Liquidity risk is inherent in all banking operations and confidence can be affected by a range of institution specific and market-wide events including, but not limited to, market rumours, credit events, payment system disruptions, systemic shocks, terrorist attacks and even natural disasters.

The appropriate and efficient management of liquidity risk by banks is of utmost importance in ensuring confidence in the financial markets and in ensuring that banks pursue sustainable business models, thereby fulfilling their key economic role of maturity transformation (i.e. the process by which banks transform deposits from customers, which tend to be of a shorter-term nature, into loans, which tend to be of a longer-term nature).

The efficient management of liquidity risk is essential to the Bank in order to ensure that:

- normal banking operations continue uninterrupted;
- the interests of 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 at all times.

Strategy

The liquidity funding strategy of the Bank is based on the following objectives:

- growing and diversifying the funding base to support asset growth and other strategic initiatives;
- further lengthening the Bank's funding profile in order to continue improving key liquidity metrics and reducing the Bank's liquidity risk exposure;

- continuing to build surplus liquid asset holdings in the light of the Basel liquidity requirements; and
- focusing on lowering the weighted average cost of funding, within agreed parameters for liquidity risk.

Governance

Group Treasury is responsible for managing liquidity risk on behalf of the Bank. As part of the overall liquidity risk management control process, independent oversight and regular independent reviews are conducted to assess the effectiveness of the function.

Group Treasury reports monthly to the MRC thereby ensuring a constant review of the liquidity position of the Bank. The GRCMC, under delegated authority from the board, reviews and approves the control framework and policy for liquidity risk management.

2010 in review

There is currently a significant focus on liquidity risk by banks globally in light of the importance of prudent liquidity risk management practices as highlighted by the recent international financial crisis. The Bank, during 2010, paid careful attention to liquidity risk to ensure the management of this risk remains appropriate.

Steps continue to be taken to extend the term of the funding book and the average long-term funding ratio has increased by 2,1% during 2010.

The loan to deposit ratio has improved by 3,7% from 2009 to 2010, as a result of continued focus on asset quality and prudent liquidity risk management practices.

Approach to liquidity risk

A dedicated team in Group Treasury is responsible for implementing the liquidity risk framework and policy and for ensuring that liquidity risk is adequately managed across all BUs. Group Treasury also monitors and manages the Bank's liquidity position to ensure full regulatory compliance in respect of liquidity risk management and reporting. Group Treasury takes cognisance of the contractual and business-as-usual liquidity positions, as well as of the liquidity position under stress.

2010 liquidity disclosures

Regulatory changes in 2010

The Bank's management devoted a significant amount of time to understanding the potential implications of the proposed Basel liquidity framework for the Bank. A first draft of Basel's proposals was published in December 2009[1]. After a consultation period including a number of quantitative impact studies, the final text was released in December 2010[2]. The final rules published by Basel provide a large amount of discretion to national supervisors (i.e. SARB) and it will therefore be some time before the exact implications of the rules become clear. In particular, allowance has been made in the rules for jurisdictions in which local economies may not have sufficient liquid assets to enable banks to comply with the rules, and there is a possibility that South Africa would fall into this category. However, the rules as drafted have only put forward a number of suggestions, and it is anticipated that a lot of further work will be required before final agreement is reached.

Notes

[1]*See document entitled 'Consultative Document – International framework for liquidity risk measurement, standards and monitoring', available at http://www.bis.org/publlbcbs165.pdf.*

[2]*See document entitled 'Basel III: International framework for liquidity risk measurement, standards and monitoring', available at http://www.bis.org/publlbcbs188.pdf.*

Liquidity risk

Banks are expected to start reporting information under the Basel liquidity framework from 2012, but compliance with the two key liquidity Basel ratios is only expected at a later stage as indicated in the table below:

Key metrics under Basel liquidity risk framework and timeframes for compliance

Risk metric	Purpose of metric	Compliance required by
Liquidity coverage ratio (LCR)	To promote short-term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high-quality liquid assets to survive a significant stress scenario lasting for one month.	2015
Net stable funding ratio (NSFR)	To promote resilience over a longer time horizon (one year) by creating additional incentives for banks to fund their activities with more stable sources of funding on an ongoing basis.	2018

The Bank has already started taking steps to further improve its liquidity position ahead of the timeframes for compliance with the Basel rules outlined in the table above by increasing the amount of surplus liquid assets held and by taking steps to extend the term of its wholesale funding book. More information on the progress made and on the plans for 2011 can be found in the sections that follow.

Surplus liquid assets held

The amount of surplus liquid assets held by the Company (defined as unencumbered liquid assets held in excess of the amount required to be held by law) has been significantly increased during 2010. As at the reporting date, R17 billion of surplus liquid assets was held in respect of the Company, an increase of R13 billion on the amount held at the previous reporting date.

The cost of maintaining the liquidity pool of the Company (consisting of liquid assets held to comply with regulatory requirements, plus surplus liquid assets held over and above the minimum regulatory requirements) is a function of the cost of funding used to purchase the liquid assets compared to the return earned on the liquid assets purchased.

Cost of liquidity

The beginning of 2010 saw liquidity premiums (i.e. the excess return or 'premium' demanded by the market to invest funds with banks for longer periods of time than overnight) at historically high levels. As an example, the liquidity premium for 12-month funding was as high as 80 bps at the beginning of 2010. Liquidity premiums remained high for most of 2010, meaning that South African banks had to secure funding for a large part of the year at cost levels far exceeding pre-crisis levels. This high cost of liquidity had a negative impact on profitability during the year. Liquidity premiums have started reducing towards the end of 2010 and as at the reporting date were broadly in line with levels last seen in early 2008.

Funding structure

The funding position of the Bank has remained broadly unchanged during 2010. Retail Bank remains partly funded by retail deposits, whereas Absa Business Bank was in a self-funded position as at the reporting date. The Bank places reliance on wholesale funding markets for the balance of funding required, and Absa Capital acts as the Bank's 'face to the market' for obtaining the required wholesale funding.

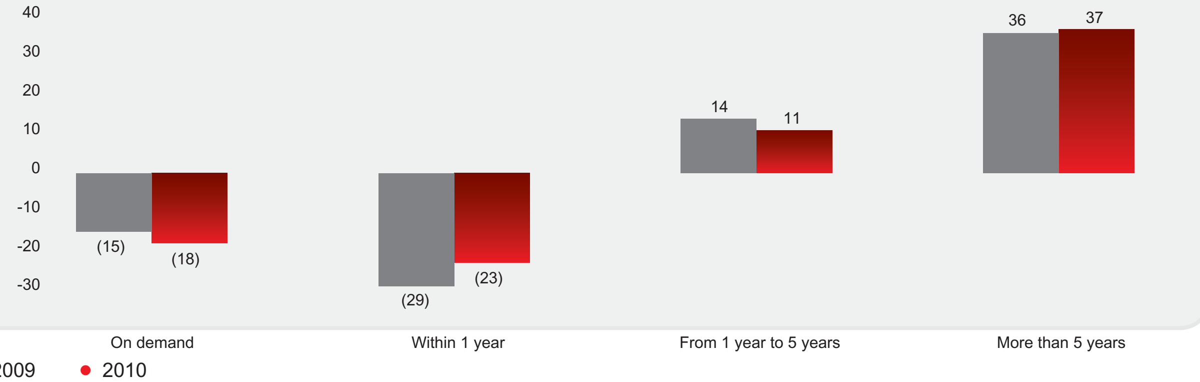
Funding is sourced from a variety of depositors representing a cross section of South African economic sectors, with a wide range of maturities. The Bank has a well diversified deposit base, and concentration risk is managed within appropriate guidelines. Sources of liquidity are regularly reviewed to maintain a wide diversification by provider, product and term.

Lengthening the funding profile of the Bank's funding base is a key strategic aim. Despite structural constraints in the South African economy which limit the extent to which South African banks are able to lengthen their funding profiles, the Bank continued to take steps during 2010 to further lengthen the funding profile within these constraints. The weighted average remaining term of wholesale funding has increased from approximately six months as at 31 December 2006 to approximately 14 months as at the reporting date. The proportion of wholesale funding that has a term in excess of 12 months has also seen a marked increase over this period.

Contractual and behavioural liquidity mismatch positions

The graph below summarises the contractual mismatch position in respect of the Bank as at the reporting date. The cumulative contractual mismatch position over one year has improved during 2010 due to prudent liquidity management practices and a further extension in funding term.

Cumulative contractual mismatch position of the Bank as at the reporting date, expressed as a % of total assets



Liquidity risk

A summary of the Bank's discounted and undiscounted liquidity profile is reflected in the tables that follow:

Liquidity risk management – discounted – Table 32 (audited):

	Bank				
	2010				
	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	17 343	—	—	—	17 343
Statutory liquid asset portfolio	3	17 479	10 142	20 591	48 215
Loans and advances to banks	13 685	7 035	989	1 924	23 633
Trading portfolio assets	56 993	—	—	—	56 993
Hedging portfolio assets	4 662	—	—	—	4 662
Other financial assets	4 123	800	6 246	—	11 169
Loans and advances to customers	69 896	57 537	111 012	247 143	485 588
Loans to Absa Group companies	8 071	—	—	—	8 071
Investment securities	152	2 940	5 802	4 012	12 906
Financial assets	174 928	85 791	134 191	273 670	668 580
Non-financial assets					12 343
Total assets					680 923
Liabilities					
Deposits from banks	7 554	10 442	3 165	579	21 740
Trading portfolio liabilities	43 530	—	—	—	43 530
Hedging portfolio liabilities	1 881	—	—	—	1 881
Other financial liabilities	5 326	870	140	—	6 336
Deposits due to customers	239 239	109 988	8 133	15 284	372 644
Debt securities in issue	—	117 411	38 850	6 265	162 526
Borrowed funds	123	722	10 304	2 500	13 649
Financial liabilities	297 653	239 433	60 592	24 628	622 306
Non-financial liabilities					5 987
Total liabilities					628 293
Equity					52 630
Total equity and liabilities					680 923
Net liquidity position of financial assets and liabilities	(122 725)	(153 642)	73 599	249 042	46 274

Liquidity risk measurement – discounted – Table 32 (audited): *(continued)*

	Bank 2009[1]				
	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	—	8 442	13 807	11 694	33 943
Loans and advances to banks	9 661	3 257	19 488	2 630	35 036
Trading portfolio assets	46 672	—	—	—	46 672
Hedging portfolio assets	2 558	—	—	—	2 558
Other financial assets	444	1 268	4 175	2	5 889
Loans and advances to customers	85 520	62 335	86 231	256 119	490 205
Loans to Absa Group companies	16 232	—	—	—	16 232
Investment securities	1 798	8 528	5 597	926	16 849
Financial assets	178 411	83 830	129 298	271 371	662 910
Non-financial assets					10 864
Total assets					673 774
Liabilities					
Deposits from banks	7 312	31 205	841	802	40 160
Trading portfolio liabilities	36 957	—	—	—	36 957
Hedging portfolio liabilities	565	—	—	—	565
Other financial liabilities	6 879	1 463	(218)	(72)	8 052
Deposits due to customers	226 353	102 902	4 181	15 935	349 371
Debt securities in issue	(69)	143 345	21 065	5 447	169 788
Loans from Absa Group companies	3 464	—	—	—	3 464
Borrowed funds	—	2 082	8 082	3 366	13 530
Financial liabilities	281 461	280 997	33 951	25 478	621 887
Non-financial liabilities					4 469
Total liabilities					626 356
Equity					47 418
Total equity and liabilities					673 774
Net liquidity position of financial assets and liabilities	(103 050)	(197 167)	95 347	245 893	41 023

Note

[1]*The prior year figures were reclassified due to a change in methodology regarding the maturity analysis.*

Liquidity risk

Liquidity risk management – undiscounted – Table 33 (audited):

Bank

	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
	2010					
Liabilities						
On-statement of financial position						
Deposits from banks	8 516	9 540	3 981	—	(297)	21 740
Trading portfolio liabilities	43 530	—	—	—	—	43 530
Hedging portfolio liabilities	—	1 491	2 280	1 207	(3 097)	1 881
Other financial liabilities	5 326	870	140	—	—	6 336
Deposits due to customers	242 105	111 315	14 485	19 898	(15 159)	372 644
Debt securities in issue	392	120 495	46 946	12 681	(17 988)	162 526
Borrowed funds	123	1 695	13 635	5 304	(7 108)	13 649
Total liabilities	299 992	245 406	81 467	39 090	(43 649)	622 306
Off-statement of financial position						
Financial guarantee contracts	599	—	—	—	—	599
Irrevocable facilities	45 952	—	1 146	—	—	47 098

	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
	2009[1]					
Liabilities						
On-statement of financial position						
Deposits from banks	7 017	29 058	3 432	741	(88)	40 160
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	225 493	108 498	8 419	27 425	(20 464)	349 371
Debt securities in issue	703	141 892	34 734	13 671	(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	278 995	286 378	58 985	49 052	(51 523)	621 887
Off-statement of financial position						
Financial guarantee contracts	1 007	—	—	—	—	1 007
Irrevocable facilities	50 513	—	3 833	—	—	54 346

Note

[1] *The prior year figures were reclassified due to a change in methodology regarding the maturity analysis.*

Strategic focus for the year ahead

Liquidity risk measurement and management will continue to receive focus globally and it is expected that best practices will continue to evolve at pace. This area will remain a key focus area of the Bank and a significant amount of further development work is expected to be performed by the Bank during 2011.

As outlined earlier in this section, the final liquidity framework under Basel was published in December 2010. Although the proposals afford banks a period of time before full compliance is expected, the Bank will continue to take steps in 2011 and beyond to ensure compliance within the required timeframes.

Financial performance

Financial performance

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Directors' approval

Statement of directors' responsibilities in relation to financial statements

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

To enable the directors to meet these responsibilities:

» All directors and employees will endeavour to maintain the highest ethical standards in ensuring the Bank's business is conducted in a manner that in all reasonable circumstances is above reproach.

» The board sets standards and management implements systems of internal control and accounting and information systems aimed at providing reasonable assurance that both on- and off-statement of financial position 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 board and management identify all key areas of risk across the Bank and endeavour to minimise these risks by ensuring that appropriate infrastructure, controls, systems and discipline are applied and managed within predetermined procedures and constraints.

» 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 to 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.

» 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 reviews reports on the principal risk areas and is responsible for approving the principal risk control frameworks. 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) (the Banks Act), and comply with International Financial Reporting Standards (IFRS) and all applicable legislation.

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 this 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 116 of this report.

The directors' report on pages 117 to 121 and the financial statements of the Bank and the Company, which appear on pages 122 to 290, were approved by the board of directors and are signed by:

G Griffin
Chairman

M Ramos
Chief Executive (CE)

Johannesburg
14 February 2011

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 2010, 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
14 February 2011

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 consolidated and separate statements of financial position as at 31 December 2010, and the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, the directors' report, as set out on pages 117 to 290, and those sections marked as audited in the risk management report, but excludes the sections marked as 'unaudited' in notes 52.2 and 52.3.

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of the Bank and of the Company as at 31 December 2010, 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.

Ernst + Young Inc.

Ernst & Young Inc.
Director – Ernest van Rooyen
Registered Auditor
Chartered Accountant (SA)

Wanderers Office Park
52 Corlett Drive, Illovo

Johannesburg
14 February 2011

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director – Tom Winterboer
Registered Auditor
Chartered Accountant (SA)

2 Eglin Road,
Sunninghill

Directors' report

General information and nature of activities

The Bank, which has preference shares listed on the JSE Limited (JSE), 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 3rd Floor, Absa Towers East, 170 Main Street, Johannesburg, 2001.[1]

The Bank 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, London, United Kingdom.

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

The Bank also provides products and services to selected markets in Namibia and Nigeria.

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 14 February 2011.

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 2010.

Bank results

Main business and operations

The Bank recorded an increase of 7% in headline earnings to R6 412 million for the year ended 31 December 2010 (2009: R5 986 million). Headline earnings per share (HEPS) increased by 5% to 1 733,4 cents per share (2009: 1 653,1 cents per share) and fully diluted HEPS increased by 5% to 1 733,4 cents per share (2009: 1 653,1 cents per share).

Headline earnings were derived from the following activities:

	2010 Rm	2009[2] Rm
Banking operations		
Retail Banking	**3 148**	1 896
Home Loans	**166**	(1 291)
Vehicle and Asset Finance	**270**	265
Card	**1 243**	787
Personal Loans[3]	**515**	20
Retail Bank[3]	**954**	2 115
Absa Business Bank	**2 903**	3 194
Absa Capital	**1 307**	192
Underlying performance	**1 345**	1 179
Single stock futures impairment	**(38)**	(987)
Corporate centre[4]	**(414)**	489
Capital and funding centre	**(192)**	(35)
Preference equity holders of the Bank	**(320)**	(421)
Profit attributable to ordinary equity holder of the Bank	**6 432**	5 315
Headline earnings adjustments (refer to note 38)	**(20)**	671
Headline earnings	**6 412**	5 986

Notes

[1]*Effective from 1 April 2011, the registered address changed to: 7th Floor, Absa Towers West, 15 Troye Street, Johannesburg, 2001.*

[2]*Comparatives have been reclassified for the move of Absa Small Business from Retail Banking to Absa Business Bank.*

[3]*Personal Loans were previously disclosed as part of Retail Bank.*

[4]*Includes volatility from investment in Visa Incorporated.*

Directors' report

Directors

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

G Griffin[1, 2] (Chairman) (appointed as Chairman on 1 October 2010)
D C Brink[1, 2] (former Chairman) (retired as Chairman and as a director on 30 September 2010)
M Ramos[3] (Chief Executive)
L L von Zeuner[3] (Deputy Chief Executive)
D C Arnold[2, 7]
C Beggs[2] (appointed on 23 June 2010)
B P Connellan[1, 2]
Y Z Cuba
B C M M de Vitry d'Avaucourt[4]
S A Fakie[2]
M W Hlahla[2, 7]
D W P Hodnett[3] (appointed on 1 March 2010)
M J Husain[2]
A P Jenkins[5]
R Le Blanc[5]
T M Mokgosi-Mwantembe[2]
E C Mondlane, Jr[2, 6]
T S Munday[2]
S G Pretorius[2]
J H Schindehütte[3] (resigned on 28 February 2010)
B J Willemse[2]

Notes

[1]*Has been on the board for more than nine years.*
[2]*Independent director.*
[3]*Executive director.*
[4]*French.*
[5]*British.*
[6]*Mozambican.*
[7]*Retired 21 April 2011.*

Re-election of retiring directors (Absa Group AGM resolution number 3 to 10 – ordinary resolutions)

In line with international best practice, the Bank has introduced a requirement in terms of which all directors on the board for longer than nine years are subject to annual re-election by shareholders at the annual general meeting (AGM). The directors who retired in terms of the above arrangement at the 2011 AGM are B P Connellan and G Griffin. These directors were eligible for re-election and were re-elected at the Absa Group AGM.

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

The directors who retired in terms of the above arrangement at the 2011 AGM are Y Z Cuba, B C M M de Vitry d'Avaucourt, M W Hlahla, A P Jenkins, T M Mokgosi-Mwantembe, T S Munday and M Ramos. M W Hlahla did not offer herself for re-election. All the other directors were re-elected at the meeting.

Directors' interest in the Company's preference shares

As at the reporting date, the direct and indirect preference shareholding of directors in the Company was as follows:

	Number of shares			
	2010		2009	
	Direct	**Indirect**	Direct	Indirect
Present directors				
G Griffin (Chairman)[1]	**—**	**1 680**	—	—
L L von Zeuner (Deputy Chief Executive)[2]	**562**	**—**	562	—
D C Arnold	**400**	**—**	400	—
B P Connellan	**300**	**—**	300	—
	1 262	**1 680**	1 262	—

Notes

[1]*Appointed as Chairman on 1 October 2010.*

[2]*Executive director.*

There has been no change in the interest of directors between the reporting date and 14 February 2011.

Directors' and officers' interest in contracts

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

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 43.2 of the consolidated financial statements.

Subsidiaries, associates and joint ventures

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

Acquisitions

The following interests were acquired during the year under review:

Associates and joint ventures designated at fair value through profit or loss

During the year, the Bank acquired a 50% stake in Amrichprop 49 Properties (Proprietary) Limited (Amrich). Amrich is jointly controlled by the Bank and Equity Estates (Proprietary) Limited. Its main business is to provide property management services to Abseq Properties (Proprietary) Limited, a subsidiary of the Bank. The investment was acquired for a nominal amount and forms part of the Commercial Property Finance (CPF) venture capital portfolio.

Subsidiaries

Absa Capital Representative Office Nigeria Limited (the Nigerian Rep Office) was incorporated as a wholly owned subsidiary during the year to facilitate the business of Absa Capital within Nigeria. The objectives of the Nigerian Rep Office are to enhance Absa Capital's understanding of the Nigerian investment banking environment, provide assistance in servicing Nigerian customers, obtain market share and build a long-term strategy for doing business in Nigeria.

During December 2010, the Bank, through its Absa Capital division, sold certain exposures to Commissioner Street No. 1 (Proprietary) Limited (Commissioner Street), a special purpose entity established by the Bank. Commissioner Street issued various classes of notes to investors consisting of:

- class A1 senior secured floating rate notes;
- class A2 senior secured floating rate notes; and
- class B subordinated secured fixed rate notes.

Directors' report

The Bank invested in 100% of the B notes and 36,7% of the A2 notes. External investors invested in 100% of the A1 notes and 63,3% of the A2 notes. Due to the Bank being exposed to the majority of risks and rewards of Commissioner Street, the Bank failed to derecognise the exposures in terms of IAS 39 Financial Instruments: Recognition and Measurement and is also required to consolidate Commissioner Street in terms of SIC-12 Consolidation – Special Purpose Entities (SPEs). The Bank will therefore continue to recognise the exposures and will recognise a separate liability for the Commissioner Street A1 and A2 notes issued to external investors.

The Bank previously held 50% of the ordinary shares in Sanlam Home Loans (Proprietary) Limited (SHL), the holding company of three securitisation vehicles. The investment in SHL was previously equity accounted, as the Bank and Sanlam Life Insurance Limited (Sanlam) had joint control over SHL. On 1 August 2010, the Bank acquired the remaining 50% of the ordinary shares in SHL, which resulted in the Bank controlling and consolidating SHL. The agreement was structured as follows:

- the Bank acquired the outstanding shareholders' loans from Sanlam for an amount of R593 million;
- the Bank received R61 million in cash as consideration from Sanlam for the acquisition due to the loss-making nature of the investment.

The transaction resulted in the Bank recognising a R71 million gain on bargain purchase in the profit and loss component of the statement of comprehensive income.

Disposals

The following interests have been sold during the year under review:

- Absa Property Equity Fund (the Fund) was previously consolidated under SIC-12 as the Bank held between 75% and 93% of the units and were thereby exposed to the majority of risk in the Fund. During September 2010 the Bank disposed of some of the units available, decreasing its interest to 15%. As the Bank no longer has the majority of risks and rewards, SIC-12 no longer applies and the Fund was deconsolidated on 30 September 2010. The remaining interest was disposed of during October 2010 with no impact on the Bank's results.
- During the year under review, the Bank invested a further R95 million in and converted a R125 million loan to Pinnacle Point Group Limited (Pinnacle Point) to equity in terms of an underwriting agreement.

  On completion of this transaction, the Bank disposed of its investment in Pinnacle Point for R150 million of which R95 million was received on transaction date. This transaction has not resulted in any profit being recognised in the current year.
- On 30 June 2010, the Virgin Money South Africa (Proprietary) Limited (VMSA) joint venture arrangement was terminated. The termination resulted in the Bank selling its 50% interest in VMSA for R1, while acquiring VMSA's credit card and home loan business for R1.

  A profit on disposal of R88 million has been recognised of which R46 million has been included in headline earnings as it relates to VMSA's indemnification to the Bank for losses incurred in the past and is therefore deemed to be of an operating nature.

  The remaining R42 million relates to the release of provisions previously raised by the Bank for guarantees provided in favour of VMSA.

  Intangible assets of R3 million were recognised in the statement of financial position. A gain on bargain purchase of R1 million was recognised in the profit and loss component of statement of comprehensive income following the finalisation of the fair value of the assets and liabilities acquired.

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

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[1]
Telephone: 011 350 4828
Telefax: 011 350 4009
Email: sarita.martin@absa.co.za

Note

[1]*Effective from 1 April 2011, the registered address changed to: 7th Floor, Absa Towers West, 15 Troye Street, Johannesburg, 2001.*

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 listed preference shares of R0,01 each.

Issued

On 27 August 2010, 6 436 471 'A' ordinary shares were issued to Absa Group Limited at R155,36 per share, being R0,01 par value and R155,35 share premium.

Following the above share issue, the total issued share capital as at the reporting date, was made up as follows:

- 302 609 359 ordinary shares of R1,00 each.
- 71 502 632 'A' ordinary shares of R0,01 each.
- 4 944 839 non-cumulative, non-redeemable listed preference shares of R0,01 each.

Dividends

- On 16 February 2010, a dividend of 244,8 cents per ordinary and 'A' ordinary shares was announced to the ordinary shareholder registered on 12 March 2010.
- On 16 February 2010, a dividend of 3 280,3 cents per preference share was announced to preference shareholders registered on 12 March 2010.
- On 4 August 2010, a dividend of 326,4 cents per ordinary and 'A' ordinary shares was announced to the ordinary shareholder registered on 27 August 2010.
- On 4 August 2010, a dividend of 3 197,5 cents per preference share was announced to preference shareholders registered on 27 August 2010.
- On 4 August 2010, a special dividend was announced to the ordinary and 'A' ordinary shareholder registered on 27 August 2010.
- On 14 February 2011, a dividend of 360,9 cents per ordinary share has been approved. The dividend will be announced on 15 February 2011 to the ordinary shareholder registered on 11 March 2011. This dividend is payable on 14 March 2011.
- On 14 Febuary 2011, a dividend of 2 887,6 cents per preference share has been approved. The dividend will be announced on 15 February 2011 to preference shareholders registered on 11 March 2011. The dividend is payable on 14 March 2011.

Auditors

PricewaterhouseCoopers and Ernst & Young continued in office as auditors of Absa Bank Limited and its subsidiaries. At the AGM of 21 April 2011, shareholders will be requested to appoint PricewaterhouseCoopers Incorporated and Ernst & Young Incorporated as auditors of Absa Bank Limited for the 2011 financial year and it will be noted that Messrs J P Bennett and E van Rooyen will be the individual registered auditors that will undertake the audit.

Consolidated statement of financial position

As at 31 December

		Bank		
	Note	2010 Rm	2009[1] Rm	2008[1] Rm
Assets				
Cash, cash balances and balances with central banks	2	**17 343**	15 526	16 549
Statutory liquid asset portfolio	3	**48 215**	33 943	33 019
Loans and advances to banks	4	**23 633**	35 036	43 790
Trading portfolio assets	5	**57 647**	47 303	72 929
Hedging portfolio assets	5	**4 662**	2 558	3 139
Other assets	6	**12 954**	7 219	8 594
Current tax assets	7	**5**	107	—
Non-current assets held for sale		**—**	—	2 495
Loans and advances to customers	8	**485 588**	490 205	513 332
Loans to Absa Group companies	10	**8 071**	16 232	18 990
Investment securities	11	**12 906**	16 849	15 191
Investments in associates and joint ventures	12	**406**	473	2 071
Goodwill and intangible assets	13	**643**	522	297
Investment properties	14	**1 771**	1 705	379
Property and equipment	15	**6 987**	6 010	5 431
Deferred tax assets	16	**92**	86	78
Total assets		**680 923**	673 774	736 284
Liabilities				
Deposits from banks	17	**21 740**	40 160	60 026
Trading portfolio liabilities	18	**43 530**	36 957	68 120
Hedging portfolio liabilities	18	**1 881**	565	1 080
Other liabilities	19	**7 788**	9 089	7 476
Provisions	20	**1 533**	1 486	1 893
Current tax liabilities	7	**929**	31	322
Non-current liabilities held for sale		**—**	—	408
Deposits due to customers	21	**372 644**	349 371	374 099
Debt securities in issue	22	**162 526**	169 788	159 042
Loans from Absa Group companies	23	**—**	3 464	3 946
Borrowed funds	24	**13 649**	13 530	12 143
Deferred tax liabilities	16	**2 073**	1 915	2 735
Total liabilities		**628 293**	626 356	691 290
Equity				
Capital and reserves				
Attributable to equity holders of the Bank:				
Ordinary share capital	25	**303**	303	303
Ordinary share premium	25	**11 465**	10 465	9 415
Preference share capital	25	**1**	1	1
Preference share premium	25	**4 643**	4 643	4 643
Other reserves	26	**3 704**	2 566	3 939
Retained earnings		**32 449**	29 340	26 670
		52 565	47 318	44 971
Non-controlling interest		**65**	100	23
Total equity		**52 630**	47 418	44 994
Total equity and liabilities		**680 923**	673 774	736 284

Note

[1]*Comparatives have been reclassified, refer to note 1.23.*

Consolidated statement of comprehensive income

For the year ended 31 December

	Note	Bank 2010 Rm	Bank 2009 Rm
Net interest income		**21 244**	19 888
Interest and similar income	27	**52 264**	62 533
Interest expense and similar charges	28	**(31 020)**	(42 645)
Impairment losses on loans and advances	9.1	**(5 578)**	(8 392)
Net interest income after impairment losses on loans and advances		**15 666**	11 496
Non-interest income		**14 787**	15 598
Net fee and commission income		**12 416**	12 247
Fee and commission income	29	**13 378**	12 993
Fee and commission expense	29	**(962)**	(746)
Gains and losses from banking and trading activities	30	**1 851**	2 547
Gains and losses from investment activities	31	**24**	68
Other operating income	32	**496**	736
Operating profit before operating expenditure		**30 453**	27 094
Operating expenditure		**(21 180)**	(19 835)
Operating expenses	33	**(20 440)**	(17 635)
Other impairments	34	**(109)**	(1 436)
Indirect taxation	35	**(631)**	(764)
Share of post-tax results of associates and joint ventures	12.1	**(8)**	(50)
Operating profit before income tax		**9 265**	7 209
Taxation expense	36	**(2 507)**	(1 469)
Profit for the year		**6 758**	5 740
Other comprehensive income			
Exchange differences on translation of foreign operations		**(234)**	(201)
Movement in cash flow hedging reserve		**1 153**	(661)
Fair value gains/(losses) arising during the year		**3 422**	(143)
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income		**(1 820)**	(776)
Deferred tax	16	**(449)**	258
Movement in available-for-sale reserve		**170**	(329)
Fair value gains/(losses) arising during the year		**150**	(309)
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		**92**	104
Deferred tax	16	**(72)**	81
Movement in retirement benefit asset		**19**	75
Increase in retirement benefit surplus		**27**	104
Deferred tax	16	**(8)**	(29)
Total comprehensive income for the year		**7 866**	4 624
Profit attributable to:			
Ordinary equity holder of the Bank		**6 432**	5 315
Preference equity holders of the Bank		**320**	421
Non-controlling interest		**6**	4
		6 758	5 740
Total comprehensive income attributable to:			
Ordinary equity holder of the Bank		**7 540**	4 199
Preference equity holders of the Bank		**320**	421
Non-controlling interest		**6**	4
		7 866	4 624
Earnings per share:			
Basic earnings per share (cents)	37	**1 738,8**	1 467,8
Diluted earnings per share (cents)	37	**1 738,8**	1 467,8

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 the beginning of the year	**367 675**	**303**	**10 465**	**1**	**4 643**
Total comprehensive income	—	—	—	—	—
Profit for the year	—	—	—	—	—
Other comprehensive income	—	—	—	—	—
Dividends paid	—	—	—	—	—
Shares issued	**6 437**	**0**	**1 000**	—	—
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	—	—	—	—	—
Share of post-tax results of associates and joint ventures	—	—	—	—	—
Disposal of associates and joint ventures – release of reserves	—	—	—	—	—
Increase in the interest of non-controlling equity holders	—	—	—	—	—
Disposal of businesses	—	—	—	—	—
Balance at the end of the year	**374 112**	**303**	**11 465**	**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 the beginning of the year	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 post-tax results of associates and joint ventures	—	—	—	—	—
Disposal of associates and joint ventures – release of reserves	—	—	—	—	—
Acquisition of businesses	—	—	—	—	—
Balance at the end of the year	367 675	303	10 465	1	4 643
Notes	25	25	25	25	25

Note

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

Bank

2010

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	Non-controlling interest Rm	Total Rm
(363)	1 114	(55)	1 422	266	182	29 340	100	47 418
170	1 153	(234)	—	—	—	6 771	6	7 866
—	—	—	—	—	—	6 752	6	6 758
170	1 153	(234)	—	—	—	19	—	1 108
—	—	—	—	—	—	(3 420)	—	(3 420)
—	—	—	—	—	—	—	—	1 000
—	—	—	—	—	—	(236)	—	(236)
—	—	—	—	(3)	—	46	—	43
—	—	—	—	(46)	—	46	—	—
—	—	—	—	43	—	—	—	43
—	—	—	—	—	(8)	8	—	—
—	—	—	—	—	60	(60)	—	—
—	—	—	—	—	—	—	37	37
—	—	—	—	—	—	—	(78)	(78)
(193)	2 267	(289)	1 422	263	234	32 449	65	52 630

2009

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	Non-controlling 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
26	26	26	26	26	26			

Consolidated statement of cash flows

For the year ended 31 December

	Note	Bank 2010 Rm	Bank 2009[1] Rm
Cash flow from operating activities			
Interest, fee and commission income		**65 742**	75 354
Interest, fee and commission expense		**(31 358)**	(44 019)
Net trading and other income		**(3 410)**	392
Cash payments to employees and suppliers		**(19 511)**	(16 846)
Dividends received from banking and trading activities		**68**	74
Income taxes paid		**(1 884)**	(2 552)
Cash flow from operating profit before changes in operating assets and liabilities		**9 647**	12 403
Net (increase)/decrease in trading and hedging portfolio assets		**(4 844)**	27 655
Net decrease in loans and advances to customers		**2 331**	16 034
Net (increase)/decrease in other assets		**(5 804)**	14 620
Net increase/(decrease) in trading and hedging portfolio liabilities		**7 128**	(31 955)
Net increase/(decrease) in amounts due to customers and banks		**5 959**	(29 763)
Net decrease in other liabilities		**(12 667)**	(5 392)
Net cash generated from operating activities		**1 750**	3 602
Cash flow from investing activities			
Purchase of investment properties	14	**(75)**	(35)
Purchase of property and equipment	15	**(2 142)**	(1 991)
Proceeds from sale of property and equipment		**115**	418
Purchase of intangible assets	13	**(257)**	(299)
Proceeds from sale of intangible assets		**34**	65
Acquisition of businesses, net of cash	50	**470**	(132)
Acquisition of associates and joint ventures, net of cash	12.5	**(95)**	(61)
Disposal of associates and joint ventures, net of cash	12.6	**95**	—
Disposal of subsidiaries, net of cash	50.3	**(6)**	—
Net decrease/(increase) in loans to associates	12.2	**1**	(1)
Net decrease in investment securities		**2 632**	745
Dividends received from investment activities		**3**	20
Net cash generated/(utilised) from investing activities		**775**	(1 271)
Cash flow from financing activities			
Issue of ordinary shares		**1 000**	1 050
Contribution to the Absa Group Limited Share Incentive Trust		**(236)**	(88)
Proceeds from borrowed funds		**1 000**	4 500
Repayment of borrowed funds		**(1 500)**	(3 100)
Dividends paid		**(3 420)**	(3 271)
Net cash utilised from financing activities		**(3 156)**	(909)
Net (decrease)/increase in cash and cash equivalents		**(631)**	1 422
Cash and cash equivalents at the beginning of the year		**5 403**	3 981
Effect of exchange rate movements on cash and cash equivalents		**1**	—
Cash and cash equivalents at the end of the year	48	**4 773**	5 403

Note

[1]*Comparatives have been reclassified.*

Accounting policies

For the year ended 31 December

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.

Standards and amendments to standards mandatory for the first time for this financial year

AC 504 The Limit on A Defined Benefit Asset, Minimum Funding Requirements And Their Interaction In The South African Pension Fund Environment was early adopted in 2009.

IFRS 3 Business Combinations (revised) and consequential amendments to IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures, are effective prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

IAS 27 (amendment) has been applied in accounting for acquisitions of non-controlling interests. The change in accounting policy has been applied prospectively and has had no impact on earnings per share. Under the new accounting policy, acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Previously, goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

IFRS 8 Operating Segments (amendment) clarifies that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker (CODM). This amendment had no impact on the Bank as the Bank already reports this information.

New and amended standards, and interpretations mandatory for the first time for this financial year but not currently relevant to the Bank (although they may affect the accounting for future transactions and events)

IFRS 1 First-time Adoption of International Finance Reporting Standards (revised and amended) has been issued with an improved structure but no changes to technical content. The International Accounting Standards Board (IASB) provided additional optional exemptions for first-time adopters of IFRSs that will permit entities to not reassess the determination of whether an arrangement contains a lease if the same assessment as that required by IFRIC 4 arrangements that contains a lease was made under previous Generally Accepted Accounting Practice (GAAP).

IFRS 2 Share-based Payment (amendments) incorporate IFRIC 8 Scope of IFRS 2 and IFRIC 11 IFRS 2 – Group and treasury share transactions. It further expands on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The amendments also clarify that business combinations as defined in IFRS 3 are outside the scope of IFRS 2. Therefore business combinations amongst entities under common control and the contribution of a business upon the formation of a joint venture will not be accounted for under IFRS 2.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (amendments) specify that if an entity is committed to a sale plan involving the loss of control of a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria are met and that disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation. It also specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirements of IAS 1 Presentation of Financial Statements still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty).

Accounting policies

For the year ended 31 December

1. Summary of significant accounting policies *(continued)*

IAS 1 (amendments) clarify that the classification of the liability component of a convertible instrument as current or non-current is not affected by terms that could, at the option of the holder of the instrument, result in settlement of the liability by the issue of equity instruments.

IAS 7 Statement of Cash Flows (amendments) clarify that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities.

IAS 17 Leases (amendments) clarify that when a lease includes both the land and building elements, an entity should determine the classification of each element based on paragraph 7 to 13, taking account of the fact that land normally has an indefinite economic life. The IASB also deleted guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee.

IAS 36 Impairment of Assets (amendments) clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8 (that is, before the aggregation of segments with similar economic characteristics).

IAS 38 Intangible Assets (amendments) clarify that an intangible asset that is separable only together with a related contract, identifiable asset or liability is recognised separately from goodwill together with the related item; and that complementary intangible assets with similar useful lives may be recognised as a single asset. The amendments also describe valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination for which no active market exists.

IAS 39 (amendments) provide additional guidance on determining whether loan prepayment penalties result in an embedded derivative that needs to be separated; clarify that the scope exemption in IAS 39 paragraph 2(g) is restricted to forward contracts, i.e. not options, between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date within a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and clarify that the gains or losses on a cash flow hedge should be reclassified from other comprehensive income to profit or loss during the period that the hedged forecast cash flows impact profit or loss.

IFRIC 9 Reassessment of Embedded Derivatives (amendment) requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified as fair value through profit or loss in its entirety. The IASB also amended the scope of IFRIC 9 so that embedded derivatives in contracts acquired in business combinations as defined in IFRS 3 (2008), joint venture formations and common control transactions remain outside the scope of IFRIC 9.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (amendments) remove the restriction that prevented a hedging instrument from being held by a foreign operation that itself is being hedged.

IFRIC 17 Distribution of Non-cash Assets to Owners provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

IFRIC 18 Transfers of Assets from Customers clarifies the requirements for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments is effective from 1 July 2010 but was early adopted by the Bank. It clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The impact of this interpretation is not considered to be significant.

1.1 Basis of presentation

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

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

1.2 Use of estimates, assumptions and judgements

The preparation of financial information requires the use of estimates and assumptions about future conditions. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future may differ from those current estimates reported. The 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.

1.2.1 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 reporting 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.
- 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, and are supplemented by management judgement.

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 reporting 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.

Accounting policies

For the year ended 31 December

1. Summary of significant accounting policies *(continued)*

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.

1.2.2 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.
- 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.

Note 13 includes details of the CGUs with significant balances of goodwill and states the key assumptions used to assess the goodwill in each of those CGUs for impairment.

1.2.3 Valuation of financial instruments

The Bank's accounting policy for determining the fair value of financial instruments is described in note 54.

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.

- 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.

1.2.4 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.

1.2.5 Impairment of investments 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.

1.2.6 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 reporting 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.

Accounting policies

For the year ended 31 December

1. Summary of significant accounting policies *(continued)*

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.

1.2.7 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.

1.2.8 Post-retirement benefits

The contributions towards defined benefit pension plans are determined using actuarial valuations. The actuarial valuations involve 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 39 for the assumptions used.

1.2.9 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 20.

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

1.2.10 Share-based payments

Where the fair value of share awards 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 awards is described in more detail in note 49.

1.3 Consolidation

The consolidated financial statements include those of Absa Bank Limited and all its subsidiaries, associates, SPEs 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 (including SPEs) over which the Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half 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.

The Bank uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Bank. The consideration transferred includes the fair value at acquisition date of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date except that:

» deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits, respectively;

» liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Bank entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date; and

» assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 are measured in accordance with that standard.

On an acquisition-by-acquisition basis, the Bank recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments with a corresponding adjustment to goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 or IAS 37, as appropriate, with the corresponding gain or loss being recognised in profit or loss. Cost also includes attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Bank's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit and loss component of the statement of comprehensive income.

Inter-company transactions, balances and unrealised claims on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed at a consolidated level where necessary to ensure consistency with the policies adopted by the Bank.

1.3.2 Investments in associates and joint ventures

Associates are those companies which are not subsidiaries and in which the Bank exercises significant influence on the financial and operating policies. Significant influence is normally 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 cost 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.

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 reporting 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, the disappearance of an active market for the investments, or adverse changes in the technological, economic, legal or tax environment that the entity operates in. 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.

Accounting policies

For the year ended 31 December

1. Summary of significant accounting policies *(continued)*

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 'Investment securities'. The designation has been made in accordance with IAS 39, based on the scope exclusion that is provided in IAS 28.

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.

1.3.3 Transactions with non-controlling interests

The Bank treats transactions with non-controlling interests as transactions with equity owners of the Bank. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Bank ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Bank had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

1.3.4 Special purpose entities (SPEs)

The Bank may enter into transactions with SPEs. An SPE is consolidated on the same basis as subsidiaries as set out in 1.3.1, if, based on an evaluation of the substance of the relationship with the Bank and the SPE's risks 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)

When the Bank purchases additional interests in an entity in which it does not have control prior to acquisition, the previously held equity interest in the acquiree is remeasured at its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. If in any prior periods, any changes in the value of the equity interest in the acquiree have been recognised in other comprehensive income, then the amount is recognised on the same basis as if the Bank had disposed directly of the previously held interest.

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, 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 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 Business Bank (ABB): provides a comprehensive range of commercial banking products and services to corporates, small, medium and large businesses.
- Absa Capital: provides investment banking services to the corporate, government and institutional investor segments as well as the high net worth market.
- Head office and inter-segment eliminations: includes head office and central support functions as well as consolidation adjustments.
- Other: consists of various non-banking activities and includes investment income earned by Absa Bank Limited, as well as income earned by the London branch and Corporate Real Estate Services (CRES).
- Retail Banking: offers various products and services to customers through the following divisions:
  - Home Loans: offers innovative residential property-related ownership solutions to the Bank's target market segments.
  - Vehicle and Asset Finance (VAF): 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.
  - Card: provides the full range of Visa and MasterCard products, merchant services and world-class customer services to a broad spectrum of the market.
  - Personal Loans: offers unsecured instalment loans (including micro loans) to individuals.
  - Retail Bank: offers a comprehensive range of banking products and services to the South African affluent, middle and lower income segment of the market.

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 during the year to be in line with the management of these segments:

- Absa Small Business was moved from Retail Banking to ABB.

The change has no effect on the profit and loss of the Bank and segmental 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 holding 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 reporting 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.

Accounting policies

For the year ended 31 December

1. Summary of significant accounting policies *(continued)*

» 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 of exchange differences 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. These other changes in the carrying amount are recognised in the other comprehensive income component of the statement of comprehensive income, while translation differences related to changes in the amortised cost are recognised in the profit and loss 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 the 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 (i.e. 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 financial instruments 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 instruments to such date. These instruments are held at amortised cost, using the effective interest rate and reviewed for impairment at each reporting date.

If the Bank fails to keep these instruments 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 instruments would then have to be measured at fair value and not amortised cost.

The Bank does not have a positive intention to hold to maturity 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.

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 a financial instrument 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.

Accounting policies

For the year ended 31 December

1. Summary of significant accounting policies *(continued)*

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 instrument 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 loans considered to be impaired 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; and
- 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 (e.g. 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.

Accounting policies

For the year ended 31 December

1. Summary of significant accounting policies *(continued)*

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 (i.e. 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 (i.e. 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.

Once a financial asset or a group of similar financial assets 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.

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 been discharged, cancelled or 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.

Accounting policies

For the year ended 31 December

1. Summary of significant accounting policies *(continued)*

1.7.10 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, 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 (i.e. facilitates lending transactions on behalf of customers), 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. Any dividends earned on borrowed securities are refunded to the lender of the securities.

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. Securities will only be repurchased when the lender defaults. Thus cash collateral (as a form of guarantee) is only deposited with the lender if required in terms of the Global Master Securities Lending Arrangement (GMSLA).

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 instruments 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.

Accounting policies

For the year ended 31 December

1. Summary of significant accounting policies *(continued)*

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 as 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 reporting 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

1.8.1 Ordinary share capital

Incremental costs directly attributable to issue ordinary shares and share options are recognised as a deduction from equity.

1.8.2 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 held 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. Where these estimates are revised, the carrying amount of the financial asset or liability is adjusted to reflect the change in estimated cash flows. 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 the residual of impaired advances, based on the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

Net income includes interest income, interest expense, dividend income and all gains and losses from changes in the fair value of financial instruments held at fair value through profit or loss.

Net income from financial instruments held at fair value through profit or loss and held or issued as part of the Bank's trading activities is accounted for as 'Gains and losses from banking and trading activities'.

Net income from financial instruments held at fair value through profit or loss and held or issued as part of the Bank's investment activities is accounted for as 'Gains and losses from investment activities'.

Net income from financial instruments used to economically hedge the Bank's interest rate risk is accounted for as 'Net interest income'.

Gains and losses from changes in the fair value of financial instruments held at fair value through profit or loss and issued or held as part of banking activities (other than those used to economically hedge the Bank's interest rate risk) are accounted for as 'Gains and losses from banking and trading activities'. Interest income, interest expense and dividend income on these financial instruments are accounted for as 'Net interest income'.

Accounting policies

For the year ended 31 December

1. Summary of significant accounting policies *(continued)*

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 (i.e. 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 Inventories.

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 CGUs, or groups of CGUs, 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 (e.g. 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 CGU 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 CGU 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.

Accounting policies

For the year ended 31 December

1. Summary of significant accounting policies *(continued)*

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

Accounting policies

For the year ended 31 December

1. Summary of significant accounting policies *(continued)*

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 properties

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. It includes property that is being constructed or developed for future use as investment property. 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 each year. 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, 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 CGU'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 CGU'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.

Accounting policies

For the year ended 31 December

1. Summary of significant accounting policies *(continued)*

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 awards 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 awards determined at the grant date, excluding the impact of any non-market vesting conditions (e.g. profitability). Non-market vesting conditions are included in the assumptions about the number of awards 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 awards 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 awards are forfeited after the vesting date, an amount equal to the value of the awards 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 EPS.

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 awards granted do not vest because of a failure to satisfy a vesting condition.

Determination of fair values

The fair value of share awards is 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.

Accounting policies

For the year ended 31 December

1. Summary of significant accounting policies *(continued)*

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 tax

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 tax

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases and carrying amounts of property and equipment, certain financial instruments 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% 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 Assets under management and administration

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

Some items within the statement of financial position for the years ended 31 December 2009 and 31 December 2008 were reclassified in the current year:

Trading related activities

During the year under review, the Bank has reassessed its counterparty risk for certain scrip lending activities. This was done due to a change in interpretation of customer agreements. This resulted in the Bank revisiting the principles of netting down or grossing up some transactions to be in line with the risks inherent in the transactions. It was concluded that the reclassification would better reflect the risk that the Bank has to manage on the different statement of financial position lines and that this disclosure would enhance disclosure and provide users of the financial statements with more relevant information. This disclosure is now aligned with industry practice. This has resulted in comparatives being reclassified for December 2009 and December 2008 as reflected in the pages to follow:

Accounting policies

For the year ended 31 December

1. Summary of significant accounting policies *(continued)*

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

	31 December 2009	
	As previously reported Rm	Reclassifications Rm
Assets		
Cash, cash balances and balances with central banks	15 526	—
Statutory liquid asset portfolio	33 943	—
Loans and advances to banks	35 036	—
Trading portfolio assets	47 303	—
Hedging portfolio assets	2 558	—
Other assets	7 219	—
Current tax assets	107	—
Non-current assets held for sale	—	—
Loans and advances to customers	487 672	2 533
Loans to Absa Group companies	16 232	—
Investment securities	16 849	—
Investments in associates and joint ventures	473	—
Goodwill and intangible assets	522	—
Investment properties	1 705	—
Property and equipment	6 010	—
Deferred tax assets	86	—
Total assets	671 241	2 533
Liabilities		
Deposits from banks	43 235	(3 075)
Trading portfolio liabilities	36 957	—
Hedging portfolio liabilities	565	—
Other liabilities	9 089	—
Provisions	1 486	—
Current tax liabilities	31	—
Non-current liabilities held for sale	—	—
Deposits due to customers	343 763	5 608
Debt securities in issue	169 788	—
Loans from Absa Group companies	3 464	—
Borrowed funds	13 530	—
Deferred tax liabilities	1 915	—
Total liabilities	623 823	2 533
Equity		
Capital and reserves		
Attributable to equity holders of the Bank:		
Ordinary share capital	303	—
Ordinary share premium	10 465	—
Preference share capital	1	—
Preference share premium	4 643	—
Other reserves	2 566	—
Retained earnings	29 340	—
	47 318	—
Non-controlling interest	100	—
Total equity	47 418	—
Total equity and liabilities	671 241	2 533

		31 December 2008		
	Reclassified Rm	As previously reported Rm	Reclassifications Rm	Reclassified Rm
	15 526	16 549	—	16 549
	33 943	33 019	—	33 019
	35 036	43 559	231	43 790
	47 303	72 929	—	72 929
	2 558	3 139	—	3 139
	7 219	8 594	—	8 594
	107	—	—	—
	—	2 495	—	2 495
	490 205	512 657	675	513 332
	16 232	18 990	—	18 990
	16 849	15 191	—	15 191
	473	2 071	—	2 071
	522	297	—	297
	1 705	379	—	379
	6 010	5 431	—	5 431
	86	78	—	78
	673 774	735 378	906	736 284
	40 160	60 043	(17)	60 026
	36 957	68 120	—	68 120
	565	1 080	—	1 080
	9 089	7 476	—	7 476
	1 486	1 893	—	1 893
	31	322	—	322
	—	408	—	408
	349 371	373 176	923	374 099
	169 788	159 042	—	159 042
	3 464	3 946	—	3 946
	13 530	12 143	—	12 143
	1 915	2 735	—	2 735
	626 356	690 384	906	691 290
	303	303	—	303
	10 465	9 415	—	9 415
	1	1	—	1
	4 643	4 643	—	4 643
	2 566	3 939	—	3 939
	29 340	26 670	—	26 670
	47 318	44 971	—	44 971
	100	23	—	23
	47 418	44 994	—	44 994
	673 774	735 378	906	736 284

Accounting policies

For the year ended 31 December

1. Summary of significant accounting policies *(continued)*

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 2010 and have not been applied in preparing these consolidated financial statements:

IFRS 1 (amendments) provides clarification to first-time adopters of IFRS. It also provides relief for first-time adopters of IFRS from having to reconstruct transactions that occurred before their date of transition to IFRS. Guidance has been added for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time. These amendments will have no impact on the Bank as the Bank adopted IFRS in full in the financial year ending 31 December 2005.

IFRS 3 (amendments) clarify that contingent consideration arising in a business combination previously accounted for in accordance with IFRS 3 (2004) that remains outstanding at the adoption date of IFRS 3 (2008) continues to be accounted for in accordance with IFRS 3 (2004); limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. The amendments, which become mandatory for the Bank's 2011 financial year-end, are not expected to have a material impact on the consolidated financial statements of the Bank.

IFRS 7 Financial Instruments: Disclosures (amendments) adds an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. Additional disclosure requirements have been added that will allow users of financial statements to improve their understanding of transfer of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. In addition, the IASB amended and removed existing disclosure requirements. The amendments, which become mandatory for the Bank's 2011 financial year-end, are not expected to have a material impact on the consolidated financial statements of the Bank.

IFRS 9 Financial instruments was published in November 2009 as the first step in replacing IAS 39 and contains new requirements for the classification and measurement requirements for financial assets. The classification and measurement requirements of financial liabilities were added to IFRS 9 in October 2010. IFRS 9 is not effective until January 2013 but is available for early adoption. The Bank is currently in the process of assessing IFRS 9's full impact and initial indications are that it is likely to affect the Bank's accounting for certain types of financial assets. In terms of IFRS 9, the Bank's accounting for financial assets classified as available-for-sale will be affected, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to investments in equity instruments that are not held for trading. Investments in certain listed debt instruments currently classified as financial assets designated at fair value through profit or loss will be permitted to be measured at amortised cost. Investments in structured notes currently accounted for as host debt instruments (measured at amortised cost) and embedded derivatives (measured at fair value) are required to be measured at fair value in their entirety, with fair value gains and losses being recognised in profit or loss. IFRS 9 will also impact the measurement of financial liabilities currently classified as financial liabilities designated at fair value through profit or loss, as changes in fair value resulting from changes in the Bank's credit risk will be recognised in other comprehensive income and not in profit or loss.

IAS 1 (amendments) clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but may be presented either in the statement of changes in equity or in the notes. The amendments, which become mandatory for the Bank's 2011 financial year-end, are not expected to have any impact on the Bank's consolidated financial statements.

IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment property. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will normally be through sale. The amendment, which becomes mandatory for the Bank's 2012 financial year-end is not expected to have any impact on the Bank's consolidated financial statements.

IAS 24 Related Party Disclosures (revised) was issued in November 2009. It supersedes IAS 24 Related party disclosures, issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Bank will apply the revised standard from 1 January 2011. When the revised standard is applied, the Bank will need to disclose any transactions between its subsidiaries and its associates. The Bank is currently putting systems in place to capture the necessary information. It is, therefore, not possible at this stage to disclose the impact, if any, of the revised standard on the related party disclosures.

IAS 27 (amendments) was issued on 6 May 2010. The amendments clarify that the consequential amendments to IAS 21 The effects of changes in foreign exchange rates, IAS 28 and IAS 31 resulting from IAS 27 (2008) should be applied prospectively, with the exception of paragraph 35 of IAS 28 and paragraph 46 of IAS 31, which should be applied retrospectively. The amendments, which become mandatory for the Bank's 2011 financial year-end, are not expected to have any impact on the consolidated financial statements.

IAS 32 Financial Instruments: Presentation – amendments relating to classification of rights issues was issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 Accounting policies, changes in accounting estimates and errors. The amendments, which become mandatory for the Bank's 2011 financial year-end, are not expected to have any impact on the consolidated financial statements.

IFRIC 13 Customer Loyalty Programmes (amendment) clarifies that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendment, which becomes mandatory for the Bank's 2011 financial year-end is not expected to have any impact on the Bank's consolidated financial statements.

IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction (amendments with respect to voluntary prepaid contributions) correct an unintended consequence of IFRIC 14. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments should be applied retrospectively to the earliest comparative period presented. The amendments, which become mandatory for the Bank's 2011 financial year-end, are not expected to have any impact on the Bank's consolidated financial statements.

IAS 34 Interim Financial Reporting (amendments) was amended to provide clarification around significant events and transactions to be disclosed in interim financial reports. The amendment is intended to emphasise that these interim disclosures should update the relevant information presented in the most recent annual financial report. The amendment also clarifies how to apply this principle in respect of financial instruments and their fair value.

Notes to the consolidated financial statements

For the year ended 31 December

	Bank 2010 Rm	Bank 2009 Rm
2. Cash, cash balances and balances with central banks		
Balances with the South African Reserve Bank (SARB)	**12 912**	10 983
Coins and bank notes	**4 431**	4 543
	17 343	15 526
Portfolio analysis		
Loans and receivables		
Balances with the SARB	**12 912**	10 983
Coins and bank notes	**4 431**	4 543
	17 343	15 526
3. Statutory liquid asset portfolio		
Land Bank bills	**50**	493
Republic of South Africa (RSA) government bonds	**34 602**	25 467
Reverse repurchase agreements (refer to note 41)	**2 685**	1 941
SARB debentures	**—**	223
Treasury bills	**10 878**	5 819
	48 215	33 943
Portfolio analysis		
Available-for-sale financial assets	**26 656**	17 904
Land Bank bills	**50**	493
RSA government bonds	**15 728**	11 369
SARB debentures	**—**	223
Treasury bills	**10 878**	5 819
Available-for-sale financial assets in fair value hedging relationship		
RSA government bonds	**18 096**	12 403
Financial assets designated at fair value through profit or loss	**3 463**	3 636
Reverse repurchase agreements	**2 685**	1 941
RSA government bonds	**778**	1 695
	48 215	33 943

RSA government bonds, SARB debentures and treasury bills valued at R3 000 million (2009: R2 011 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		
	2010 Rm	2009 Rm	2008 Rm
4. Loans and advances to banks			
Other loans and advances to banks	**18 061**	26 104	26 543
Reverse repurchase agreements (refer to note 41)	**5 572**	8 932	17 247
	23 633	35 036	43 790
Portfolio analysis			
Financial assets designated at fair value through profit or loss	**7 047**	2 403	7 168
Other loans and advances to banks	**1 475**	629	—
Reverse repurchase agreements	**5 572**	1 774	7 168
Loans and receivables	**16 586**	32 633	36 622
	23 633	35 036	43 790

Comparatives have been reclassified, refer to note 1.23.

Loans with variable rates are R16 828 million (2009: R25 784 million; 2008: R26 284 million) and fixed rates are R6 805 million (2009: R9 252 million; 2008: R17 506 million).

Included above are loans and advances to banks with a carrying value of R1 445 million (2009: R3 814 million; 2008: R2 462 million) that have been pledged as security, which excludes reverse repurchase agreements as disclosed in note 41. The amounts pledged are 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 Rnil (2009: R7 309 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 41).

Notes to the consolidated financial statements

For the year ended 31 December

	Bank 2010 Rm	Bank 2009 Rm
5. Trading and hedging portfolio assets		
Commodities	**654**	631
Debt instruments	**11 694**	10 715
Derivative assets (refer to note 53.3)	**43 329**	31 686
Commodity derivatives	**301**	2 901
Credit derivatives	**118**	282
Equity derivatives	**858**	2 049
Foreign exchange derivatives	**12 909**	8 734
Interest rate derivatives	**29 143**	17 720
Equity instruments	**68**	142
Money market assets	**1 902**	4 129
Total trading portfolio assets	**57 647**	47 303
Hedging portfolio assets (refer to note 53.3)	**4 662**	2 558
	62 309	49 861
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**3 813**	1 946
Derivatives designated as fair value hedging instruments	**849**	612
Financial assets held for trading	**56 993**	46 672
Debt instruments	**11 694**	10 715
Derivative assets	**43 329**	31 686
Equity instruments	**68**	142
Money market assets	**1 902**	4 129
Non-financial instruments	**654**	631
	62 309	49 861

Included above are financial instruments related to the Bank's interest rate economic hedging programme with a notional value of R5 734 million (2009: R8 225 million) and a fair value of R639 million (2009: R282 million).

Trading portfolio assets with a carrying value of R8 249 million (2009: R10 297 million) have been pledged as security for repurchase agreements (refer to note 41). In addition, trading portfolio assets with a carrying value of R742 million (2009: R418 million) have been pledged as security for deposits. These assets are pledged for the duration of the respective agreements.

Included within debt instruments are financial assets traded in the debt capital market with an original maturity of more than one year such as government and corporate bonds.

Included within money market assets are highly liquid financial assets with an original maturity of one year or less, such as floating rate notes, negotiable certificates of deposits, treasury bills, promissory notes, commercial paper and bankers acceptance notes.

	Bank 2010 Rm	Bank 2009 Rm
6. Other assets		
Accounts receivable and prepayments	**3 731**	5 057
Collateral	**4 171**	740
Deferred costs	**51**	30
Inventories	**590**	507
Cost	**679**	571
Write-down	**(89)**	(64)
Retirement benefit fund surplus (refer to note 39)	**705**	616
Settlement accounts	**3 706**	269
	12 954	7 219
Portfolio analysis		
Loans and receivables	**11 169**	5 889
Accounts receivable	**3 292**	4 880
Collateral	**4 171**	740
Settlement accounts	**3 706**	269
Non-financial assets	**1 785**	1 330
	12 954	7 219

	Bank 2010 Rm	Bank 2009 Rm
7. Current tax		
Current tax assets		
Amount due from revenue authorities	**5**	107
Current tax liabilities		
Amount due to revenue authorities	**929**	31

	Bank 2010 Rm	Bank 2009 Rm	Bank 2008 Rm
8. Loans and advances to customers			
Cheque accounts	**21 210**	27 514	26 337
Corporate overdrafts and specialised finance loans	**15 442**	13 485	10 306
Credit cards	**15 258**	14 774	15 040
Foreign currency loans	**5 602**	6 659	11 775
Instalment credit agreements (refer to note 8.1)	**56 874**	58 181	64 869
Gross advances	**67 424**	68 551	80 967
Unearned finance charges	**(10 550)**	(10 370)	(16 098)
Reverse repurchase agreements (refer to note 41)	**3 063**	1 988	7 072
Loans to associates and joint ventures	**6 825**	7 878	9 166
Microloans	**1 766**	2 417	3 423
Mortgages	**302 516**	301 352	299 450
Other advances[1]	**2 960**	3 408	4 627
Overnight finance	**7 331**	12 340	11 821
Personal and term loans	**25 262**	18 705	18 154
Preference shares	**7 387**	7 967	9 375
Wholesale overdrafts	**26 916**	25 551	30 414
	498 412	502 219	521 829
Impairment losses on loans and advances (refer to note 9)	**(12 824)**	(12 014)	(8 497)
	485 588	490 205	513 332
Portfolio analysis			
Financial assets designated at fair value through profit or loss	**9 974**	8 462	8 737
Corporate overdrafts and specialised finance loans	**593**	711	915
Foreign currency loans	**703**	884	—
Reverse repurchase agreements	**3 063**	1 988	1 543
Loans to associates and joint ventures	**—**	—	1 017
Mortgages	**1 161**	1 388	1 673
Preference shares	**1 245**	—	—
Wholesale overdrafts	**3 209**	3 491	3 589
Amortised cost items held in a fair value hedging relationship	**747**	646	565
Corporate overdrafts and specialised finance loans	**118**	24	—
Wholesale overdrafts	**629**	622	565
Loans and receivables	**487 691**	493 111	512 527
	498 412	502 219	521 829

Comparatives have been reclassified, refer to note 1.23.

Included above are loans and advances to customers with a carrying value of R589 million (2009: R989 million; 2008: Rnil) that have been pledged as security, which excludes reverse repurchase agreements as disclosed in note 41. 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 and working capital solutions.*

Notes to the consolidated financial statements

For the year ended 31 December

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

8.1 Instalment credit agreements

Maturity analysis

	Bank 2010 Gross investment in finance leases Rm	Bank 2010 Unearned finance charges Rm	Bank 2010 Net investment in finance leases Rm
Less than one year	**22 769**	**(3 398)**	**19 371**
Between one and five years	**43 337**	**(6 931)**	**36 406**
More than five years	**1 318**	**(221)**	**1 097**
	67 424	**(10 550)**	**56 874**

	2009 Gross investment in finance leases Rm	2009 Unearned finance charges Rm	2009 Net investment in finance leases Rm
Less than one year	20 541	(3 035)	17 506
Between one and five years	46 548	(7 087)	39 461
More than five years	1 462	(248)	1 214
	68 551	(10 370)	58 181

	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.

A significant portion of 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 reporting date are R5 638 million (2009: R4 632 million; 2008: R5 768 million).

The accumulated allowance for uncollectable lease payments receivable included in the allowance for impairments at the reporting date is R1 478 million (2009: R1 691 million; 2008: R861 million).

9. Impairment losses on loans and advances

	Bank 2010 Rm	Bank 2009 Rm
Balance at the beginning of the year	**12 014**	8 497
Amounts written off during the year	**(4 574)**	(4 363)
Exchange differences	**(2)**	(3)
Interest on impaired assets (refer to note 27)	**(766)**	(936)
	6 672	3 195
Impairments raised during the year (refer to note 9.1)	**6 152**	8 819
Balance at the end of the year (refer to note 8)	**12 824**	12 014

	Bank 2010 Rm	Bank 2009 Rm
9. Impairment losses on loans and advances *(continued)*		
Comprising:		
Identified impairments	**11 936**	10 977
Unidentified impairments	**888**	1 037
	12 824	12 014

9.1 Statement of comprehensive income charge for impairment losses on loans and advances

	Bank 2010 Rm	Bank 2009 Rm
Impairments raised during the year	**6 152**	8 819
Identified impairments	**6 303**	9 061
Unidentified impairments	**(151)**	(242)
Recoveries of loans and advances previously written off	**(574)**	(427)
	5 578	8 392

10. Loans to Absa Group companies

	Bank 2010 Rm	Bank 2009 Rm
Fellow subsidiaries	**8 071**	16 215
Holding company	**—**	17
	8 071	16 232
Portfolio analysis		
Loans and receivables	**8 071**	16 232

11. Investment securities

	Bank 2010 Rm	Bank 2009 Rm
Debt instruments	**6 349**	9 236
Listed equity instruments	**985**	1 652
Unlisted equity and hybrid instruments	**5 572**	5 961
	12 906	16 849
Market value and directors' valuation		
Directors' valuation of unlisted equity and hybrid instruments	**5 572**	5 961
Market value of debt instruments	**6 349**	9 236
Market value of listed equity instruments	**985**	1 652
	12 906	16 849
Portfolio analysis		
Available-for-sale financial assets (refer to note 11.1)	**1 392**	1 977
Debt instruments	**1 193**	1 744
Listed equity instruments	**52**	73
Unlisted equity and hybrid instruments	**147**	160
Financial assets designated at fair value through profit or loss	**11 514**	14 872
Debt instruments	**5 156**	7 492
Listed equity instruments	**933**	1 579
Unlisted equity and hybrid instruments	**5 425**	5 801
	12 906	16 849

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For the year ended 31 December

	Bank 2010 Rm	Bank 2009 Rm
11. Investment securities *(continued)*		
11.1 Available-for-sale financial assets		
Carrying value at the beginning of the year	**1 977**	2 457
Cost plus fair value movements	**2 089**	2 533
Impairments[1]	**(112)**	(76)
Movement in investment securities	**(560)**	(444)
Net disposals	**(544)**	(195)
Fair value movements	**(16)**	(249)
Movement in impairments (refer to note 34)	**(25)**	(36)
Carrying value at the end of the year	**1 392**	1 977
Cost plus fair value movements	**1 529**	2 089
Impairments[1]	**(137)**	(112)

Note

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

12. Investments in associates and joint ventures

	Bank 2010 Rm	Bank 2009 Rm
Listed investments	**41**	100
Unlisted investments	**365**	373
	406	473
12.1 Movement in carrying value		
Balance at the beginning of the year	**473**	2 071
Share of current year's post-tax results	**(8)**	(50)
Share of current year's results before taxation	**54**	(7)
Taxation on current year's results	**(17)**	2
Dividends received	**(45)**	(45)
Net movement resulting from acquisitions, disposals and transfers (refer to note 12.4)	**(32)**	(228)
Decrease in loans	**(1)**	—
Impairment charge (refer to note 34)	**(29)**	(1 328)
Movement in amount recognised in other liabilities for the Bank's share of losses	**3**	8
Balance at the end of the year	**406**	473
12.2 Analysis of carrying value		
Listed investments		
Shares at book value	**51**	112
Shares at cost	**57**	1 440
Impairments	**(6)**	(1 328)
Share of post-acquisition reserves	**(10)**	(12)
	41	100
Unlisted investments		
Shares at cost	**114**	132
Share of post-acquisition reserves	**251**	240
Share of non-distributable reserves	**251**	201
Amount recognised in other liabilities for the Bank's share of losses	**—**	39
Loans and receivables	**—**	1
	365	373

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

12. Investments in associates and joint ventures

(continued)

12.3 Market value and directors' valuation

	Bank 2010 Rm	Bank 2009 Rm
Directors' valuation of unlisted investments[1]	**365**	373
Market value of listed investments	**55**	188
	420	561

Note

[1]*The directors' valuation of unlisted investments is measured at fair value.*

12.4 Net movement resulting from acquisitions, disposals and transfers

	Bank 2010 Effective holding (%)	Bank 2010 Movement Rm	Bank 2009 Effective holding (%)	Bank 2009 Movement Rm
Acquired during the current year, at cost:				
Pinnacle Point Group Limited	**—**	**95**	27,5	—
Acquired during the previous year, at cost:				
Kilkishen Investments (Proprietary) Limited	**50,0**	**—**	50,0	31
Meadowood Investments 8 (Proprietary) Limited	**50,0**	**—**	50,0	0
Stand 1135 Houghton (Proprietary) Limited	**50,0**	**—**	50,0	8
Disposed during the current year:				
Pinnacle Point Group Limited	**—**	**(95)**	27,5	—
Virgin Money South Africa (Proprietary) Limited	**—**	**(0)**	50,0	—
Disposed during the previous year:				
Ambit Properties Limited	**—**	**—**	—	(718)
Transferred to subsidiaries during the current year:				
Sanlam Home Loans (Proprietary) Limited	**100,0**	**—**	50,0	—
Transferred (to)/from investment securities during the current and previous year:				
Blue Financial Services Limited	**6,7**	**(32)**	20,2	451
		(32)		(228)

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For the year ended 31 December

	Bank 2010 Rm	Bank 2009 Rm
12. Investments in associates and joint ventures *(continued)*		
12.5 Details of transfers and purchase consideration on net assets acquired		
Cash paid	95	61
Purchase as part of business combination	—	39
Transfer from investment securities	—	390
	95	490
12.6 Details of transfers and consideration received on net assets disposed		
Cash consideration	(95)	—
Consideration in shares	—	(660)
Total consideration	(95)	(660)
Loss on disposal	(0)	(58)
Transfer to investment securities	(32)	—
	(127)	(718)

Refer to note 43 for the full disclosure of the Bank's investments in associates and joint ventures.

13. Goodwill and intangible assets

	Bank 2010 Cost Rm	2010 Accumulated amortisation and/or impairments Rm	2010 Carrying value Rm	2009 Cost Rm	2009 Accumulated amortisation and/or impairments Rm	2009 Carrying value Rm
Computer software development costs	963	(475)	488	759	(392)	367
Customer lists	1	(1)	—	—	—	—
Goodwill	196	(41)	155	196	(41)	155
Other	2	(2)	—	—	—	—
	1 162	(519)	643	955	(433)	522

Reconciliation of goodwill and intangible assets

	2010 Opening balance Rm	Additions Rm	Additions through business combi-nations Rm	Disposals Rm	Amorti-sation Rm	Impairment charge Rm	Closing balance Rm
Computer software development costs	367	257	—	(34)	(98)	(4)	488
Customer lists	—	—	1	—	(1)	—	—
Goodwill	155	—	—	—	—	—	155
Other	—	—	2	—	(2)	—	—
	522	257	3	(34)	(101)	(4)	643

13. Goodwill and intangible assets *(continued)*

	Bank 2009						
	Opening balance Rm	Additions Rm	Additions through business combi-nations Rm	Disposals Rm	Amorti-sation 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

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 R229 million (2009: R31 million) relating to assets still under construction.

	Bank	
	2010 Rm	2009 Rm
Composition of goodwill		
Abseq Properties (Proprietary) Limited	**25**	25
Absa Vehicle Management (Proprietary) Limited	**112**	112
Ngwenya River Estate (Proprietary) Limited	**18**	18
	155	155

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 forecasted 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% (2009:14%). Growth rates used in the impairment calculations range from 4% to 6% (2009: 3% to 7%).

	Bank	
	2010 Rm	2009 Rm

14. Investment properties

	2010 Rm	2009 Rm
Balance at the beginning of the year	**1 705**	379
Additions	**75**	—
Additions through business combinations (refer to note 50)	**—**	1 352
Additions to property under construction	**—**	35
Change in fair value (refer to note 32)	**—**	12
Foreign exchange movements	**(9)**	(73)
Balance at the end of the year	**1 771**	1 705

Investment properties comprise 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 from three to 10 years, depending on the use of the building being leased. Subsequent renewals are negotiated with the lessee. No contingent rentals are charged.

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15. Property and equipment

Bank

	2010 Cost Rm	2010 Accumulated depreciation and/or impairments Rm	2010 Carrying value Rm	2009 Cost Rm	2009 Accumulated depreciation and/or impairments Rm	2009 Carrying value Rm
Computer equipment	**4 735**	**(3 150)**	**1 585**	4 724	(3 162)	1 562
Freehold property	**3 373**	**(203)**	**3 170**	2 317	(180)	2 137
Furniture and other equipment	**4 471**	**(2 303)**	**2 168**	4 266	(2 044)	2 222
Leasehold property	**417**	**(353)**	**64**	500	(411)	89
Motor vehicles	**4**	**(4)**	**—**	4	(4)	—
	13 000	**(6 013)**	**6 987**	11 811	(5 801)	6 010

Reconciliation of property and equipment

2010	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	**1 562**	**727**	**—**	**(73)**	**—**	**(631)**	**—**	**1 585**
Freehold property	**2 137**	**1 072**	**—**	**(12)**	**(1)**	**(26)**	**—**	**3 170**
Furniture and other equipment	**2 222**	**343**	**—**	**(2)**	**—**	**(382)**	**(13)**	**2 168**
Leasehold property	**89**	**—**	**—**	**(2)**	**—**	**(23)**	**—**	**64**
	6 010	**2 142**	**—**	**(89)**	**(1)**	**(1 062)**	**(13)**	**6 987**

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

The fair value of freehold property is determined by both external and internal valuers. The most recent valuation was performed during 2010 and indicated that the fair value of the freehold property amounted to R3 730 million (2009: R2 714 million).

Leasehold property and computer equipment with a carrying value of R132 million (2009: R228 million) are encumbered under finance leases (refer to note 19).

Included in the above additions is R583 million (2009: 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 745 million (2009: R1 162 million).

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.

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 2010 Rm	Bank 2009 Rm
16. Deferred tax		
16.1 Reconciliation of net deferred tax liability		
Balance at the beginning of the year	**1 829**	2 657
Deferred tax asset released/(raised) on STC credits (refer to note 16.4)	**4**	(28)
Acquisition of businesses (refer to note 50)	**1**	159
Deferred tax on amounts charged directly to other comprehensive income	**529**	(310)
Available-for-sale investments	**72**	(81)
Fair value measurement	**72**	(52)
Transfer to the profit and loss component of the statement of comprehensive income	**—**	(29)
Cash flow hedges	**449**	(258)
Fair value measurement	**(60)**	(475)
Transfer to the profit and loss component of the statement of comprehensive income	**509**	217
Retirement benefit asset	**8**	29
Charge to the profit and loss component of the statement of comprehensive income (refer to note 36)	**(489)**	(707)
Tax effect of translation and other differences	**107**	58
Balance at the end of the year	**1 981**	1 829
16.2 Deferred tax liabilities/(assets)		
Tax effects of temporary differences between tax and book value for:		
Accruals and provisions	**1 736**	2 414
Fair value adjustments on investment securities	**(117)**	(467)
Impairment of advances	**5**	(727)
Lease and rental debtor allowances	**274**	463
Other temporary differences	**12**	—
Property allowances	**(35)**	60
Retirement benefit asset	**198**	172
Deferred tax liabilities	**2 073**	1 915
Deferred tax assets	**(92)**	(86)
Deferred tax asset – normal	**(27)**	(17)
Deferred tax asset – STC credit (refer to note 16.4)	**(65)**	(69)
Net deferred tax liability	**1 981**	1 829

Notes to the consolidated financial statements

For the year ended 31 December

	Bank 2010 Rm	Bank 2009 Rm
16. Deferred tax *(continued)*		
16.3 Future tax relief		
The Bank has no estimated tax losses.		
Balance at the beginning of the year	**—**	1
Movement in temporary differences	**—**	(1)
Balance at the end of the year	**—**	—
16.4 Secondary taxation on companies (STC)		
Accumulated STC credits	**654**	688
Deferred tax asset raised at 10% (refer to note 16.2)	**65**	69
Movement in deferred tax asset for the year (refer to note 16.1)	**(4)**	28

If the total reserves of R36 153 million (2009: R31 906 million) as at the reporting date were to be declared as dividends, the secondary tax impact at a rate of 10% would be R3 615 million (2009: R3 191 million).

	Bank 2010 Rm	Bank 2009 Rm	Bank 2008 Rm
17. Deposits from banks			
Call deposits	**6 537**	990	7 282
Fixed deposits	**4 680**	3 933	2 228
Foreign currency deposits	**1 704**	1 882	6 119
Other deposits	**4 605**	9 144	16 623
Repurchase agreements (refer to note 41)	**4 214**	24 211	27 774
	21 740	40 160	60 026
Portfolio analysis			
Financial liabilities at amortised cost	**16 241**	32 146	51 024
Financial liabilities designated at fair value through profit or loss	**5 499**	8 014	9 002
Fixed deposits	**4 282**	1 160	698
Foreign currency deposits	**3**	20	—
Other deposits	**—**	—	297
Repurchase agreements	**1 214**	6 834	8 007
	21 740	40 160	60 026

Comparatives have been reclassified, refer to note 1.23.

Deposits with variable rates are R11 182 million (2009: R11 798 million; 2008: R30 024 million) and fixed rates are R10 558 million (2009: R28 362 million; 2008: R30 002 million).

	Bank 2010 Rm	Bank 2009 Rm

18. Trading and hedging portfolio liabilities

	2010 Rm	2009 Rm
Derivative liabilities (refer to note 53.3)	**43 519**	36 957
Commodity derivatives	**154**	2 898
Credit derivatives	**131**	246
Equity derivatives	**1 962**	6 130
Foreign exchange derivatives	**12 464**	9 529
Interest rate derivatives	**28 808**	18 154
Short positions	**11**	—
Total trading portfolio liabilities	**43 530**	36 957
Hedging portfolio liabilities (refer to note 53.3)	**1 881**	565
	45 411	37 522
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**94**	132
Derivatives designated as fair value hedging instruments	**1 787**	433
Financial liabilities held for trading	**43 530**	36 957
Derivative liabilities	**43 519**	36 957
Short positions	**11**	—
	45 411	37 522

Included above are financial instruments related to the Bank's interest rate economic hedging programme with a notional value of R1 771 million (2009: R2 518 million) and a fair value of R102 million (2009: R180 million).

19. Other liabilities

	Bank 2010 Rm	Bank 2009 Rm
Accruals	**987**	691
Audit fee accrual	**27**	39
Creditors	**3 847**	5 353
Deferred income	**152**	167
Liabilities under finance leases (refer to note 19.1)	**621**	800
Settlement balances	**1 868**	1 899
Share-based payment liability (refer to note 49)	**286**	140
	7 788	9 089
Portfolio analysis		
Financial liabilities at amortised cost	**6 336**	7 778
Creditors	**3 847**	5 079
Liabilities under finance leases	**621**	800
Settlement balances	**1 868**	1 899
Financial liabilities designated at fair value through profit or loss	**—**	274
Non-financial liabilities	**1 452**	1 037
	7 788	9 089

Notes to the consolidated financial statements

For the year ended 31 December

19. Other liabilities *(continued)*

19.1 Liabilities under finance leases

	Bank		
	2010		
	Minimum lease payments due Rm	Interest Rm	Principal Rm
Less than one year	**262**	**(90)**	**172**
Between one and two years	**274**	**(57)**	**217**
Between two and three years	**204**	**(21)**	**183**
Between three and four years	**50**	**(1)**	**49**
	790	**(169)**	**621**
	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

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

19.1.1 Terms and conditions of finance leases

Description	Address	Details
Absa Towers	160 Main Street, Johannesburg 170 Main Street, Johannesburg 10 Troye Street, Johannesburg	Original term of 18 years with negotiable escalation clauses and a renewal date of 31 March 2014.
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.
Wide area network	Various branches across South Africa	Original term of 30 months with no escalation clauses or renewal options. Contract ends on 31 March 2011.

19. Other liabilities *(continued)*

19.1 Liabilities under finance leases *(continued)*

19.1.2 Minimum future income receivable from subleasing

	Bank 2010 Rm	Bank 2009 Rm
Receivable within one year	**6**	40
Receivable within two to five years	**1**	2
	7	42

20. Provisions

Bank 2010	Redundancy and restructuring provision Rm	Staff bonus and incentive provision Rm	Sundry provisions Rm	Total Rm
Balance at the beginning of the year	**—**	**750**	**736**	**1 486**
Additions	**—**	**885**	**305**	**1 190**
Amounts used	**—**	**(815)**	**(36)**	**(851)**
Reversals	**—**	**(9)**	**(283)**	**(292)**
Balance at the end of the year	**—**	**811**	**722**	**1 533**

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

Provisions expected to be recovered or settled within no more than 12 months after the reporting date were R1 156 million (2009: R846 million). Sundry provisions are made with respect to fraud cases, litigation and insurance claims.

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	Bank		
	2010 Rm	2009 Rm	2008 Rm
21. Deposits due to customers			
Call deposits	**54 686**	61 980	62 978
Cheque account deposits	**106 884**	89 630	96 311
Credit card deposits	**1 830**	1 868	2 051
Fixed deposits	**113 217**	105 928	123 752
Foreign currency deposits	**7 942**	7 211	10 034
Notice deposits	**11 365**	10 293	7 148
Other deposits[1]	**3 664**	8 069	12 625
Repurchase agreements with non-banks (refer to note 41)	**7 035**	1 712	2 217
Savings and transmission deposits	**66 021**	62 680	56 983
	372 644	349 371	374 099
Portfolio analysis			
Financial liabilities at amortised cost	**355 789**	336 818	362 680
Financial liabilities designated at fair value through profit or loss	**16 855**	12 553	11 419
Fixed deposits	**9 820**	8 791	9 202
Other deposits	**—**	2 050	—
Repurchase agreements with non-banks	**7 035**	1 712	2 217
	372 644	349 371	374 099

Comparatives have been reclassified, refer to note 1.23.

Note

[1]*Included in other deposits are partnership contributions received, deposits due on structured deals, preference investments on behalf of customers and unclaimed deposits.*

	Bank	
	2010 Rm	2009 Rm
22. Debt securities in issue		
Abacas – Commercial paper issued and floating rate notes	**1 789**	4 936
Credit linked notes	**6 360**	8 025
Floating rate notes	**75 748**	84 925
Negotiable certificates of deposit	**64 460**	59 690
Other debt securities in issue	**—**	15
Promissory notes	**3 759**	4 741
Replica bonds	**1 220**	1 534
Senior notes	**9 190**	5 922
	162 526	169 788

	Bank 2010 Rm	Bank 2009 Rm

22. Debt securities in issue *(continued)*

	2010 Rm	2009 Rm
Portfolio analysis		
Amortised cost items held in a fair value hedging relationship	**5 274**	6 046
Floating rate notes	**5 188**	5 959
Negotiable certificates of deposit	**86**	87
Financial liabilities at amortised cost	**153 708**	159 094
Financial liabilities designated at fair value through profit or loss	**3 544**	4 648
Credit linked notes	**—**	192
Negotiable certificates of deposit	**34**	7
Other debt securities in issue	**—**	15
Promissory notes	**2 290**	2 900
Replica bonds	**1 220**	1 534
	162 526	169 788

23. Loans from Absa Group companies

	2010 Rm	2009 Rm
Fellow subsidiaries	**—**	3 464
Portfolio analysis		
Financial liabilities at amortised cost	**—**	3 464

24. 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*	2010 Rm	2009 Rm
10,75%	26 March 2015	i	**—**	1 100
8,75%	1 September 2017	ii	**1 500**	1 500
8,80%	7 March 2019	iii	**1 725**	1 725
8,10%	27 March 2020	iv	**2 000**	2 000
10,28%	3 May 2022	v	**600**	—
Three-month JIBAR + 0,75%	26 March 2015	vi	**—**	400
Three-month JIBAR + 2,10%	3 May 2022	vii	**400**	—
CPI-linked notes, fixed at the following coupon rates:				
6,25%	31 March 2018	viii	**1 886**	1 886
6,00%	20 September 2019	ix	**3 000**	3 000
5,50%	7 December 2028	x	**1 500**	1 500
Accrued interest			**826**	575
Fair value adjustment			**212**	(156)
			13 649	13 530
Portfolio analysis				
Amortised cost financial liabilities held in a fair value hedging relationship			**5 470**	5 591
Financial liabilities designated at fair value through profit or loss			**739**	718
Financial liabilities held at amortised cost			**7 440**	7 221
			13 649	13 530

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24. Borrowed funds *(continued)*

i The 10,75% fixed rate notes were redeemed in full on 26 March 2010. Interest was paid semi-annually in arrear on 26 March and 26 September of each year.

ii The 8,75% fixed rate notes may be redeemed in full at the option of the Bank 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 the Bank 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.

iii The 8,80% fixed rate notes may be redeemed in full at the option of the Bank on 7 March 2014. 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 2014. If the Bank 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.

iv The 8,10% fixed rate notes may be redeemed in full at the option of the Bank 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 the Bank 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 10,28% fixed rate notes may be redeemed in full at the option of the Bank on 3 May 2017. Interest is paid semi-annually in arrear on 3 May and 5 November of each year, provided that the last date for payment shall be 3 May 2017. If the Bank does not execise the redemption option, interest is payable thereafter at a floating rate of three-month JIBAR plus 4,10% quarterly in arrear on 3 August, 3 November, 3 February and 3 May.

vi The three-month JIBAR plus 0,75% floating rate notes were redeemed in full on 26 March 2010. Interest was paid quarterly in arrear on 26 March, 26 June, 26 September and 26 December of each year.

vii The three-month JIBAR plus 2,10% floating rate notes may be redeemed in full at the option of the Bank on 3 May 2017. Interest is paid quarterly on 3 August, 3 November, 3 February and 3 May of each year, provided that the last date for payment shall be 3 May 2017. If the Bank does not exercise the redemption option, then the coupon rate payable after 3 May 2017 reprices from three-month JIBAR plus 2,10% to three-month JIBAR plus 4,10%.

viii The 6,25% CPI-linked notes may be redeemed in full at the option of the Bank 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 the Bank 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.

ix The 6,00% CPI-linked notes may be redeemed in full at the option of the Bank 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 for payment shall be 20 September 2014. If the Bank does not exercise the redemption option, a coupon step-up of 150 basis points (bps) shall apply.

x The 5,50% CPI-linked notes may be redeemed in full at the option of the Bank 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 the Bank does not exercise the redemption option, a coupon step-up of 150 bps shall apply.

All the above notes are listed on the Bond Exchange of South Africa (BESA).

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

	Bank 2010 Rm	2009 Rm
# 25. Share capital and premium		
## 25.1 Ordinary share capital		
Authorised		
320 000 000 (2009: 320 000 000) ordinary shares of R1,00 each	**320**	320
250 000 000 (2009: 250 000 000) 'A' ordinary shares of R0,01 each	**3**	3
	323	323
Issued		
302 609 359 (2009: 302 609 359) ordinary shares of R1,00 each	**303**	303
71 502 632 (2009: 65 066 161) 'A' ordinary shares of R0,01 each	**0**	0
	303	303
Total issued capital		
Share capital	**303**	303
Share premium	**11 465**	10 465
	11 768	10 768

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 reporting 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 AGM.

Shares issued during the current year

On 4 August 2010, 6 436 471 'A' ordinary shares were issued to Absa Group Limited at R155,36 per share, being R0,01 par value and R155,35 share premium.

Shares issued during the previous year

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

All shares issued by the Company were paid in full.

25.2 Preference share capital and premium

	Bank 2010 Rm	2009 Rm
Authorised		
30 000 000 (2009: 30 000 000) non-cumulative non-redeemable listed preference shares of R0,01 each	**1**	1
Issued		
4 944 839 (2009: 4 944 839) non-cumulative non-redeemable listed preference shares of R0,01 each	**1**	1
Total issued capital		
Share capital	**1**	1
Share premium	**4 643**	4 643
	4 644	4 644

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

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26. Other reserves

Associates' and joint ventures' reserve

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

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 instrument 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.

Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Share-based payment reserve

The reserve comprises the credit to equity for equity-settled share-based payment arrangements in terms of IFRS 2. 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 (i.e. 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 2010 Rm	Bank 2009 Rm
27. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	**2**	—
Fair value adjustments on hedging instruments	**1 023**	781
Investment securities	**448**	499
Loans and advances to banks	**1 214**	2 339
Other loans and advances to banks	**934**	1 265
Reverse repurchase agreements	**280**	1 074
Loans and advances to customers	**46 067**	56 452
Cheque accounts	**2 760**	3 057
Corporate overdrafts and specialised finance loans	**1 255**	1 102
Credit cards	**2 069**	2 395
Foreign currency loans	**167**	542
Instalment credit agreements	**6 024**	7 497
Interest on impaired financial assets (refer to note 9)	**766**	936
Reverse repurchase agreements	**—**	258
Loans to associates and joint ventures	**486**	645
Microloans	**651**	891
Mortgages	**24 847**	30 736
Other advances[1]	**857**	562
Overnight finance	**571**	1 108
Personal and term loans	**2 900**	2 789
Preference shares	**693**	910
Wholesale overdrafts	**2 021**	3 024
Other interest	**527**	681
Statutory liquid asset portfolio	**2 983**	1 781
	52 264	62 533
Portfolio analysis		
Fair value adjustments on amortised cost and available-for-sale items held in a fair value hedging relationship (refer to note 53.2)	**497**	(734)
Loans and advances to customers	**170**	34
Statutory liquid asset portfolio	**327**	(768)
Fair value adjustments on hedging instruments	**1 023**	781
Cash flow hedges (refer to note 53.2)	**1 485**	244
Fair value hedges (refer to note 53.2)	**(369)**	690
Economic hedges	**(93)**	(153)
Interest on financial assets held at amortised cost and available-for-sale	**49 618**	61 318
Interest on financial assets designated at fair value through profit or loss	**1 126**	1 168
Investment securities	**344**	499
Loans and advances	**503**	423
Statutory liquid asset portfolio	**279**	246
	52 264	62 533

Note

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

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For the year ended 31 December

28. Interest expense and similar charges

	Bank 2010 Rm	Bank 2009 Rm
Interest expense and similar charges are paid on:		
Borrowed funds	**1 586**	1 015
Debt securities in issue	**12 850**	15 976
Deposits due to customers	**16 979**	24 978
Call deposits	**3 231**	4 649
Cheque account deposits	**3 192**	4 062
Credit card deposits	**13**	30
Fixed deposits	**7 112**	10 629
Foreign currency deposits	**128**	534
Notice deposits	**456**	582
Other deposits	**516**	1 416
Savings and transmission deposits	**2 331**	3 076
Deposits from banks	**534**	701
Call deposits	**219**	535
Fixed deposits	**281**	131
Other	**34**	35
Fair value adjustments on hedging instruments	**(1 102)**	(222)
Interest incurred on finance leases	**109**	130
Other interest	**64**	67
	31 020	42 645
Portfolio analysis		
Fair value adjustments on amortised cost items held in a fair value hedging relationship (refer to note 53.2)	**504**	(410)
Borrowed funds	**291**	(223)
Debt securities in issue	**213**	(187)
Fair value adjustments on hedging instruments	**(1 102)**	(222)
Cash flow hedges (refer to note 53.2)	**(644)**	(512)
Fair value hedges (refer to note 53.2)	**(458)**	290
Interest on financial liabilities designated at fair value through profit or loss	**1 255**	1 589
Debt securities in issue	**630**	786
Deposits due to customers	**625**	803
Interest on financial liabilities held at amortised cost	**30 363**	41 688
	31 020	42 645

	Bank 2010 Rm	Bank 2009 Rm
29. Net fee and commission income		
Fee and commission income		
Asset management and other related fees	**102**	100
Consulting and administration fees	**154**	127
Credit-related fees and commissions	**12 393**	12 061
Cheque accounts	**3 156**	3 168
Credit cards[1]	**1 788**	1 710
Electronic banking	**3 823**	3 490
Other[2]	**1 220**	1 405
Savings accounts	**2 406**	2 288
Insurance commission received	**386**	323
Other fees and commissions	**100**	88
Project finance fees	**205**	268
Trust and other fiduciary services	**38**	26
Portfolio and other management fees	**26**	10
Trust and estate income	**12**	16
	13 378	12 993
Fee and commission expense	**(962)**	(746)
Cheque processing fees	**(173)**	(193)
Debt collecting fees	**(105)**	(66)
Other	**(329)**	(176)
Transaction-based legal fees	**(189)**	(146)
Valuation fees	**(166)**	(165)
	12 416	12 247

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.

Notes

[1]*Includes merchant, acquiring and issuing fees.*

[2]*Includes service, commission and credit-related fees on mortgage loans and foreign exchange transactions.*

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

	Bank 2010 Rm	Bank 2009 Rm
Fee and commission income		
Cheque accounts	**3 156**	3 168
Credit cards	**865**	811
Electronic banking	**3 823**	3 490
Other	**1 021**	1 029
Savings accounts	**2 406**	2 288
	11 271	10 786
Fee and commission expense	**(173)**	(193)
	11 098	10 593

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For the year ended 31 December

	Bank 2010 Rm	Bank 2009 Rm
30. Gains and losses from banking and trading activities		
Associates and joint ventures	**87**	(13)
Dividends received	**45**	45
Profit/(loss) realised on disposal	**42**	(58)
Available-for-sale unwind from reserve	**(92)**	115
Investment securities: unlisted equity and hybrid instruments	**—**	219
Statutory liquid asset portfolio	**(92)**	(104)
Financial instruments designated at fair value through profit or loss	**(695)**	91
Debt securities in issue	**(83)**	(125)
Deposits from banks and due to customers	**(1 618)**	(434)
Investment securities	**190**	28
Debt instruments	**27**	(31)
Listed equity instruments	**81**	460
Unlisted equity and hybrid instruments	**82**	(401)
Loans and advances to banks and customers	**809**	610
Statutory liquid asset portfolio	**7**	12
Financial instruments held for trading		
Derivatives and trading instruments	**2 451**	2 373
Ineffective hedges	**100**	(19)
Cash flow hedges (refer to note 53.2)	**115**	(3)
Fair value hedges (refer to note 53.2)	**(15)**	(16)
	1 851	2 547
31. Gains and losses from investment activities		
Available-for-sale unwind from reserves		
Investment securities: unlisted equity and hybrid instruments	**—**	1
Financial instruments designated at fair value through profit or loss		
Investment securities	**23**	66
Listed equity instruments	**21**	54
Unlisted equity and hybrid instruments	**2**	12
Subsidiaries		
Dividends received	**1**	1
	24	68
32. Other operating income		
Exchange differences	**34**	6
Income from investment properties	**11**	20
Change in fair value of investment properties (refer to note 14)	**—**	12
Investment property rentals	**11**	8
Income from maintenance contracts	**15**	26
Profit on disposal of intangible assets	**—**	65
Profit on disposal of property and equipment	**26**	55
Profit on disposal of repossessed properties	**6**	8
Gross sales	**141**	107
Cost of sales	**(135)**	(99)
Rental income	**223**	215
Sundry income[1]	**181**	341
	496	736

Note

[1]*Includes service fees levied on sundry non-core business activities.*

	Bank 2010 Rm	Bank 2009 Rm
33. Operating expenses		
Amortisation of intangible assets (refer to note 13)	**101**	62
Auditors' remuneration	**131**	113
Audit fees	**86**	77
Audit fees – underprovision from previous years	**6**	8
Other fees[1]	**39**	28
Cash transportation	**625**	371
Depreciation (refer to note 15)	**1 062**	1 052
Equipment costs	**206**	199
Rentals	**116**	121
Maintenance	**90**	78
Information technology[2]	**1 969**	1 644
Investment property charges – operating expenses	**4**	4
Marketing costs	**974**	799
Operating lease expenses on properties	**877**	815
Other operating costs[3]	**1 770**	1 592
Printing and stationery	**235**	239
Professional fees[2]	**970**	817
Staff costs	**10 836**	9 252
Bonuses	**951**	518
Current service costs on post-retirement benefits	**525**	542
Other staff costs[4]	**466**	297
Salaries	**8 372**	7 523
Share-based payments (refer to note 49)	**280**	211
Training costs	**242**	161
Telephone and postage	**680**	676
	20 440	17 635

Notes

[1]*Includes fees paid for assurance reports performed on behalf of various regulatory bodies.*

[2]*Includes research and development costs of R133 million (2009: R146 million).*

[3]*Includes accommodation, travel and entertainment costs.*

[4]*Includes recruitment costs, membership fees to professional bodies, staff parking, redundancy fees, study assistance, staff relocation and refreshment costs.*

	Bank 2010 Rm	Bank 2009 Rm
34. Other impairments		
Financial instruments	**38**	36
Amortised cost instruments	**13**	—
Available-for-sale financial assets (refer to note 11.1)	**25**	36
Other	**71**	1 400
Computer software development costs (refer to note 13)	**4**	—
Equipment (refer to note 15)	**13**	9
Goodwill (refer to note 13)	**—**	37
Investments in associates and joint ventures (refer to note 12.1)	**29**	1 328
Repossessed properties	**25**	26
	109	1 436

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

- Impairments on investments in associates and joint ventures are reported in the 'Absa Capital' and 'ABB' segments.
- Impairments on available-for-sale financial assets are reported in the 'Absa Capital' segment.
- Impairments on amortised cost financial instruments are reported in the 'Other' segment.
- Impairments on computer software development costs are reported in the 'Other' segment.
- Impairments on equipment are reported in the 'Absa Capital' segment.
- Impairments on repossessed properties are reported in the 'Retail Banking' segment.

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34. Other impairments *(continued)*

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

- Impairments on available-for-sale financial assets are reported in the 'Absa Capital' segment.
- Impairments on equipment are reported in the 'ABB' segment.
- Impairments on goodwill are reported in the 'Other' segment.
- Impairments on investments in associates and joint ventures are reported in the 'Absa Capital' and 'ABB' segments.
- Impairments on repossessed properties are reported in the 'Retail Banking' segment.

During the previous 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 was written off.

During the previous year, indications existed that the carrying amount of the investments in associates, that arose as a result of customer 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 of these investments. These investments were consequently impaired.

	Bank	
	2010 Rm	2009 Rm
35. Indirect taxation		
Payments to third parties	**—**	1
Training levy	**79**	75
Value added tax net of input credits	**552**	688
	631	764
36. Taxation expense		
Current		
Foreign taxation	**288**	800
South African current tax	**2 702**	1 210
South African current tax – previous year	**6**	104
STC	**—**	62
	2 996	2 176
Deferred		
Deferred taxation (refer to note 16.1)	**(489)**	(707)
Accelerated tax depreciation	**(153)**	(117)
Allowances for loan losses	**732**	(231)
Other provisions	**306**	129
Other temporary differences	**(1 392)**	(509)
Retirement benefit asset	**18**	21
	2 507	1 469
Reconciliation between operating profit and the taxation expense		
Operating profit before income tax	**9 265**	7 209
Share of post-tax results of associates and joint ventures	**8**	50
	9 273	7 259
Tax calculated at a tax rate of 28%	**2 596**	2 033
Effect of different tax rates in other countries	**77**	(300)
Expenses not deductible for tax purposes	**86**	83
Income not subject to tax	**(495)**	(409)
Other	**243**	—
STC	**—**	62
	2 507	1 469

The effective STC rate is lower than the statutory rate of 10% due to STC being provided for dividends declared net of dividends received and unutilised STC credits from previous years.

	Bank 2010 Rm	Bank 2009 Rm

37. Earnings per share

Basic and diluted 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.

	2010 Rm	2009 Rm
Profit attributable to the ordinary equity holder of the Bank	**6 432**	5 315
Weighted average number of ordinary shares in issue (millions)	**369,9**	362,1
Issued shares at the beginning of the year (millions)	**367,7**	359,1
Effect of shares issued during the year (weighted millions)	**2,2**	3,0
Basic earnings per share (cents)	**1 738,8**	1 467,8
Diluted earnings per share (cents)	**1 738,8**	1 467,8

38. Headline earnings

	Bank 2010 Gross Rm	Bank 2010 Net[1] Rm	Bank 2009 Gross Rm	Bank 2009 Net[1] Rm
Headline earnings is determined as follows:				
Profit attributable to the ordinary equity holder of the Bank		**6 432**		5 315
Adjustments for:				
IFRS 3 – (Gain on bargain purchase) and goodwill (refer to notes 34 and 50)	**(72)**	**(72)**	(113)	(113)
IAS 16 – Profit on disposal of property and equipment (refer to note 32)	**(26)**	**(22)**	(55)	(49)
IAS 21 – Recycled foreign currency translation reserve, disposal of investments in foreign operations	**—**	**—**	(25)	(25)
IAS 28 and 31 – Headline earnings component of share of post-tax results of associates and joint ventures	**(1)**	**(1)**	10	11
IAS 28 and 31 – Net (profit)/loss on disposal of investments in associates and joint ventures (refer to note 30)	**(42)**	**(42)**	58	50
IAS 28 and 31 – Impairment of investments in associates and joint ventures (refer to note 34)	**29**	**21**	1 328	956
IAS 36 – Impairment of equipment (refer to note 34)	**13**	**9**	9	6
IAS 38 – Impairment and net profit on disposal of intangible assets (refer to notes 32 and 34)	**4**	**3**	(65)	(56)
IAS 39 – Release of available-for-sale reserves[2] (refer to note 30)	**92**	**66**	(115)	(115)
IAS 39 – Impairment and net profit on disposal of available-for-sale assets[2]	**25**	**18**	25	16
IAS 40 – Change in fair value of investment properties (refer to note 32)	**—**	**—**	(12)	(10)
Headline and diluted headline earnings		**6 412**		5 986
Headline earnings per share (cents)		**1 733,4**		1 653,1
Diluted headline earnings per share (cents)		**1 733,4**		1 653,1

Notes

[1] *The net amount is reflected after tax and non-controlling interest.*

[2] *The comparative year includes a portion of profit realised on disposal of MasterCard Incorporated shares.*

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	Bank 2010 Rm	Bank 2009 Rm
39. Retirement benefit obligations		
Surplus disclosed in 'Other assets' (refer to note 6)	**705**	616
Statement of comprehensive income charge included in staff costs (refer to note 39.1)	**(61)**	(76)
39.1 Defined benefit plan		
Funded obligation		
Present value of funded obligations	**(5 126)**	(4 900)
Fair value of plan assets	**6 193**	5 853
Net assets before statutory surpluses	**1 067**	953
Statutory surpluses as per the rules of the fund	**(362)**	(337)
Net surpluses	**705**	616
Reconciliation of movement in obligation		
Balance at the beginning of the year	**4 900**	4 833
Actuarial losses	**238**	95
Benefits paid	**(457)**	(422)
Current service costs	**1**	1
Interest expense	**444**	393
Balance at the end of the year	**5 126**	4 900
Reconciliation of movement in plan assets		
Balance at the beginning of the year	**5 853**	5 659
Actuarial gains	**290**	145
Benefits paid	**(457)**	(422)
Employer contributions	**1**	1
Expected return on plan assets	**506**	470
Balance at the end of the year	**6 193**	5 853
Pension fund plan assets		
Debt instruments	**1 514**	2 272
Equity instruments	**2 579**	2 348
Other assets	**2 100**	1 233
	6 193	5 853

Pension fund assets include ordinary shares with a fair value of R64 million (2009: R23 million) and, other assets with fair value of R2 million (2009: Rnil) and interest-bearing instruments issued by the Bank with a fair value of R180 million (2009: R240 million). Refer to note 43 for the full disclosure of related party transactions.

The Bank expects to contribute R1 million (2009: R1 million) to its defined benefit plan during the next financial year.

There was a return on assets of R450 million (2009: R365 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 2010 Rm	Bank 2009 Rm
Total expenses/(income) comprises:		
Current service costs (included in staff costs)	**1**	1
Expected return on plan assets	**(506)**	(470)
Interest expense	**444**	393
Total income	**(61)**	(76)
Recognised in other comprehensive income		
Actuarial gains	**(52)**	(53)
Application of the asset ceiling adjustment	**25**	(52)
	(27)	(105)
Cumulative actuarial gains recognised in other comprehensive income	**884**	936

	Bank			
	2010 Rm	2009 Rm	2008 Rm	2007 Rm

39. Retirement benefit obligations *(continued)*

39.1 Defined benefit plan *(continued)*

	2010 Rm	2009 Rm	2008 Rm	2007 Rm
Historical information as at the reporting date				
Present value of defined benefit obligation	**(5 126)**	(4 900)	(4 833)	(4 497)
Fair value of plan assets	**6 193**	5 853	5 659	5 765
Net assets before statutory surpluses and investment reserve account	**1 067**	953	826	1 268
Investment reserve account	**—**	—	—	(864)
Statutory surpluses as per the rules of the fund	**(362)**	(337)	(391)	(299)
Net surplus	**705**	616	435	105
Experience adjustments on plan assets	**290**	145	(163)	179
Experience adjustments on plan liabilities	**(238)**	95	358	630

	Bank	
	2010	2009
The principal actuarial assumptions used for the defined benefit plan were as follows:		
Discount rate (%)	**8,5**	9,5
Expected return on plan assets (%)	**7,3**	8,0
Future salary increases (%)	**6,25 + merit**	7,0 + 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**	20,6
Female	**25,5**	25,5

Expected rate of future pension increases

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

39.2 Post-retirement benefits

Of the employees belonging to the Absa Group Pension Fund (the fund), 34 623 (2009: 35 827) were members of the defined contribution structure, while 39 (2009: 43) were members of the defined benefit structure.

The value of defined contribution assets at the reporting date amounted to R12 617 million (2009: R11 363 million). Current service costs for the year amounted to R694 million (2009: R617 million).

The fund is financed by employer and employee contributions and investment income. Employer 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.

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39. Retirement benefit obligations *(continued)*

39.2 Post-retirement benefits *(continued)*

The fund is governed by the Pension Funds Act of 1956, which requires that an actuarial valuation be carried out at least every three years. The most recent statutory valuation of the fund was effected on 1 April 2008 and confirmed that the fund was in a sound financial position. This valuation was in accordance with the Pension Funds Second Amendment Act of 2001 (the Act). This Act facilitates the determination of the surplus apportionment to members, while avoiding the inappropriate distribution of surpluses. The Act requires that a fund explicitly establish additional contingency reserves to ensure the financial soundness of the fund going forward. The valuation has been performed using the projected unit benefit method in respect of the defined benefit structure. The surplus apportionment has been approved by the FSB during the current year.

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

40. Dividends per share

	Bank 2010 Rm	Bank 2009 Rm
Dividends paid to the ordinary equity holder during the year		
16 February 2010 final dividend number 47 of 244,8 cents per ordinary share (9 February 2009: 429,6 cents)	**900**	1 300
4 August 2010 interim dividend number 48 of 326,4 cents per ordinary share (3 August 2009: 139,3 cents)	**1 200**	500
4 August 2010 special dividend to the ordinary and 'A' ordinary shareholder (1 September 2009)	**1 000**	1 050
	3 100	2 850
Dividends paid to the ordinary equity holder relating to income for the year		
4 August 2010 interim dividend number 48 of 326,4 cents per ordinary share (3 August 2009: 139,3 cents)	**1 200**	500
4 August 2010 special dividend to the ordinary and 'A' ordinary shareholder (1 September 2009)	**1 000**	1 050
15 February 2011 final dividend number 49 of 360,9 cents per ordinary share (16 February 2010: 244,8 cents)	**1 350**	900
	3 550	2 450
The STC payable by the Bank in respect of the dividend approved and declared subsequent to the reporting date, amounts to R135 million (2009: R90 million). No provision has been made for this dividend and the related STC in the financial statements at the reporting date.		
Dividends paid to preference equity holders during the year		
16 February 2010 final dividend number 8 of 3 280,3 cents per preference share (9 February 2009: 4 734,5 cents)	**162**	234
4 August 2010 interim dividend number 9 of 3 197,5 cents per preference share (3 August 2009: 3 799,0 cents)	**158**	187
	320	421

	Bank 2010 Rm	Bank 2009 Rm
40. Dividends per share *(continued)*		
Dividends paid to preference equity holders relating to income for the year		
4 August 2010 interim dividend number 9 of 3 197,5 cents per preference share (3 August 2009: 3 799,0 cents)	**158**	187
15 February 2011 final dividend number 10 of 2 887,6 cents per preference share (16 February 2010: 3 280,3 cents)	**143**	162
	301	349

The STC payable by the Bank in respect of the dividend approved and declared subsequent to the reporting date amounts to R14 million (2009: R16 million). No provision has been made for this dividend and the related STC in the financial statements at the reporting date.

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

Reverse repurchase agreements and cash collateral on securities borrowed

Reverse repurchase agreements are accounted for as collateralised loans under loans and advances while cash collateral is shown under other assets.

	Bank			
	Cash collateral on securities borrowed 2010 Rm	Reverse repurchase agreements 2010 Rm	Cash collateral on securities borrowed 2009 Rm	Reverse repurchase agreements 2009 Rm
Assets				
Statutory liquid assets (refer to note 3)	**—**	**2 685**	—	1 941
Loans and advances to banks (refer to note 4)	**—**	**5 572**	—	8 932
Other	**3 276**	**—**	—	—
Loans and advances to customers (refer to note 8)	**—**	**3 063**	—	1 988
	3 276	**11 320**	—	12 861

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 reporting date amounts to R8 343 million (2009: R10 920 million) of which R6 490 million (2009: R6 306 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 2010 Rm	Bank – Repurchase agreements 2009 Rm
Liabilities		
Deposits from banks (refer to note 17)	**4 214**	24 211
Deposits due to customers (refer to note 21)	**7 035**	1 712
	11 249	25 923

The assets transferred and not derecognised in the above repurchase agreements are valued at R8 249 million (2009: R10 297 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 a portion of the statutory liquid asset portfolio of R3 000 million (2009: R2 011 million), refer to note 3. In the previous year, the remainder of the repurchase agreements were 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 R7 309 million, refer to note 4.

Notes to the consolidated financial statements

For the year ended 31 December

	Bank 2010 Rm	Bank 2009 Rm
42. Assets transferred not derecognised		
In the ordinary course of business, the Bank enters into transactions that result in the transfer of assets to third parties or SPEs that are not derecognised. The information below sets out the extent of such transfers.		
Transferred assets		
Cars securitisation	—	1 109
Commissioner Street	585	—
Homes securitisation	4 555	3 204
	5 140	4 313

Cars securitisation

The Bank has transferred instalment credit agreements to Collateralised Auto Receivables Securitisation (Proprietary) Limited (Cars) in previous years. In the current year an amount of R747 million was paid to Cars by customers under the instalment credit agreements and the remaining balance of R362 million was transferred back to the Bank. 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 entity.

» Absa Group Limited receives the return on the notes issued, a servicing fee and the residual income in this entity.

» Absa Group Limited retains the majority of the residual ownership risks relating to this entity through a combination of its preference share investment and its holding of the notes issued by the entity.

Accordingly, the instalment credit agreements are included in the statement of financial position under 'Loans and advances to customers': Refer to note 22 for further details on the related liabilities.

Commissioner Street

The Bank sold certain exposures to Commissioner Street, an SPE established by the Bank. Commissioner Street issued various classes of notes to investors consisting of:

» class A1 senior secured floating rate notes;

» class A2 senior secured floating rate notes; and

» class B subordinated secured fixed rate notes.

The Bank invested in 100% of the B notes and 36,7% of the A2 notes. External investors invested in 100% of the A1 notes and 63,3% of the A2 notes. Due to the Bank being exposed to the majority of risks and rewards of Commissioner Street, the Bank failed to derecognise the exposures in terms of IAS 39 and is also required to consolidate Commissioner Street in terms of SIC-12. The Bank therefore continues to recognise the exposures.

The loans are included in the statement of financial position under 'Loans and advances to customers'. Refer to note 22 for further details on the related liabilities.

Homes securitisation

The Bank transferred retail mortgages to Home Obligors Mortgage Enhanced Securities (Proprietary) Limited (Homes) in previous years. 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 22 for further details on the related liabilities.

Details about other transactions where assets were transferred, but not derecognised are disclosed in note 41.

43. Related parties

The Bank's ultimate parent company is Barclays Bank PLC, which owns 55,5% (2009: 55,5%) of the ordinary shares in Absa Group Limited. The remaining 44,5% (2009: 44,5%) of the shares are widely held on the JSE.

The following are defined as related parties of the Bank:

- key management personnel (refer to notes 43.1 and 43.2);
- the ultimate parent company (refer to note 43.3);
- the parent company (refer to note 43.4);
- fellow subsidiaries (refer to note 43.5);
- subsidiaries (refer to note 43.6);
- associates, joint ventures and retirement benefit funds (refer to note 43.7);
- 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; and
- children and/or dependants and spouses or partners of the individuals referred to above.

IAS 24 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).

43.1 Transactions with key management personnel

A number of banking and insurance transactions are entered into with key management personnel in the normal course of business, under terms that are no more favourable than those arranged with third parties. 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 2010 Rm	**Transactions with entities controlled by key management 2010 Rm**	Transactions with key management 2009 Rm	Transactions with entities controlled by key management 2009 Rm
Loans				
Balance at the beginning of the year	**11**	**10**	18	59
Loans issued	**41**	**7**	39	27
Loans repaid	**(38)**	**(8)**	(46)	(56)
Inception/(discontinuance) of related party relationships and other	**2**	**—**	—	(20)
Balance at the end of the year	**16**	**9**	11	10
Interest income	**1**	**1**	2	2

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.

Notes to the consolidated financial statements

For the year ended 31 December

43. Related parties *(continued)*

43.1 Transactions with key management personnel *(continued)*

	Bank			
	Transactions with key management 2010 Rm	**Transactions with entities controlled by key management 2010 Rm**	Transactions with key management 2009 Rm	Transactions with entities controlled by key management 2009 Rm
Deposits				
Balance at the beginning of the year	**19**	**5**	7	10
Deposits received	**158**	**90**	168	160
Deposits repaid	**(161)**	**(88)**	(157)	(189)
Inception/(discontinuance) of related party relationships and other	**7**	**(5)**	1	24
Balance at the end of the year	**23**	**2**	19	5
Interest expense	**1**	**—**	1	1
Guarantees issued by the Bank	**51**	**19**	52	5

In addition to the specific guarantees, a number of key management and entities controlled by key management have unlimited surety with the Bank.

	Bank			
	Transactions with key management 2010 Rm	**Transactions with entities controlled by key management 2010 Rm**	Transactions with key management 2009 Rm	Transactions with entities controlled by key management 2009 Rm
Other investments				
Balance at the beginning of the year	**84**	**42**	136	49
Value of new investments/contributions	**5**	**7**	101	2
Value of withdrawals/disinvestments	**(28)**	**(12)**	(123)	(4)
Fees and charges	**—**	**—**	(1)	—
Investment return	**10**	**5**	28	7
Discontinuance of related party relationships and other	**(45)**	**—**	(57)	(12)
Balance at the end of the year	**26**	**42**	84	42

Insurance premiums paid and claims received

Key management personnel paid insurance premiums of R0,4 million (2009: R0,4 million). Key management personnel received claims of R0,28 million (2009: R0,03 million).

	Bank 2010 Rm	Bank 2009 Rm
43. Related parties *(continued)*		
43.2 Key management personnel compensation		
Executive directors		
Post-employment benefit contributions	**1**	1
Salaries and other short-term benefits	**27**	28
Share-based payments	**17**	26
Termination benefits	**10**	22
	55	77
Other key management personnel		
Post-employment benefit contributions	**1**	1
Salaries and other short-term benefits	**43**	19
Share-based payments	**33**	17
Termination benefits	**—**	9
	77	46
43.3 Balances and transactions with the ultimate parent company		
Balances		
Loans and advances	**15 586**	10 433
Derivative assets	**9 144**	6 936
Nominal value of derivative assets	**493 402**	341 406
Other assets	**552**	196
Investment securities	**434**	369
Deposits	**(6 082)**	(8 246)
Derivative liabilities	**(9 006)**	(8 450)
Nominal value of derivative liabilities	**(375 467)**	(318 237)
Other liabilities	**(267)**	(127)
Debt securities in issue	**—**	(15)
Transactions		
Interest received	**(80)**	(215)
Interest paid	**36**	54
Net fee and commission income	**(15)**	—
Gains and losses from banking and trading activities	**1 646**	2 712
Other operating income	**(42)**	(37)
Operating expenditure	**27**	252

All transactions entered into are on the same commercial terms and conditions as in the normal course of business.

	Bank 2010 Rm	Bank 2009 Rm
43.4 Balances and transactions with the parent company		
Balances		
Loans and advances	**174**	205
Other liabilities	**(139)**	(637)
Transactions		
Dividends paid	**3 420**	3 271
Interest paid	**10**	—
Interest received	**—**	(8)
43.5 Balances with fellow subsidiaries		
Guarantees issued	**710**	—

Notes to the consolidated financial statements

For the year ended 31 December

43. Related parties *(continued)*

43.6 Subsidiaries

Details of the material subsidiaries are as follows:

			Bank					
			Issued capital	Direct/ Indirect holding	Issued capital	Direct/ Indirect holding	Shares at book value	
Name	Nature of business	Country of incorporation	2010 Rm	2010 %	2009 Rm	2009 %	2010 Rm	2009 Rm
Absa Capital Representative Office Nigeria Limited[1]	Representative office to facilitate trade and obtain market share in Nigeria.	Nigeria	**0**	**100**	—	—	**0**	—
Absa Debtor Finance Company (Proprietary) Limited	Provides debtor financing to business customers.	South Africa	**0**	**100**	0	100	**0**	0
Abseq Properties (Proprietary) Limited[2]	Property development and investment company.	South Africa	**336**	**85**	336	85	**301**	301
Ambit Management Services (Proprietary) Limited	Property management company.	South Africa	**0**	**100**	0	100	**38**	38
Ngwenya River Estate (Proprietary) Limited	Residential property development.	South Africa	**0**	**100**	0	100	**131**	131
Sanlam Home Loans (Proprietary) Limited[3]	Offers residential property related ownership solutions to individuals.	South Africa	**0**	**100**	—	—	**—**	—
The Ballito Junction Development (Proprietary) Limited	Retail property development company.	South Africa	**35**	**100**	35	100	**161**	161
Special purpose entities								
Absa Property Equity Fund[4]	Unit trust.	South Africa	**—**	**—**	n/a	75	**—**	160
Asset Backed Collateralised Securities (Proprietary) Limited (Abacas)	SPE for Absa Capital division.	South Africa	**0**	**n/a**	0	n/a	**n/a**	n/a
Commissioner Street No. 1 (Proprietary) Limited[1]	SPE for Absa Capital division with asset backed securities.	South Africa	**0**	**n/a**	—	—	**n/a**	—
IFU Property Fund	Unit trust.	United Kingdom	**n/a**	**100**	n/a	100	**126**	126

	2010 Rm	2009 Rm
Subsidiaries' aggregate profits and losses after tax[5]	**263**	150

Notes

[1] *The entity was incorporated during the current year.*

[2] *Previously disclosed as an associate designated at fair value through profit or loss, became a subsidiary during 2009.*

[3] *Previously disclosed as an equity-accounted joint venture, became a subsidiary during 2010.*

[4] *The entity was disposed of during the current year.*

[5] *Profit attributable to subsidiary equity holders of the Bank excluding share of post-tax results of associates and joint ventures as well as the Company's results.*

43. Related parties *(continued)*

43.7 Associates, joint ventures and retirement benefit fund

The Bank 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 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		
	2010		
	Associates and joint ventures Rm	Retirement benefit fund Rm	Total Rm
Value of Absa Group Pension Fund investments managed by the Bank	—	7 193	7 193
Value of Absa Group Limited shares held by the Absa Group Pension Fund	—	116	116
Value of Absa Bank Limited securities held by the Absa Group Pension Fund	—	1 582	1 582
Statement of financial position			
Loans and advances	7 275	—	7 275
Other assets	17	—	17
Deposits	(0)	(30)	(30)
Derivative transactions	4	—	4
Other liabilities	(47)	—	(47)
Statement of comprehensive income			
Interest and similar income	(617)	—	(617)
Interest expense and similar charges	8	1	9
Fees received	(106)	(17)	(123)
Fees paid	173	—	173
Current service costs	—	525	525

	2009		
	Associates and joint ventures Rm	Retirement benefit fund Rm	Total Rm
Value of Absa Group Pension Fund investments managed by the Bank	—	7 047	7 047
Value of Absa Group Limited shares held by the Absa Group Pension Fund	—	69	69
Value of Absa Bank Limited securities held by the Absa Group Pension Fund	—	1 444	1 444
Statement of financial position			
Loans and advances	8 411	—	8 411
Other assets	2 218	—	2 218
Deposits	(177)	(45)	(222)
Other liabilities	(127)	—	(127)
Statement of comprehensive income			
Interest and similar income	(1 026)	—	(1 026)
Interest expense and similar charges	41	1	42
Fees received	(117)	(17)	(134)
Fees paid	4	—	4
Current service costs	—	542	542

Notes to the consolidated financial statements

For the year ended 31 December

43. Related parties *(continued)*

43.7 Associates, joint ventures and retirement benefit fund *(continued)*

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

Name	Nature of business	Country of incorporation
Equity-accounted associates		
Blue Financial Services Limited[1, 2]	Financial services provider, specifically micro-finance in Africa.	South Africa
Pinnacle Point Group Limited[1, 3]	Property development.	South Africa
Sekunjalo Investments Limited[1]	Investment holding company.	South Africa
Equity-accounted joint ventures		
FFS Finance South Africa (Proprietary) Limited	Provides financing solutions to Ford Motor Company customers.	South Africa
Integrated Processing Solutions (Proprietary) Limited	Joint venture with Standard Bank Group Limited involved in cheque processing activities.	South Africa
Kilkishen Investments (Proprietary) Limited[1]	Property development.	South Africa
MAN Financial Services (S.A.) (Proprietary) Limited	Joint venture with MAN Financial Services GmbH for financing of trucks and buses.	South Africa
Meadowood Investments 8 (Proprietary) Limited[1]	SPE.	South Africa
Sanlam Home Loans (Proprietary) Limited[4]	Manages and administers the granting of loans as well as secure funding for these loans.	South Africa
Stand 1135 Houghton (Proprietary) Limited[1]	Property development.	South Africa
Virgin Money South Africa (Proprietary) Limited[3]	Joint venture with Virgin Money Group Limited to provide retail financial services products under the Virgin brand.	South Africa South Africa
Associates and joint ventures designated at fair value through profit or loss		
Absa Corob Trust Joint Venture[1]	Property investment.	South Africa
African Spirit Trading 309 (Proprietary) Limited[1]	Property development.	South Africa
Agrista (Proprietary) Limited[1, 3]	Agriculture consulting.	South Africa
Amrichprop 49 Properties (Proprietary) Limited[1, 5]	Property development.	South Africa
Barrie Island Property Investments (Proprietary) Limited[1]	Investment in mixed use property.	South Africa
Birchacres Mall (Proprietary) Limited (previously Tembisa Mall (Proprietary) Limited)[1]	Property development.	South Africa
Cherry Vanilla Investments (Proprietary) Limited	Retirement village development.	South Africa
Culemborg Investment Properties (Proprietary) Limited[1]	Residential property development.	South Africa
Mall on 14th Avenue (Proprietary) Limited[1]	Property development.	South Africa
Maxcity Homes (Proprietary) Limited[1]	Property development.	South Africa
Maxcity Properties (Proprietary) Limited[1,3]	Investment in mixed use property.	South Africa
Mogale City Mall (Proprietary) Limited[1]	Investment in commercial property.	South Africa
Northern Lights Trading 197 (Proprietary) Limited[1]	Investment in commercial property.	South Africa
Pacific Heights Investments 196 (Proprietary) Limited[1]	Property development.	South Africa
Palm Hill Property Investments (Proprietary) Limited[1, 3]	Property development.	South Africa
Parsons Vlei Development (Proprietary) Limited[1]	Investment in residential property.	South Africa
Persistent Properties (Proprietary) Limited[1]	Investment in residential property.	South Africa
Retail Africa Wingspan Investments (Proprietary) Limited[1]	Property fund.	South Africa
Royal Bafokeng Nations Administration (Proprietary) Limited[6]	Consulting services.	South Africa
Somerset West Autopark (Proprietary) Limited[1]	Investment in auto dealers and fitment centres.	South Africa
Sovereign Seekers (Proprietary) Limited[1, 6]	Oil and gas.	South Africa
Supreme Cylinders (Proprietary) Limited[1, 6]	Engineering.	South Africa
The Racing Investment Trust[3]	Property development.	South Africa
Tropical Mushrooms (Proprietary) Limited[1, 6]	Agriculture consulting.	South Africa

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]*Transferred to investment securities during the year.*

[3]*Disposed of during the year.*

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

[5]*Acquired during the year.*

[6]*Transferred from investment securities during the year.*

43. Related parties *(continued)*

43.7 Associates, joint ventures and retirement benefit fund *(continued)*

	Bank					
	2010					
Name	Carrying value Rm	Total assets[1] Rm	Total liabilities[1] Rm	Equity-accounted earnings Rm	Loans to entities Rm	Ownership %
Equity-accounted associates						
Blue Financial Services Limited	—	—	—	—	—	7
Sekunjalo Investments Limited	41	728	(324)	2	—	26
Equity-accounted joint ventures						
FFS Finance South Africa (Proprietary) Limited	259	8 025	(7 508)	1	5	50
Integrated Processing Solutions (Proprietary) Limited	23	115	(39)	4	—	50
Kilkishen Investments (Proprietary) Limited	33	108	(52)	2	—	50
MAN Financial Services (S.A.) (Proprietary) Limited	41	1 925	(1 842)	(15)	1	50
Meadowood Investments 8 (Proprietary) Limited	0	550	(742)	—	0	50
Stand 1135 Houghton (Proprietary) Limited	9	19	(10)	1	—	50
Virgin Money South Africa (Proprietary) Limited	—	—	—	(3)	—	—

Note

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

Notes to the consolidated financial statements

For the year ended 31 December

43. Related parties *(continued)*

43.7 Associates, joint ventures and retirement benefit fund *(continued)*

	Bank					
	2010					
Name	Carrying value Rm	Total assets[1] Rm	Total liabilities[1] 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]	n/a	0	(0)	n/a	—	50
African Spirit Trading 309 (Proprietary) Limited[1]	n/a	0	(83)	n/a	83	50
Agrista (Proprietary) Limited[1,2]	n/a	—	—	n/a	—	47
Amrichprop 49 Properties (Proprietary) Limited[1,3]	n/a	52	(0)	n/a	—	50
Barrie Island Property Investments (Proprietary) Limited[1]	n/a	46	(47)	n/a	—	40
Birchacres Mall (Proprietary) Limited[1]	n/a	180	(185)	n/a	—	50
Cherry Vanilla Investments (Proprietary) Limited	n/a	83	(29)	n/a	—	30
Culemborg Investment Properties (Proprietary) Limited[1]	n/a	262	(203)	n/a	118	50
Mall on 14th Avenue (Proprietary) Limited[1]	n/a	0	(0)	n/a	—	30
Maxcity Homes (Proprietary) Limited[1]	n/a	0	(229)	n/a	229	50
Maxcity Properties (Proprietary) Limited[1,2]	n/a	—	—	n/a	—	40
Mogale City Mall (Proprietary) Limited[1]	n/a	0	(0)	n/a	—	30
Northern Lights Trading 197 (Proprietary) Limited[1]	n/a	240	(99)	n/a	—	50
Pacific Heights Investments 196 (Proprietary) Limited[1]	n/a	348	(204)	n/a	—	50
Palm Hill Property Investments (Proprietary) Limited[1,2]	n/a	0	(0)	n/a	(0)	40
Parsons Vlei Development (Proprietary) Limited[1]	n/a	140	(202)	n/a	132	25
Persistent Properties (Proprietary) Limited[1]	n/a	36	(37)	n/a	20	50
Retail Africa Wingspan Investments (Proprietary) Limited[1]	n/a	571	(434)	n/a	—	30
Royal Bafokeng Nations Administration (Proprietary) Limited[4]	n/a	34	(16)	n/a	—	40
Somerset West Autopark (Proprietary) Limited[1]	n/a	87	(82)	n/a	23	33
Sovereign Seekers (Proprietary) Limited[1,4]	n/a	4	(4)	n/a	—	24
Supreme Cylinders (Proprietary) Limited[1,4]	n/a	3	(4)	n/a	—	25
The Racing Investment Trust	n/a	0	(0)	n/a	—	20
Tropical Mushroom (Proprietary) Limited[1,4]	n/a	10	(10)	n/a	—	49

Notes

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

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

[3]*Loans to entities of R83 million relates to Menlyn Maine Investment Holdings (Proprietary) Limited, which is an associate of African Spirit Trading 309 (Proprietary) Limited.*

[4]*Acquired during the year.*

43. Related parties *(continued)*

43.7 Associates, joint ventures and retirement benefit fund *(continued)*

	Bank 2009					
Name	Carrying value Rm	Total assets[1] Rm	Total liabi-lities[1] Rm	Equity-accounted earnings Rm	Loans to entities Rm	Owner-ship %
Equity-accounted associates						
Ambit Properties Limited[2]	—	—	—	4	—	—
Blue Financial Services Limited[3, 4]	58	2 459	(1 552)	—	—	20
Pinnacle Point Group Limited[3]	—	1 685	(970)	—	—	23
Sekunjalo Investments Limited[3]	41	723	(331)	(13)	—	26
Unitrans Finance (Proprietary) Limited[5]	0	0	(0)	—	—	35
Equity-accounted joint ventures						
FFS Finance South Africa (Proprietary) Limited	258	8 337	(7 820)	(41)	4 619	50
Integrated Processing Solutions (Proprietary) Limited[5]	19	85	(33)	8	—	50
Kilkishen Investments (Proprietary) Limited[5]	32	107	(52)	(0)	—	50
MAN Financial Services (S.A.) (Proprietary) Limited	57	2 065	(1 952)	0	1 181	50
Meadowood Investments 8 (Proprietary) Limited	0	513	(722)	—	356	50
Sanlam Home Loans (Proprietary) Limited	—	4 978	(5 006)	—	1 569	50
Stand 1135 Houghton (Proprietary) Limited[5]	8	20	(10)	(0)	—	50
Virgin Money South Africa (Proprietary) Limited	0	30	(106)	(8)	0	50

Notes

[1]*The summary financial information includes 100% of the equity-accounted investees' total assets and total liabilities.*
[2]*Disposed of during the year.*
[3]*Impaired during the year.*
[4]*Transferred from investment securities during the year.*
[5]*Acquired during the year.*

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43. Related parties *(continued)*

43.7 Associates, joint ventures and retirement benefit fund *(continued)*

Name	Carrying value Rm	Total assets[1] Rm	Total liabi-lities[1] Rm	Equity-accounted earnings Rm	Loans (from)/to entities Rm	Owner-ship %
	Bank 2009					
Associates and joint ventures designated at fair value through profit or loss						
Absa Corob Trust Joint Venture	n/a	10	—	n/a	—	50
African Spirit Trading 309 (Proprietary) Limited[2]	n/a	695	(362)	n/a	79	50
Agrista (Proprietary) Limited	n/a	—	—	n/a	—	47
Barrie Island Property Investments (Proprietary) Limited	n/a	42	(45)	n/a	—	40
Birchacres Mall (Proprietary) Limited	n/a	0	(0)	n/a	—	50
Cherry Vanilla Investments (Proprietary) Limited	n/a	150	(49)	n/a	22	30
Culemborg Investment Properties (Proprietary) Limited	n/a	273	(193)	n/a	120	50
Mall on 14th Avenue (Proprietary) Limited	n/a	181	(157)	n/a	—	30
Maxcity Homes (Proprietary) Limited	n/a	52	(18)	n/a	—	50
Maxcity Properties (Proprietary) Limited	n/a	125	(248)	n/a	212	40
Mogale City Mall (Proprietary) Limited	n/a	95	(39)	n/a	—	30
Northern Lights Trading 197 (Proprietary) Limited	n/a	230	(86)	n/a	—	50
Pacific Heights Investments 196 (Proprietary) Limited	n/a	328	(182)	n/a	—	50
Palm Hill Property Investments (Proprietary) Limited	n/a	41	(21)	n/a	(3)	40
Parsons Vlei Development (Proprietary) Limited	n/a	176	(183)	n/a	120	25
Persistent Properties (Proprietary) Limited	n/a	26	(33)	n/a	19	50
Retail Africa Wingspan Investments (Proprietary) Limited	n/a	2 666	(2 107)	n/a	283	30
Somerset West Autopark (Proprietary) Limited	n/a	71	(31)	n/a	18	33
The Racing Investment Trust	n/a	77	(26)	n/a	23	20

Notes

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

[2] *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.*

	Bank 2010 Rm	Bank 2009 Rm
44. Assets under management and administration		
Other	—	959
Portfolio management	**4 779**	2 917
Unit trusts	**119**	122
	4 898	3 998

45. Financial guarantee contracts

Financial guarantee contracts	**599**	1 007

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.

46. Commitments

Authorised capital expenditure		
Contracted but not provided for	**882**	728

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.

Operating lease payments due		
No later than one year	**1 029**	1 150
Later than one year and no later than five years	**1 965**	2 132
Later than five years	**386**	307
	3 380	3 589

The operating lease commitments comprise a number of separate operating leases in relation to property 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.

47. Contingencies

Guarantees	**11 052**	9 829
Irrevocable debt facilities	**46 348**	54 346
Irrevocable equity facilities	**750**	—
Letters of credit	**4 653**	4 581
Other contingencies	**43**	5
	62 846	68 761

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 to proceedings against it during the year, and as at the reporting date the following cases need further disclosure:

» the Bank received a claim for R201 million from the curators of the Ovation Group (OG) for allegedly opening an incorrectly designated bank account for a company in the OG, which account was later used for fraudulent purposes. The basis of the claim is that the Bank owed a duty of care, both in opening and monitoring the account, to all the companies in the OG. The curators wish to amend the particulars of claim and reduce the amount claimed by R70 million to R129,5 million. The Bank is opposing the amendment on the basis that the claim does not sustain a cause of action.

There are a number of other legal or potential claims against the Bank, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or a group basis. Provision is made for all liabilities which are expected to materialise.

Notes to the consolidated financial statements

For the year ended 31 December

47. Contingencies *(continued)*

Regulatory matters

The scale of regulatory change remains challenging and the global financial crisis is resulting in a significant tightening of regulation and changes to regulatory structures globally, especially for companies that are deemed to be of systemic importance. Concurrently, there is continuing political and regulatory scrutiny of the operation of the banking and consumer credit industries globally which, in some cases, is leading to increased regulation. The nature and impact of future changes in the legal framework, policies and regulatory action cannot currently be fully predicted and are beyond the Bank's control, but especially in the area of banking regulation, are likely to have an impact on the Bank's businesses and earnings.

The Bank is continuously evaluating its compliance programmes and controls in general. As a consequence of these compliance programmes and controls, including monitoring and review activities, the Bank has also adopted appropriate remedial and/or mitigating steps, where necessary or advisable, and made disclosures on material findings as and when appropriate.

	Bank	
	2010 Rm	2009 Rm
48. Cash and cash equivalents		
Cash, cash balances and balances with central banks	**4 431**	4 543
Loans and advances to banks	**342**	860
	4 773	5 403

49. Share-based payments

During the year, R44 million (2009: R115 million) and R236 million (2009: R96 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 33):

	Bank 2010 Rm	Bank 2009 Rm
Equity-settled arrangements:		
Absa Group Limited Executive Share Award Scheme	**54**	75
Absa Group Limited Performance Share Plan	**(21)**	21
Absa Group Limited Share Incentive Scheme	**11**	19
Cash-settled arrangements:		
Absa Group Limited Deferred Award Plan[1]	**153**	—
Absa Group Limited Phantom Executive Share Award Scheme	**(9)**	41
Absa Group Limited Phantom Joiners Share Award Plan	**70**	47
Absa Group Limited Phantom Performance Share Plan	**—**	8
Absa Group Limited Retention Plan[1]	**22**	—
	280	211
Total carrying amount of liabilities for cash-settled arrangements (refer to note 19)	**286**	140

Note

[1] *The plan was implemented during the current year.*

The intrinsic value of the liability reflects the difference between the fair value of the options vested as at the reporting date and the option exercise price and amounts to R16 million (2009: R5 million).

49.1 Absa Group Limited Share Incentive Scheme

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.

49. Share-based payments *(continued)*

49.1 Absa Group Limited Share Incentive Scheme *(continued)*

The number and weighted average exercise prices of share options are as follows:

	Bank	
	2010	
	Number of options '000	Weighted exercise price R
Outstanding at the beginning of the year	**5 164**	**76,82**
Exercised during the year	**(2 396)**	**76,85**
Forfeited during the year	**(147)**	**86,82**
Transfers to Group subsidiaries	**(19)**	**—**
Outstanding at the end of the year	**2 602**	**76,13**
Of which are exercisable	**2 548**	**75,24**
	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

Options exercised during the year resulted in 2 396 079 (2009: 3 219 101) shares being allocated at an average exercise price of R76,85 (2009: R65,29) each. The related weighted average share price at the time of exercise was R133,90 (2009: R115,98).

Share options outstanding at the reporting date in terms of the Share Incentive Trust have the following weighted average remaining contractual lives and exercise prices:

	Bank			
	2010			
Exercise price ranges (R)	Average option exercise price R	Weighted average contractual remaining life Years	Weighted average fair value R	Number of options out-standing
28,73 – 37,43	**37,43**	**0,47**	**14,23**	**107 500**
25,16 – 35,97	**33,58**	**1,46**	**11,36**	**153 611**
31,99 – 35,01	**35,01**	**2,43**	**12,02**	**188 900**
44,36 – 68,93	**49,27**	**3,47**	**30,72**	**929 567**
72,36 – 94,63	**90,63**	**4,62**	**30,27**	**1 059 761**
100,30 – 113,75	**103,19**	**5,38**	**45,36**	**162 502**

Notes to the consolidated financial statements

For the year ended 31 December

49. Share-based payments *(continued)*

49.1 Absa Group Limited Share Incentive Trust Scheme *(continued)*

	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 – 27,40	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

The following shares and options are available for allocation by Absa Group Limited:

	2010	
	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	**(0,5)**	**(3 236)**
Balance of shares and options available	**9,5**	**68 585**

	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

49. Share-based payments *(continued)*

49.2 Absa Group Limited Employee Share Ownership Administrative Trust

As of the implementation date (1 July 2004), all employees of South African wholly owned subsidiaries of Absa Group Limited (excluding executive directors of Absa Group Limited and Absa Bank Limited) were eligible to participate in this one-off equity-settled share-based payment scheme. Each employee who elected to participate was issued and allotted 200 compulsory redeemable cumulative option-holding preference shares against a receipt of the R400,00 subscription price. A maximum of 7 315 200 preference shares were available for allocation to the trust.

On 1 July 2004, 6 085 200 preference shares were issued. The preference shares received a dividend calculated on the par value of the preference shares at a rate of 72% of the prime overdraft rate. These dividends were compounded and paid semi-annually in arrear on 30 September and 31 March each year. Absa Group Limited redeemed the preference shares on exercise of the options by the employee or on forfeiture of the options on the final option exercise date. Options vested after three years from the date of issue and were forfeited after five years from the date of issue. Options could be exercised on 1 March, 1 June, 1 September or 1 December each year. Exercise could occur in lots of 100 only and on payment of the option strike price, which would 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 were as follows:

	Bank		
		Number of options	
	Weighted average exercise price R	**2010 ’000**	2009 ’000
Outstanding at the beginning of the year	48 – 69	**—**	473
Exercised during the year	67,19	**—**	(454)
Forfeited during the year	48 – 69	**—**	(19)
Outstanding at the end of the year	48 – 69	**—**	—
Of which are exercisable	48 – 69	**—**	—

49.3 Absa Group Limited Phantom Performance Share Plan (Phantom PSP)

The Phantom PSP is a cash-settled plan and payments made to participants in respect of their awards are in the form of cash. The Phantom PSP awards (and any associated notional dividend phantom awards) 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 Absa Group Limited 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.

In the current year the outstanding awards failed to meet the minimum performance conditions and therefore have been lapsed in total.

	Bank	
	Number of awards	
	2010 ’000	2009 ’000
Outstanding at the beginning of the year	**1 095**	2 070
Exercised during the year	**—**	(928)
Forfeited during the year	**(1 095)**	(33)
Transfer to Group subsidiaries	**—**	(14)
Outstanding at the end of the year	**—**	1 095

There are no phantom awards outstanding at the reporting date. The phantom awards outstanding at the previous reporting date had no exercise price and a weighted average contractual life of 0,2 years.

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49. Share-based payments *(continued)*

49.4 Absa Group Limited Executive Share Award Scheme (ESAS)

The ESAS is an equity-settled share-based payment arrangement, where the participant's notional bonus comprises a number of restricted nil-cost options, based on the allocation price of ordinary shares. There is an initial three-year vesting period, after which, the participant will receive their initial allocation as well as 20% matched options. If the bonus options remain 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 into the ESAS. Employees also had the option of utilising more of their bonus 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	
	2010 '000	2009 '000
Outstanding at the beginning of the year	**2 109**	990
Forfeited during the year	**(100)**	(155)
Granted during the year	**—**	1 274
Outstanding at the end of the year	**2 009**	2 109

The options outstanding at the reporting date have no exercise price and a weighted average contractual life of 2,8 years (2009: 3,8 years). None of these options were exercisable at the reporting date.

Fair value assumptions of share options granted during the previous year

The fair value of the ESAS options at grant date is based on the share price at grant date. The Bank considers adjustments to reflect expectations for options that might be forfeited before the shares vest.

For purposes of determining the expected life and number of options to vest, historical exercise and forfeiture patterns were used.

49.5 Absa Group Limited Phantom Joiners Share Award Plan (JSAP)

The JSAP is a cash-settled share-based payment arrangement that enables 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 awards. 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.

	Bank Number of awards	
	2010 '000	2009 '000
Outstanding at the beginning of the year	**879**	914
Exercised during the year	**(249)**	(234)
Forfeited during the year	**(72)**	(75)
Granted during the year	**581**	274
Outstanding at the end of the year	**1 139**	879

The awards outstanding at the reporting date have no exercise price and a weighted average contractual life of 2,5 years (2009: 2,5 years).

As the terms and conditions of this share scheme dictate that awards be settled immediately on vesting, at any given time there are no awards which have vested but have not yet been settled.

Fair value assumptions of phantom share awards 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 phantom awards that might be forfeited before the awards 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 awards.

49. Share-based payments *(continued)*

49.6 Absa Group Limited Phantom Executive Share Award Scheme (Phantom ESAS)

The Phantom ESAS is a cash-settled share-based payment arrangement, where the participant's notional bonus comprises a number of restricted nil-cost phantom awards, based on the allocation price of Absa Group Limited 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 awards. If the bonus award remains in the Phantom ESAS for another two years, the participant receives an additional 10% bonus phantom awards. Dividends in the form of cash, are paid to participants on settlement of the phantom awards as if the awards were held from inception. The number of dividend phantom awards 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 for voluntary phantom ESAS awards.

The following number of initial phantom awards allocated in terms of the scheme are eligible for the 20% and/or 10% matched phantom awards:

	Bank Number of awards	
	2010 '000	2009 '000
Outstanding at the beginning of the year	**438**	537
Exercised during the year	**(382)**	(111)
Forfeited during the year	**(33)**	(13)
Granted during the year	**124**	25
Outstanding at the end of the year	**147**	438
Of which are exercisable	**108**	38

The phantom awards outstanding at the reporting date have no exercise price and a weighted average contractual life of 2,9 years (2009: 2,1 years).

Fair value assumptions of share awards 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 phantom awards that might be forfeited before the awards 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 awards.

49.7 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 options 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 options will vest after three years to the extent that the performance conditions are satisfied. These options are forfeited in total if the Absa Group Limited's performance fails to meet the minimum performance criteria.

	Bank Number of options	
	2010 '000	2009 '000
Outstanding at the beginning of the year	**3 145**	1 888
Forfeited during the year	**(177)**	(167)
Granted during the year	**—**	1 424
Outstanding at the end of the year	**2 968**	3 145

The options outstanding at the reporting date have no exercise price and a weighted average contractual life of 0,9 years (2009: 1,8 years). None of these options were exercisable at the reporting date.

Fair value assumptions of share options granted during the current and previous year

The fair value of the PSP options 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 options vest. For purposes of determining the expected life and number of options to vest, historical exercise and forfeiture patterns were used.

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49. Share-based payments *(continued)*

49.8 Absa Group Limited Deferred Award Plan (DAP)

The DAP is a cash-settled share-based payment arrangement. The DAP awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest in equal tranches after one, two and three years, with each tranche subject to its own independent non-market related performance condition. The amount that is paid to the participants is equal to the market value of a number of Absa Group Limited's ordinary shares, as determined on the vesting date, to the extent that the non-market related conditions attached to the awards are met. If Absa Group Limited fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total.

	Bank Number of awards	
	2010 '000	2009 '000
Outstanding at the beginning of the year	**—**	—
Granted during the year	**2 474**	—
Forfeited during the year	**(137)**	—
Outstanding at the end of the year	**2 337**	—

The phantom awards outstanding have no exercise price and a weighted average contractual life of 1,7 years. As the terms and conditions of this share scheme dictate that shares be settled immediately on vesting, at any given time there are no awards which have vested but have not yet been settled.

49.9 Absa Group Limited Retention Plan (RP)

The RP is a cash-settled share-based payment arrangement. The retention awards (and any associated notional dividends) 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 Absa Group Limited's ordinary shares, as determined after a three-year vesting period.

	Bank Number of awards	
	2010 '000	2009 '000
Outstanding at the beginning of the year	**—**	—
Granted during the year	**560**	—
Forfeited during the year	**(17)**	—
Outstanding at the end of the year	**543**	—

The phantom awards outstanding have no exercise price and a weighted average contractual life of 2,1 years. As the terms and conditions of this share scheme dictate that awards be settled immediately on vesting, at any given time there are no awards which have vested but have not yet been settled.

50. Acquisitions and disposals of businesses

50.1 Acquisitions of businesses during the current year

50.1.1 On 30 June 2010, the VMSA joint venture arrangement was terminated. This was based on a contractually agreed arrangement whereby, depending on the financial performance of the joint venture, its future existence will be determined. Due to the underperformance of the joint venture the arrangement was terminated and the Bank acquired the underlying business. The termination resulted in the Bank selling its 50% interest in VMSA for R1, while acquiring VMSA's credit and home loan business for R1. VMSA's credit card and home loan business contributed a net profit before tax of R40 million and revenue of R57 million to the Bank for the period from 30 June 2010 to 31 December 2010. If the acquisition occurred on 1 January 2010, the Bank's revenue would have been R116 million higher and the net profit before tax for the year would have been R21 million higher.

50. Acquisitions and disposals of businesses *(continued)*

50.1 Acquisitions of businesses during the current year *(continued)*

50.1.1 *(continued)*

Details of the net assets acquired and gain on bargain purchase are as follows:	Bank 2010 Fair value recognised on acquisition Rm
Intangible assets	3
Other liabilities	(1)
Deferred tax liabilities	(1)
Net assets acquired	**1**
Satisfied by:	
Fair value of net assets acquired	(1)
Gain on bargain purchase	**(1)**

This bargain purchase gain arose primarily due to the underperformance of the underlying VMSA credit card and home loan portfolio. No contingent liabilities were recognised as a result of the acquisition and no contingent consideration is payable. No identifiable assets were identified of which the fair values could not be reliably measured. No material receivables were acquired as part of the transaction.

50.1.2 The Bank previously had a 50% share in the preference shares of SHL, the holding company of three securitisation vehicles. The investment in SHL has previously been equity accounted as the Bank and Sanlam had joint control over SHL. On 1 August 2010, the Bank acquired the remaining 50% preference shares in SHL, which resulted in the Bank controlling and consolidating SHL. SHL contributed a net profit before tax of R39 million and revenue of R12 million to the Bank for the period from 1 August 2010 to 31 December 2010. If the acquisition occurred on 1 January 2010, the Bank's revenue would have been R84 million higher and the net profit before tax for the year would have been R70 million higher.

Details of the net assets acquired and gain on bargain purchase are as follows:	Bank 2010 Fair value recognised on acquisition Rm
Cash, cash balances and balances with central banks	409
Other assets	11
Loans and advances to customers	4 621
Other liabilities	(9)
Debt securities in issue	(3 687)
Shareholders' loans	(1 325)
Previously held interest	(10)
Net assets acquired	**10**
Satisfied by:	
Cash inflow on acquisition	(61)
Fair value of net assets acquired	(10)
Gain on bargain purchase	**(71)**

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50. Acquisitions and disposals of businesses *(continued)*

50.1 Acquisitions of businesses during the current year *(continued)*

50.1.2 *(continued)*

No goodwill resulted from the transaction and the excess of R71 million, together with the gain of R10 million recognised as a result of remeasuring the previously held interest to fair value was realised in the statement of comprehensive income in other operating income. No contingent liabilities were recognised as a result of the acquisition and no contingent consideration is payable. No identifiable assets were identified of which the fair values could not be reliably measured.

Subsequent to the acquisition the debt securities in issue were redeemed in full.

Mortgage loans with a fair value of R4 621 million were acquired as a result of the acquisition. The gross contractual capital amounts receivable were R4 685 million on acquisition date and an impairment provision of R64 million was carried against these loans on acquisition date.

The joint venture agreement was terminated due to the underperformance of the mortgage loan portfolio and consequently the Bank obtained full control of SHL. The underperformance of the mortgage loan portfolio gave rise to the gain on bargain purchase as the joint venture partner was willing to sell its 50% stake at below fair value of the underlying assets and liabilities.

	Bank 2010 Rm
Total cash and cash equivalents acquired	**470**

50.2 Acquisitions of businesses during the previous year

50.2.1 On 31 January 2009, the Bank acquired an additional 35,2% interest in Abseq Properties (Proprietary) Limited (Abseq) increasing its shareholding to 85%. Abseq was previously recognised as an associate designated at fair value through profit or loss. Abseq 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.

Details of the net assets acquired and goodwill are as follows:	Bank 2009 Fair value recognised on acquisition Rm
Other assets	36
Investments in associates and joint ventures	40
Investment properties	1 352
Deposits from banks	(8)
Deferred tax liabilities	(160)
Other liabilities	(860)
Previously held interest	(199)
Non-controlling 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. 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.

50. Acquisitions and disposals of businesses *(continued)*

50.2 Acquisitions during the previous year *(continued)*

50.2.2 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 net assets acquired and gain on bargain purchase are as follows:	Bank 2009 Fair value recognised on acquisition 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
Gain on bargain purchase	(150)
Net cash outflow due to acquisitions	166
Total cash and cash equivalents acquired	34

50.3 Disposal of businesses during the current year

50.3.1 Absa Property Equity Fund operated an SPE for the investment of community upliftment projects. This fund was previously consolidated under SIC-12 as the Bank held between 75% and 93% of units (depending on the total number of units in issue at a specific point in time) and were thereby exposed to the majority of risks and rewards of the fund.

Between January 2010 and August 2010 the Bank disposed of some of the units it owned to the extent that its effective holding decreased to below 50% of the units in issue, at which point the fund was deconsolidated due to the Bank no longer being exposed to the majority of the risks and rewards of the fund.

No gain or loss was recognised on deconsolidation of the fund due to the underlying assets being measured at fair value.

The remainder of the investment retained after deconsolidation was disposed during September 2010 and October 2010.

Details of the net assets disposed of are as follows:	**Bank** **2010** **Rm**
Cash, cash balances and balances with central banks	**22**
Investment securities	**136**
Net assets disposed	**158**
Satisfied by:	
Non-controlling interest	**(78)**
Fair value of interest retained	**(64)**
Consideration received	**16**
Cash and cash equivalent disposed	**(22)**
Net cash outflow on disposal	**(6)**

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51. Fair value of financial instruments

The table below summarises the carrying amounts and fair values of those financial instruments not held at fair value:

	Bank			
	2010		2009[1]	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Financial assets				
Balances with the SARB	12 912	12 912	10 983	10 983
Coins and bank notes	4 431	4 431	4 543	4 543
Cash, cash balances and balances with central banks (refer to note 2)	17 343	17 343	15 526	15 526
Loans and advances to banks (refer to note 4)	16 586	16 585	32 633	33 631
Other assets (refer to note 6)	11 169	11 169	5 889	5 889
Retail Banking	314 324	315 011	310 230	310 756
Cheque accounts	1 917	1 917	2 080	2 080
Credit cards	13 454	13 455	12 672	12 672
Instalment credit agreements	39 538	39 916	38 531	38 831
Loans to associates and joint ventures	4 827	4 827	6 187	6 187
Microloans	1 359	1 482	2 044	2 202
Mortgages	241 427	241 612	239 467	239 535
Other	20	20	65	65
Personal and term loans	11 782	11 782	9 184	9 184
Absa Capital	41 180	41 316	50 246	50 404
Absa Business Bank	119 091	119 465	120 275	120 541
Corporate	23 432	23 505	21 716	21 716
Large and Medium	73 126	73 356	73 543	73 690
Other	17 466	17 521	20 065	20 184
Small	5 067	5 083	4 951	4 951
Other	272	272	346	346
Loans and advances to customers – net of impairment (refer to note 8)	474 867	476 064	481 097	482 047
Loans to Absa Group companies (refer to note 10)	8 071	8 071	16 232	16 232
Total	528 036	529 232	551 377	553 325

Note

[1]*Comparatives have been reclassified, refer to note 1.23.*

51. Fair value of financial instruments *(continued)*

	Bank			
	2010		2009[1]	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Financial liabilities				
Deposits from banks (refer to note 17)	**16 241**	**16 242**	32 146	32 186
Other liabilities (refer to note 19)	**6 336**	**6 336**	7 778	7 778
Call deposits	**54 686**	**54 808**	61 980	61 981
Cheque account deposits	**106 884**	**106 884**	89 630	89 630
Credit card deposits	**1 830**	**1 830**	1 868	1 868
Fixed deposits	**103 397**	**103 821**	97 137	97 384
Foreign currency deposits	**7 942**	**7 942**	7 211	7 211
Notice deposits	**11 365**	**11 371**	10 293	10 296
Other deposits	**3 664**	**3 663**	6 019	6 019
Saving and transmission deposits	**66 021**	**66 021**	62 680	62 680
Deposits due to customers (refer to note 21)	**355 789**	**356 340**	336 818	337 069
Debt securities in issue (refer to note 22)	**153 708**	**154 488**	159 094	160 564
Loans from Absa Group companies (refer to note 23)	**—**	**—**	3 464	3 464
Borrowed funds (refer to note 24)	**7 440**	**8 109**	7 221	7 436
Total	**539 514**	**541 515**	546 521	548 497

Note

[1]*Comparatives have been reclassified, refer to note 1.23.*

52. Segment report

52.1 Segment report per geographical segment

	Bank		
	2010		
	South Africa Rm	Other foreign countries Rm	Total Rm
Net interest income – external	**21 217**	**111**	**21 328**
Non-interest income – external	**14 753**	**17**	**14 770**
Total assets	**675 957**	**4 966**	**680 923**

	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	667 425	6 349	673 774

Notes to the consolidated financial statements

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52. Segment report *(continued)*

52.2 Segment report per market segment

	Retail Banking		Absa Business Bank	
	2010 Rm	2009[1] Rm	**2010 Rm**	2009[1] Rm
Statement of comprehensive income				
Net interest income	**11 706**	11 271	**7 015**	6 819
Net interest income – external	**25 474**	30 480	**5 671**	6 523
Net interest income – internal	**(13 768)**	(19 209)	**1 344**	296
Impairment losses on loans and advances	**(4 446)**	(7 015)	**(1 023)**	(1 027)
Non-interest income	**9 462**	9 427	**4 228**	4 163
Non-interest income – external	**8 863**	8 978	**3 585**	3 735
Non-interest income – internal	**599**	449	**643**	428
Operating expenses	**(12 038)**	(10 926)	**(6 071)**	(5 296)
Depreciation and amortisation	**(325)**	(296)	**(20)**	(16)
Other operating expenses	**(11 713)**	(10 630)	**(6 051)**	(5 280)
Other impairments	**(25)**	(26)	**(1)**	(52)
Indirect taxation	**(176)**	(250)	**(59)**	(49)
Share of post-tax results of associates and joint ventures	**(2)**	(49)	**(11)**	4
Operating profit before income tax	**4 481**	2 432	**4 078**	4 562
Taxation expense	**(1 333)**	(536)	**(1 169)**	(1 364)
Profit for the year	**3 148**	1 896	**2 909**	3 198
Profit attributable to:				
Ordinary equity holder of the Bank	**3 148**	1 896	**2 903**	3 194
Preference equity holders of the Bank	**—**	—	**—**	—
Non-controlling interest	**—**	—	**6**	4
	3 148	1 896	**2 909**	3 198
Headline earnings	**3 034**	1 555	**2 898**	3 210

Note

[1] *Comparatives have been reclassified for the move of Absa Small Business from Retail Banking to Absa Business Bank.*

	Absa Capital		Other		Head office and inter-segment eliminations		Absa Bank	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm	**2010 Rm**	2009 Rm	**2010 Rm**	2009 Rm
	2 550	1 820	**(258)**	40	**231**	(62)	**21 244**	19 888
	(10 628)	(18 475)	**676**	940	**135**	(77)	**21 328**	19 391
	13 178	20 295	**(934)**	(900)	**96**	15	**(84)**	497
	(109)	(319)	**—**	1	**—**	(32)	**(5 578)**	(8 392)
	2 266	2 330	**(309)**	(424)	**(860)**	102	**14 787**	15 598
	3 074	2 007	**(291)**	(405)	**(461)**	832	**14 770**	15 147
	(808)	323	**(18)**	(19)	**(399)**	(730)	**17**	451
	(2 725)	(2 200)	**(84)**	(18)	**478**	805	**(20 440)**	(17 635)
	(103)	(146)	**(108)**	(85)	**(606)**	(571)	**(1 162)**	(1 114)
	(2 622)	(2 054)	**24**	67	**1 084**	1 376	**(19 278)**	(16 521)
	(66)	(1 371)	**(14)**	88	**(3)**	(75)	**(109)**	(1 436)
	(82)	(78)	**(81)**	(76)	**(233)**	(311)	**(631)**	(764)
	2	—	**—**	—	**3**	(5)	**(8)**	(50)
	1 836	182	**(746)**	(389)	**(384)**	422	**9 265**	7 209
	(529)	10	**362**	366	**162**	55	**(2 507)**	(1 469)
	1 307	192	**(384)**	(23)	**(222)**	477	**6 758**	5 740
	1 307	192	**(704)**	(444)	**(222)**	477	**6 432**	5 315
	—	—	**320**	421	**—**	—	**320**	421
	—	—	**—**	—	**—**	—	**6**	4
	1 307	192	**(384)**	(23)	**(222)**	477	**6 758**	5 740
	1 354	1 177	**(658)**	(516)	**(216)**	560	**6 412**	5 986

Notes to the consolidated financial statements

For the year ended 31 December

52. Segment report *(continued)*

52.2 Segment report per market segment

	Retail Banking		Absa Business Bank	
	2010 Rm	2009[1] Rm	**2010 Rm**	2009[1] Rm
Operating performance (%)				
Net interest margin on average interest-bearing assets[2]	**2,66**	2,79	**4,94**	4,79
Impairment losses on loans and advances as a percentage of average loans and advances to customers	**1,43**	2,23	**0,88**	0,86
Non-interest income as a percentage of total operating income	**44,7**	45,5	**37,6**	37,9
Top-line growth	**2**	2	**2**	—
Cost growth	**10**	(1)	**15**	(4)
Cost-to-income ratio	**56,9**	52,8	**54,0**	48,2
Cost-to-assets ratio	**2,6**	2,6	**3,9**	3,4
Statement of financial position as at 31 December (Rm)				
Loans and advances to customers	**314 324**	310 238	**120 727**	122 268
Investment securities	**0**	0	**2 226**	2 355
Other assets	**139 771**	124 052	**38 882**	34 934
Total assets	**454 095**	434 290	**161 835**	159 557
Deposits due to customers	**111 186**	106 094	**133 403**	124 077
Debt securities in issue	**—**	—	**—**	—
Other liabilities	**340 688**	326 495	**26 114**	32 943
Total liabilities	**451 874**	432 589	**159 517**	157 020
Financial performance (%)				
Return on average economic capital (unaudited)	**18,1**	8,9	**25,8**	26,9
Return on average assets	**0,66**	0,37	**1,89**	2,07
Other (unaudited)				
Banking customer base by segment (millions)	**10,6**	10,4	**0,5**	0,6
Attributable income from the rest of Africa (Rm)	**(36)**	33	**(30)**	20

Notes

[1] *Comparatives have been reclassified for the move of Absa Small Business from Retail Banking to Absa Business Bank. Also refer to note 1.23 for additional reclassifications.*

[2] *The Bank reassessed the criteria of certain internal loans during the year and re-aligned them to the definition of interest-bearing assets, resulting in the restatement of the comparative ratio of certain segments. The re-alignment did not affect the Bank consolidated ratio.*

	Absa Capital 2010 Rm	Absa Capital 2009[1] Rm	Other 2010 Rm	Other 2009 Rm	Head office and inter-segment eliminations 2010 Rm	Head office and inter-segment eliminations 2009 Rm	Absa Bank 2010 Rm	Absa Bank 2009[1] Rm
	n/a	n/a	n/a	n/a	n/a	n/a	3,69	3,52
	0,19	0,46	n/a	n/a	n/a	n/a	1,15	1,69
	47,1	56,2	n/a	n/a	n/a	n/a	41,0	44,0
	16	(20)	n/a	n/a	n/a	n/a	2	(3)
	24	(6)	n/a	n/a	n/a	n/a	16	(5)
	56,6	53,0	n/a	n/a	n/a	n/a	56,7	49,7
	0,7	0,5	n/a	n/a	n/a	n/a	3,1	2,5
	50 028	57 231	622	603	(113)	(135)	485 588	490 205
	10 156	13 733	—	—	524	761	12 906	16 849
	293 968	289 542	77 782	71 364	(367 974)	(353 172)	182 429	166 720
	354 152	360 506	78 404	71 967	(367 563)	(352 546)	680 923	673 774
	127 458	118 721	—	—	597	479	372 644	349 371
	148 061	156 534	14 465	13 254	—	—	162 526	169 788
	77 592	84 731	19 113	18 248	(370 384)	(355 220)	93 123	107 197
	353 111	359 986	33 578	31 502	(369 787)	(354 741)	628 293	626 356
	15,1	14,0	n/a	n/a	n/a	n/a	16,8	14,6
	0,37	0,28	n/a	n/a	n/a	n/a	0,94	0,84
	0,0	0,0	n/a	n/a	n/a	n/a	11,1	11,0
	70	10	—	24	—	—	4	87

Notes to the consolidated financial statements

For the year ended 31 December

52. Segment report *(continued)*

52.3 Retail Banking segment

	Home Loans		Vehicle and Asset Finance	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
Statement of comprehensive income				
Net interest income	**3 145**	2 822	**1 804**	1 882
Net interest income – external	**18 481**	22 738	**4 765**	5 769
Net interest income – internal	**(15 336)**	(19 916)	**(2 961)**	(3 887)
Impairment losses on loans and advances	**(2 196)**	(3 911)	**(937)**	(905)
Non-interest income	**335**	284	**369**	339
Non-interest income – external	**156**	102	**337**	316
Non-interest income – internal	**179**	182	**32**	23
Operating expenses	**(1 088)**	(1 004)	**(906)**	(842)
Other	**14**	(60)	**26**	(69)
Operating profit before income tax	**210**	(1 869)	**356**	405
Taxation expense	**(44)**	578	**(86)**	(140)
Profit for the year	**166**	(1 291)	**270**	265
Profit attributable to:				
Ordinary equity holder of the Bank	**166**	(1 291)	**270**	265
Headline earnings	**96**	(1 291)	**270**	265
Operating performance (%)				
Impairment losses on loans and advances as a percentage of average loans and advances to customers	**0,99**	1,77	**2,32**	2,04
Cost-to-income ratio	**31,3**	32,3	**41,7**	37,9
Statement of financial position (Rm) as at 31 December				
Loans and advances to customers	**221 602**	219 718	**44 247**	42 787
Total assets	**242 722**	238 013	**50 877**	48 943
Deposits due to customers	**—**	—	**9**	7
Total liabilities	**242 594**	238 775	**50 239**	48 342
Financial performance (%)				
Return on average economic capital (unaudited)	**1,3**	—	**8,4**	7,6

Notes

[1]*Personal Loans were previously disclosed as part of Retail Bank.*

[2]*Comparatives have been reclassified for the move of Absa Small Business from Retail Banking to Absa Business Bank.*

	Card		Personal Loans[1]		Retail Bank[1]		Total	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm	**2010 Rm**	2009[2] Rm	**2010**	2009[2] Rm
	1 539	1 464	**1 652**	1 538	**3 566**	3 565	**11 706**	11 271
	1 974	2 190	**2 313**	2 345	**(2 059)**	(2 562)	**25 474**	30 480
	(435)	(726)	**(661)**	(807)	**5 625**	6 127	**(13 768)**	(19 209)
	(295)	(877)	**(510)**	(1 005)	**(508)**	(317)	**(4 446)**	(7 015)
	1 685	1 609	**284**	215	**6 789**	6 980	**9 462**	9 427
	1 710	1 624	**234**	194	**6 426**	6 742	**8 863**	8 978
	(25)	(15)	**50**	21	**363**	238	**599**	449
	(1 113)	(1 039)	**(673)**	(711)	**(8 258)**	(7 330)	**(12 038)**	(10 926)
	(24)	(21)	**(9)**	(8)	**(210)**	(167)	**(203)**	(325)
	1 792	1 136	**744**	29	**1 379**	2 731	**4 481**	2 432
	(549)	(349)	**(229)**	(9)	**(425)**	(616)	**(1 333)**	(536)
	1 243	787	**515**	20	**954**	2 115	**3 148**	1 896
	1 243	787	**515**	20	**954**	2 115	**3 148**	1 896
	1 241	787	**515**	20	**912**	1 774	**3 034**	1 555
	2,36	7,11	**4,78**	10,45	**1,96**	1,18	**1,43**	2,23
	34,5	33,8	**34,8**	40,6	**79,7**	69,5	**56,9**	52,8
	13 453	11 872	**11 843**	9 697	**23 179**	26 164	**314 324**	310 238
	20 961	18 565	**12 887**	9 488	**126 648**	119 281	**454 095**	434 290
	1 826	1 711	**4**	—	**109 347**	104 376	**111 186**	106 094
	20 197	18 091	**12 578**	9 475	**126 266**	117 906	**451 874**	432 589
	52,7	27,3	**33,3**	1,3	**41,2**	59,8	**18,1**	8,9

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52. Segment report *(continued)*

52.4 Absa Business Bank segment

	2010 Rm	Excluding real estate investment portfolio 2010 Rm	2009[1] Rm	Excluding real estate investment portfolio 2009[1] Rm
Statement of comprehensive income				
Net interest income	**7 015**	**7 434**	6 819	7 240
Impairment losses on loans and advances	**(1 023)**	**(1 023)**	(1 027)	(1 027)
Non-interest income	**4 228**	**3 758**	4 163	3 469
Operating expenses	**(6 071)**	**(5 970)**	(5 296)	(5 152)
Other	**(71)**	**(74)**	(97)	(109)
Operating profit before income tax	**4 078**	**4 125**	4 562	4 421
Taxation expense	**(1 169)**	**(1 182)**	(1 364)	(1 322)
Profit for the year	**2 909**	**2 943**	3 198	3 099
Profit attributable to:				
Ordinary equity holder of the Bank	**2 903**	**2 937**	3 194	3 095
Non-controlling interest	**6**	**6**	4	4
	2 909	**2 943**	3 198	3 099
Headline earnings	**2 898**	**2 932**	3 210	2 997

	2010 Rm	2009[1, 2] Rm
Operating profit before income tax by business area		
Large	**1 305**	1 796
Medium	**1 059**	971
Small	**1 367**	1 311
Corporate	**394**	343
Real estate investment portfolio[3]	**(47)**	141
CPF	**23**	152
Absa Development Company (Devco)	**(70)**	(11)
	4 078	4 562
Statement of financial position as at 31 December		
Loans and advances to customers	**120 727**	122 268
Total assets	**161 835**	159 557
Deposits due to customers	**133 403**	124 077
Total liabilities	**159 517**	157 020

Notes

[1] *Comparatives have been reclassified for the move of Absa Small Business from Retail Banking to Absa Business Bank.*

[2] *Devco is now disclosed as part of the real estate portfolio together with the CPF equity portfolio.*

[3] *Operating profit before income tax includes realised and unrealised profits on listed and unlisted CPF equities.*

52. Segment report *(continued)*

52.5 Absa Capital segment

	2010 Rm	2009 Rm
Statement of comprehensive income		
Net interest income	**2 550**	1 820
Impairment losses on loans and advances	**(109)**	(319)
Non-interest income	**2 266**	2 330
Operating expenses	**(2 725)**	(2 200)
Other	**(146)**	(1 449)
Operating profit before income tax	**1 836**	182
Taxation expense	**(529)**	10
Profit for the year	**1 307**	192
Profit attributable to:		
Ordinary equity holder of the Bank	**1 307**	192
Headline earnings	**1 354**	1 177
Statement of financial position as at 31 December[1]		
Loans and advances to customers	**50 028**	57 231
Total assets	**354 152**	360 506
Deposits due to customers	**127 458**	118 721
Total liabilities	**353 111**	359 986

Note

[1]*Comparatives have been reclassified, refer to note 1.23 for additional information.*

53. 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 reporting date, the Bank did not have any compound financial instruments with multiple embedded derivatives in issue.

53.1 Derivatives held for trading

As part of the Bank's trading activities, it enters into derivative transactions in the normal course of business.

53.2 Derivatives held for hedging

As part of the Bank's hedging activities, it enters into derivative transactions which are designated 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 instruments 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.

Notes to the consolidated financial statements

For the year ended 31 December

53. Derivatives *(continued)*

53.2 Derivatives held for hedging *(continued)*

The Bank recognised the following gains and losses on hedging instruments and hedging items:

	Bank 2010 Rm	Bank 2009 Rm
Gains/(losses) on hedged items (assets) (refer to note 27)	**497**	(734)
(Losses)/gains on hedging instruments (assets) (refer to note 27)	**(369)**	690
(Losses)/gains on hedged items (liabilities) (refer to note 28)	**(504)**	410
Gains/(losses) on hedging instruments (liabilities) (refer to note 28)	**458**	(290)

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 2010 Rm	Bank 2009 Rm
Ineffectiveness (outside range) (refer to note 30)	**(15)**	(16)
Ineffectiveness (inside range)	**(107)**	(197)

Derivatives designated as cash flow hedges

The objective of cash flow hedges is to protect against changes in future 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 reporting date is as follows:

Bank

2010	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	**1 695**	**1 049**	**528**	**220**	**62**	**9**	**3 563**
Forecast payable cash flow	**(46)**	**(13)**	**(13)**	**(14)**	**(13)**	**(49)**	**(148)**
Net cash flow before taxation	**1 649**	**1 036**	**515**	**206**	**49**	**(40)**	**3 415**

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	863	555	317	110	22	2	1 869
Forecast payable cash flow	(31)	(9)	(7)	(10)	(10)	(56)	(123)
Net cash flow before taxation	832	546	310	100	12	(54)	1 746

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53. Derivatives *(continued)*

53.2 Derivatives held for hedging *(continued)*

The following net gains/(losses) on cash flow hedges were recycled from other comprehensive income to the profit and loss component of the statement of comprehensive income:

	Bank	
	2010 Rm	2009 Rm
Interest and similar income (refer to note 27)	**1 485**	244
Interest expense and similar charges (refer to note 28)	**644**	512
Gains and losses from banking and trading activities (refer to note 30)	**115**	(3)
	2 244	753

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	
	2010 Rm	2009 Rm
Ineffectiveness (outside range) (refer to note 30)	**115**	(3)
Ineffectiveness (inside range)	**(95)**	(65)

53.3 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 (i.e. fixed rate for floating rate) or a combination of all these (i.e. 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.

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53. Derivatives *(continued)*

53.3 Detailed breakdown of derivatives *(continued)*

	Bank					
	2010				2009	
	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 forwards	22 703	802	1 256	(454)	303 205	(348)
Currency swaps	310 804	(655)	11 023	(11 678)	10 232	(645)
Over-the-counter (OTC) foreign exchange options	18 469	298	630	(332)	17 042	206
OTC foreign exchange options purchased	9 517	630	630	—	8 975	525
OTC foreign exchange options written	8 952	(332)	—	(332)	8 067	(319)
Other OTC foreign exchange derivatives	—	—	—	—	27 278	(9)
Exchange traded derivatives	285 747	—	—	—	121 618	1
Eurodollar futures	285 718	—	—	—	—	—
Exchange traded futures	29	—	—	—	121 618	1
	637 723	445	12 909	(12 464)	479 375	(795)
Interest rate derivatives						
Forward rate agreements (FRAs)	1 316 018	(454)	1 301	(1 755)	1 217 162	116
Currency interest rate swaps	131 495	(616)	4 480	(5 096)	172 536	(596)
Swaps	32 175	(85)	3	(88)	38 014	49
Interest rate swaps	1 176 896	1 400	22 903	(21 503)	1 149 922	9
OTC options on FRAs and swaps	158 715	56	379	(323)	270 239	(40)
OTC options on FRAs and swaps purchased	88 010	379	379	—	108 261	276
OTC options on FRAs and swaps written	70 705	(323)	—	(323)	161 978	(316)
OTC bond option contracts	—	—	—	—	3 702	(1)
OTC bond options purchased	—	—	—	—	2 002	10
Other bond options written	—	—	—	—	1 700	(11)
Other OTC interest rate derivatives	296	33	74	(41)	643	31
Exchange traded derivatives	10 904	1	3	(2)	10 880	(2)
Exchange traded options on FRAs and swaps purchased	10 027	2	3	(1)	—	—
Exchange traded options on FRAs and swaps written	877	(1)	—	(1)	10 880	(2)
	2 826 499	335	29 143	(28 808)	2 863 098	(434)
Balance carried forward	3 464 222	780	42 052	(41 272)	3 342 473	(1 229)

53. Derivatives *(continued)*

53.3 Detailed breakdown of derivatives *(continued)*

	Bank					
	2010				2009	
	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	3 464 222	780	42 052	(41 272)	3 342 473	(1 229)
Equity derivatives						
OTC options purchased	11 606	422	422	—	13 785	1 436
OTC options written	16 062	(1 239)	—	(1 239)	18 409	(4 860)
Equity futures	5 936	(47)	188	(235)	230	(191)
Other OTC equity derivatives	45 519	(287)	136	(423)	10 782	(407)
OTC equity derivatives	79 123	(1 151)	746	(1 897)	43 206	(4 022)
Exchange traded derivatives	16 292	47	112	(65)	84 120	(1)
Exchange traded options purchased	7 942	112	112	—	23 444	—
Exchange traded options written	8 350	(65)	—	(65)	37 045	—
Exchange traded futures	—	—	—	—	23 631	(1)
Other exchange traded equity derivatives	—	—	—	—	148	(58)
	95 415	(1 104)	858	(1 962)	127 474	(4 081)
Commodity derivatives						
Agricultural forwards	104	6	12	(6)	5	—
OTC agricultural options	154	(10)	1	(11)	109	9
OTC agricultural options purchased	27	1	1	—	3	9
OTC agricultural options written	127	(11)	—	(11)	106	—
OTC options on gold	226	(1)	8	(9)	9 640	(4)
OTC gold options purchased	142	5	8	(3)	4 860	2 310
OTC gold options written	84	(6)	—	(6)	4 780	(2 314)
Other OTC commodity derivatives	3 000	119	247	(128)	5 557	(13)
OTC commodity derivatives	3 484	114	268	(154)	15 311	(8)
Exchange traded agricultural derivatives	16 395	33	33	—	11 484	—
Exchange traded agricultural derivatives purchased	184	—	—	—	637	—
Exchange traded agricultural derivatives written	256	—	—	—	635	—
Exchange traded agricultural futures	15 955	33	33	—	10 212	—
Exchange traded gold derivatives purchased	—	—	—	—	13 166	11
	19 879	147	301	(154)	39 961	3
Credit derivatives						
Credit derivatives purchased (swaps)	—	—	—	—	1 694	45
Credit derivatives written (swaps)	—	—	—	—	8 514	(30)
OTC credit derivatives purchased (options)	2 197	(58)	4	(62)	—	—
OTC credit derivatives written (options)	6 884	70	90	(20)	—	—
Embedded derivatives	5 781	(25)	24	(49)	2 413	21
	14 862	(13)	118	(131)	12 621	36
Total trading	3 594 378	(190)	43 329	(43 519)	3 522 529	(5 271)
Balance carried forward	3 594 378	(190)	43 329	(43 519)	3 522 529	(5 271)

Notes to the consolidated financial statements

For the year ended 31 December

53. Derivatives *(continued)*

53.3 Detailed breakdown of derivatives *(continued)*

	Bank					
	2010				2009	
	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	**3 594 378**	**(190)**	**43 329**	**(43 519)**	3 522 529	(5 271)
Hedging						
Cash flow hedges						
Interest rate swaps	**126 962**	**3 719**	**3 813**	**(94)**	105 975	1 852
Forward foreign exchange	**—**	**—**	**—**	**—**	117	(38)
	126 962	**3 719**	**3 813**	**(94)**	106 092	1 814
Fair value hedges						
Currency swaps	**6 966**	**(556)**	**—**	**(556)**	6 005	121
Interest rate swaps	**31 919**	**(382)**	**849**	**(1 231)**	2 359	58
	38 885	**(938)**	**849**	**(1 787)**	8 364	179
Total hedges	**165 847**	**2 781**	**4 662**	**(1 881)**	114 456	1 993
Total derivative instruments	**3 760 225**	**2 591**	**47 991**	**(45 400)**	3 636 985	(3 278)

Derivative assets and liabilities subject to counterparty netting agreements amounted to R30 522 million (2009: R20 059 million). Additionally, the Bank held R990 million (2009: R999 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 therefore the aggregate fair values of derivative financial instruments can fluctuate significantly from time to time.

Fair value

The amounts disclosed represent the fair value as at the reporting date of all derivative financial instruments held. Positive amounts reflect positive fair values, while amounts indicated in brackets reflect negative fair values.

54. Fair value hierarchy disclosures

54.1 Valuation methodology

The table below shows the Bank's financial instruments 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			
	2010			
	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)	26 656	—	—	26 656
Investment securities (refer to note 11)	1 297	—	95	1 392
Financial assets designated at fair value through profit or loss				
Statutory liquid asset portfolio (refer to note 3)	778	2 685	—	3 463
Loans and advances to banks (refer to note 4)	—	7 047	—	7 047
Loans and advances to customers (refer to note 8)	—	4 212	5 762	9 974
Investment securities (refer to note 11)	3 269	3 095	5 150	11 514
Financial assets held for trading (refer to note 5)				
Derivative assets	158	43 073	98	43 329
Trading assets	10 709	1 989	966	13 664
Hedging assets	—	4 662	—	4 662
Total financial assets	**42 867**	**66 763**	**12 071**	**121 701**
Financial liabilities designated at fair value through profit or loss				
Deposits from banks (refer to note 17)	—	5 499	—	5 499
Deposits due to customers (refer to note 21)	31	8 325	8 499	16 855
Debt securities in issue (refer to note 22)	—	3 471	73	3 544
Borrowed funds (refer to note 24)	739	—	—	739
Financial liabilities held for trading (refer to note 18)				
Derivative liabilities	—	42 928	591	43 519
Trading liabilities	11	—	—	11
Hedging liabilities	—	1 881	—	1 881
Total financial liabilities	**781**	**62 104**	**9 163**	**72 048**

Notes

[1] *The nature of the valuation techniques is summarised in note 54.2.*

[2] *The nature of the valuation techniques is summarised in note 54.3.*

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54. Fair value hierarchy disclosures *(continued)*

54.1 Valuation methodology *(continued)*

	Bank			
	2009			
	Valuations with reference to observable prices	Valuations based on observable inputs	Valuations based on unobservable inputs	
	Level 1[1]	Level 2[1]	Level 3[2]	Total
	Rm	Rm	Rm	Rm
Available-for-sale financial assets				
Statutory liquid asset portfolio (refer to note 3)	17 904	—	—	17 904
Investment securities (refer to note 11)	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 8)	—	3 958	4 504	8 462
Investments securities (refer to note 11)	5 917	2 995	5 960	14 872
Financial assets held for trading (refer to note 5)				
Derivative assets	30	30 863	793	31 686
Trading assets	11 889	3 097	—	14 986
Hedging assets	—	2 558	—	2 558
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 17)	—	8 014	—	8 014
Other liabilities (refer to note 19)	—	—	274	274
Deposits due to customers (refer to note 21)	—	2 118	10 435	12 553
Debt securities in issue (refer to note 22)	—	4 402	246	4 648
Borrowed funds (refer to note 24)	718	—	—	718
Financial liabilities held for trading (refer to note 18)				
Derivative liabilities	19	35 820	1 118	36 957
Hedging liabilities	—	565	—	565
Total financial liabilities	737	50 919	12 073	63 729

Notes

[1] *The nature of the valuation techniques is summarised in note 54.2*
[2] *The nature of the valuation techniques is summarised in note 54.3.*

54.2 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 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.

54 Fair value hierarchy disclosures *(continued)*

54.3 Valuations based on unobservable inputs

Valuations based on unobservable inputs include:

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 investments.

(vii) Discount rates

Discount rates are key inputs in the valuation of certain private equity investments. Discount rates are unobservable for some 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 instruments

Equity 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 by using valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs.

Also included in equity instruments 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 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 instruments. 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.

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54. Fair value hierarchy disclosures *(continued)*

54.4 Movements on financial instruments subsequently measured at fair value using valuations based on unobservable inputs (level 3)

	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss		Financial assets held for trading
	Investment securities Rm	Loans and advances to customers Rm	Investment securities Rm	Trading assets Rm
Opening balance	176	4 504	5 960	—
Net interest income	—	(227)	—	—
Gains and losses from banking and trading activities	3	(267)	34	—
Gains and losses from investment activities	—	—	51	—
Other comprehensive income	(22)	—	—	—
Purchases	—	2 556	2 449	966
Sales	—	(116)	(2 811)	—
Issues	—	—	—	—
Settlements	(104)	(1 212)	(477)	—
Movement in/(out) of level 3[1]	42	524	(56)	—
Closing balance	95	5 762	5 150	966

	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss		Financial assets held for trading
	Investment securities Rm	Loans and advances to customers Rm	Investment securities Rm	Trading assets Rm
Opening balance	522	4 829	6 761	—
Net interest income	—	295	—	—
Gains and losses from banking and trading activities	27	(313)	(851)	—
Other comprehensive income	(24)	—	—	—
Purchases	—	373	605	—
Sales	—	—	(292)	—
Issues	—	—	—	—
Settlements	(349)	(680)	(263)	—
Movement out of level 3[1]	—	—	—	—
Closing balance	176	4 504	5 960	—

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.*

Bank

	2010					
		Financial liabilities designated at fair value through profit or loss			Financial liabilities held for trading	
	Total financial assets excluding derivatives Rm	Other liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Net derivatives Rm	Total financial liabilities including net derivatives Rm
	10 640	274	10 435	246	325	11 280
	(227)	—	—	—	—	—
	(230)	—	867	6	(23)	850
	51	—	—	—	—	—
	(22)	—	—	—	—	—
	5 971	376	—	—	(11)	365
	(2 927)	—	—	—	—	—
	—	—	619	3	101	723
	(1 793)	(650)	(3 152)	(5)	14	(3 793)
	510	—	(270)	(177)	87	(360)
	11 973	—	8 499	73	493	9 065

	2009					
		Financial liabilities designated at fair value through profit or loss			Financial liabilities held for trading	
	Total financial assets excluding derivatives Rm	Other liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Net derivatives Rm	Total financial liabilities including net derivatives Rm
	12 112	407	10 786	465	161	11 819
	295	—	565	8	—	573
	(1 137)	(133)	(156)	14	285	10
	(24)	—	—	—	—	—
	978	—	—	—	(23)	(23)
	(292)	—	—	—	—	—
	—	—	1 033	—	5	1 038
	(1 292)	—	(1 793)	(241)	(43)	(2 077)
	—	—	—	—	(60)	(60)
	10 640	274	10 435	246	325	11 280

Notes to the consolidated financial statements

For the year ended 31 December

54. Fair value hierarchy disclosures *(continued)*

54.5 Total unrealised gains and losses for the year on the level 3 positions held at the reporting date

	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss	
	Investment securities Rm	Loans and advances to customers Rm	Investment securities Rm
Net interest income/(charges)	**—**	**(112)**	**—**
Gains and (losses) from banking and trading activities	**142**	**190**	**102**
	142	**78**	**102**
Net interest income/(charges)	9	398	80
Gains and (losses) from banking and trading activities	—	(326)	(775)
	9	72	(695)

Bank

2010	Total financial assets excluding derivatives Rm	Financial liabilities designated at fair value through profit or loss: Other liabilities Rm	Deposits due to customers Rm	Debt securities Rm	Financial liabilities held for trading: Net derivatives Rm	Total financial liabilities including net derivatives Rm
	(112)	**—**	**—**	**—**	**—**	**—**
	434	**—**	**(861)**	**4**	**(261)**	**(1 118)**
	322	**—**	**(861)**	**4**	**(261)**	**(1 118)**
2009						
	487	—	(566)	(4)	—	(570)
	(1 101)	(133)	149	(5)	(286)	(275)
	(614)	(133)	(417)	(9)	(286)	(845)

Notes to the consolidated financial statements

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54. Fair value hierarchy disclosures *(continued)*

54.6 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 a reasonable range of possible outcomes

Bank

	2010				
	Significant unobservable parameters[1]	Potential effect recorded in profit and loss		Potential effect recorded directly in equity	
		Favourable Rm	Unfavourable Rm	Favourable Rm	Unfavourable Rm
Loans and advances designated at fair value through profit or loss	i, iii, iv, v, vi, vii	141	455	—	—
Net derivatives	i, iii	10	9	—	—
Private equity	iii, v, vi, vii	769	769	—	4
Structured notes and deposits designated at fair value through profit or loss	iv	46	51	—	—
Trading assets	i	7	7	—	—
		973	1 291	—	4

	2009				
	Significant unobservable parameters[1]	Potential effect recorded in profit and loss		Potential effect recorded directly in equity	
		Favourable Rm	Unfavourable Rm	Favourable Rm	Unfavourable Rm
Loans designated at fair value through profit or loss	iii	90	246	—	—
Net derivatives	i, ii, iii, iv	9	11	—	—
Private equity	v, vi, vii	749	699	—	—
Structured notes and deposits designated at fair value through profit or loss	iv	67	72	—	—
		915	1 028	—	—

Note

[1]*Refer to note 54.3 for valuation inputs.*

54. Fair value hierarchy disclosures *(continued)*

54.6 Sensitivity analysis of valuations using unobservable inputs *(continued)*

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
Credit derivatives	Credit spreads	100 bps	–100 bps
Equity derivatives	Volatilities	10%	–10%
Foreign currency options	Volatilities	10%	–10%
Foreign currency swaps and foreign interest rate products	Basis risk and yield curve	100 bps	–100 bps
Loans and advances designated at fair value through profit or loss	Credit spreads	100 bps	–100 bps
Private equity	Future earnings and marketability discounts Comparator multiples Discount rates	15%	–15%
Structured notes and deposits designated at fair value through profit or loss	Yield curve	100 bps	–100 bps

55. 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	
	2010 Rm	2009 Rm
Opening balance	**24**	—
New transactions	**84**	28
Amounts recognised in the profit and loss component of the statement of comprehensive income	**(35)**	(4)
Closing balance	**73**	24

56. Financial risks

In light of King III, the Bank has enhanced its risk management disclosures by combining accounting and regulatory disclosures in order to provide greater transparency to stakeholders in their evaluation of the Bank's performance. All financial risk disclosures are included in the Bank's risk report.

56.1 Credit risk

The disclosures marked as audited relating to credit risk are set out in tables 7 to 9 and 11 to 23 of the risk report.

56.2 Market risk

The disclosures marked as audited relating to market risk are set out in tables 24, 26 to 28 and 30 – 31 of the risk report.

56.3 Liquidity risk

The disclosures marked as audited relating to liquidity risk are set out in tables 32 and 33 of the risk report.

Company statement of financial position

As at 31 December

	Note	Company 2010 Rm	2009[1] Rm	2008[1] Rm
Assets				
Cash, cash balances and balances with central banks	2	**17 343**	15 442	16 524
Statutory liquid asset portfolio	3	**48 215**	33 943	33 019
Loans and advances to banks	4	**23 632**	32 992	41 741
Trading portfolio assets	5	**57 795**	47 377	73 029
Hedging portfolio assets	5	**4 662**	2 558	3 139
Other assets	6	**12 583**	6 821	8 484
Current tax assets	7	**—**	98	—
Non-current assets held for sale		**—**	—	2 495
Loans and advances to customers	8	**479 787**	481 856	503 423
Loans to Absa Group companies	10	**8 998**	13 585	15 845
Investment securities	11	**10 851**	12 504	11 003
Investments in associates and joint ventures	12	**127**	206	1 729
Subsidiaries	13	**3 406**	3 570	2 933
Intangible assets	14	**488**	367	130
Property and equipment	15	**6 974**	5 996	5 402
Deferred tax assets	16	**65**	69	41
Total assets		**674 926**	657 384	718 937
Liabilities				
Deposits from banks	17	**21 901**	40 260	59 688
Trading portfolio liabilities	18	**43 530**	36 957	68 119
Hedging portfolio liabilities	18	**1 881**	565	1 080
Other liabilities	19	**7 410**	8 250	6 891
Provisions	20	**1 526**	1 481	1 888
Current tax liabilities	7	**942**	—	310
Non-current liabilities held for sale		**—**	—	408
Deposits due to customers	21	**370 545**	343 354	368 554
Debt securities in issue	22	**160 248**	164 852	152 402
Loans from Absa Group companies		**—**	—	646
Borrowed funds	23	**13 649**	13 530	12 143
Deferred tax liabilities	16	**1 903**	1 760	2 730
Total liabilities		**623 535**	611 009	674 859
Equity				
Capital and reserves				
Attributable to equity holders of the Company:				
Ordinary share capital	24	**303**	303	303
Ordinary share premium	24	**11 465**	10 465	9 415
Preference share capital	24	**1**	1	1
Preference share premium	24	**4 643**	4 643	4 643
Other reserves	25	**3 544**	2 434	3 609
Retained earnings		**31 435**	28 529	26 107
Total equity		**51 391**	46 375	44 078
Total equity and liabilities		**674 926**	657 384	718 937

Note

[1]*Comparatives have been reclassified, refer to note 1.1.*

Company statement of comprehensive income

For the year ended 31 December

	Note	Company 2010 Rm	Company 2009 Rm
Net interest income		**20 762**	19 374
Interest and similar income	26	**51 033**	61 036
Interest expense and similar charges	27	**(30 271)**	(41 662)
Impairment losses on loans and advances	9.1	**(5 494)**	(8 362)
Net interest income after impairment losses on loans and advances		**15 268**	11 012
Non-interest income		**14 748**	15 665
Net fee and commission income		**12 342**	12 254
Fee and commission income	28	**13 297**	12 992
Fee and commission expense	28	**(955)**	(738)
Gains and losses from banking and trading activities	29	**1 779**	2 627
Gains and losses from investment activities	30	**420**	391
Other operating income	31	**207**	393
Operating profit before operating expenditure		**30 016**	26 677
Operating expenditure		**(21 031)**	(19 637)
Operating expenses	32	**(20 189)**	(17 476)
Other impairments	33	**(212)**	(1 399)
Indirect taxation	34	**(630)**	(762)
Operating profit before income tax		**8 985**	7 040
Taxation expense	35	**(2 488)**	(1 404)
Profit for the year		**6 497**	5 636
Other comprehensive income			
Exchange differences on translation of foreign operations		**(222)**	(160)
Movement in cash flow hedging reserve		**1 153**	(661)
Fair value gains/(losses) arising during the year		**3 422**	(143)
Amount removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income		**(1 820)**	(776)
Deferred tax	16	**(449)**	258
Movement in available-for-sale reserve		**183**	(323)
Fair value gains/(losses) arising during the year		**163**	(302)
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		**92**	104
Deferred tax	16	**(72)**	80
Movement in retirement benefit assets		**19**	75
Increase in retirement benefit surplus		**27**	104
Deferred tax	16	**(8)**	(29)
Total comprehensive income for the year		**7 630**	4 567
Profit attributable to:			
Ordinary equity holder of the Company		**6 177**	5 215
Preference equity holders of the Company		**320**	421
		6 497	5 636
Total comprehensive income attributable to:			
Ordinary equity holder of the Company		**7 310**	4 146
Preference equity holders of the Company		**320**	421
		7 630	4 567
Earnings per share:			
Basic earnings per share (cents)	36	**1 669,9**	1 440,2
Diluted earnings per share (cents)	36	**1 669,9**	1 440,2

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 the beginning of the year	**367 675**	**303**	**10 465**	**1**	**4 643**
Total comprehensive income	—	—	—	—	—
Profit for the year	—	—	—	—	—
Other comprehensive income	—	—	—	—	—
Dividends paid	—	—	—	—	—
Shares issued	**6 437**	**0**	**1 000**	—	—
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	—	—	—	—	—
Balance at the end of the year	**374 112**	**303**	**11 465**	**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 the beginning of the year	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 the end of the year	367 675	303	10 465	1	4 643
Notes	24	24	24	24	24

Note

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

Company

2010	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
	—	(359)	1 114	(9)	1 422	266	28 529	46 375
	—	183	1 153	(222)	—	—	6 516	7 630
	—	—	—	—	—	—	6 497	6 497
	—	183	1 153	(222)	—	—	19	1 133
	—	—	—	—	—	—	(3 420)	(3 420)
	—	—	—	—	—	—	—	1 000
	—	—	—	—	—	—	(236)	(236)
	—	—	—	—	—	(4)	46	42
	—	—	—	—	—	(46)	46	—
	—	—	—	—	—	42	—	42
	—	(176)	2 267	(231)	1 422	262	31 435	51 391

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
	25	25	25	25	25	25		

Company statement of cash flows

For the year ended 31 December

	Note	Company 2010 Rm	Company 2009[1] Rm
Cash flow from operating activities			
Interest, fee and commission income		**63 490**	73 788
Interest, fee and commission expense		**(29 603)**	(42 910)
Net trading and other income		**(3 877)**	48
Cash payments to employees and suppliers		**(19 395)**	(16 929)
Dividends received from banking and trading activities		**69**	74
Income taxes paid		**(1 830)**	(2 492)
Cash flow from operating profit before changes in operating assets and liabilities		**8 854**	11 579
Net (increase)/decrease in trading and hedging portfolio assets		**(4 794)**	27 681
Net (increase)/decrease in loans and advances to customers		**(4 753)**	14 534
Net (increase)/decrease in other assets		**(7 952)**	14 445
Net increase/(decrease) in trading and hedging portfolio liabilities		**7 128**	(31 955)
Net increase/(decrease) in amounts due to customers and banks		**27 851**	(30 235)
Net decrease in other liabilities		**(23 780)**	(2 613)
Net cash generated from operating activities		**2 554**	3 436
Cash flow from investing activities			
Purchase of property and equipment	15	**(2 141)**	(1 988)
Proceeds from sale of property and equipment		**115**	404
Purchase of intangible assets	14	**(257)**	(299)
Proceeds from sale of intangible assets	14	**34**	—
Acquisition of businesses, net of cash		**—**	34
Acquisition of associates and joint ventures, net of cash	12.5	**(95)**	(61)
Disposal of associates and joint ventures, net of cash	12.6	**95**	—
Net increase in loans to associates and joint ventures	12.1	**—**	(1)
Net decrease in investment securities		**1 906**	435
Dividends received from investment activities		**399**	344
Net cash generated/(utilised) from investing activities		**56**	(1 132)
Cash flow from financing activities			
Issue of ordinary shares		**1 000**	1 050
Contribution to the Absa Group Limited Share Incentive Trust		**(236)**	(88)
Proceeds from borrowed funds		**1 000**	4 500
Repayment of borrowed funds		**(1 500)**	(3 100)
Dividends paid		**(3 420)**	(3 271)
Net cash utilised from financing activities		**(3 156)**	(909)
Net (decrease)/increase in cash and cash equivalents		**(546)**	1 395
Cash and cash equivalents at the beginning of the year		**5 320**	3 925
Cash and cash equivalents at the end of the year	44	**4 774**	5 320

Note

[1] *Comparatives have been reclassified.*

Accounting policies

For the year ended 31 December

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 the Bank. For detailed accounting policies refer to the Bank's financial statements.

1.1 Reclassifications

Some items within the statement of financial position for the years ended 31 December 2009 and 31 December 2008 were reclassified in the current year:

Trading related activities

During the year under review, the Company has reassessed its counterparty risk for certain scrip lending activities. This was done due to a change in interpretation of customer agreements. This resulted in the Company revisiting the principles of netting down or grossing up some transactions to be in line with the risks inherent in the transactions. It was concluded that the reclassification would better reflect the risk that the Company has to manage on the different statement of financial position lines and that this disclosure would enhance disclosure and provide users of the financial statements with more relevant information. This disclosure is now also aligned with industry practice. This has resulted in comparatives being reclassified for December 2009 and December 2008 as reflected in the pages to follow:

Accounting policies

For the year ended 31 December

1. Summary of significant accounting policies *(continued)*

1.1 Reclassifications *(continued)*

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

	31 December 2009	
	As previously reported Rm	Reclassifications Rm
Assets		
Cash, cash balances and balances with central banks	15 442	—
Statutory liquid asset portfolio	33 943	—
Loans and advances to banks	32 992	—
Trading portfolio assets	47 377	—
Hedging portfolio assets	2 558	—
Other assets	6 821	—
Current tax assets	98	—
Non-current assets held for sale	—	—
Loans and advances to customers	479 323	2 533
Loans to Absa Group companies	13 585	—
Investment securities	12 504	—
Investments in associates and joint ventures	206	—
Subsidiaries	3 570	—
Intangible assets	367	—
Property and equipment	5 996	—
Deferred tax assets	69	—
Total assets	654 851	2 533
Liabilities		
Deposits from banks	43 335	(3 075)
Trading portfolio liabilities	36 957	—
Hedging portfolio liabilities	565	—
Other liabilities	8 250	—
Provisions	1 481	—
Current tax liabilities	—	—
Non-current liabilities held for sale	—	—
Deposits due to customers	337 746	5 608
Debt securities in issue	164 852	—
Loans from Absa Group companies	—	—
Borrowed funds	13 530	—
Deferred tax liabilities	1 760	—
Total liabilities	608 476	2 533
Equity		
Capital and reserves		
Attributable to equity holders of the Company:		
Ordinary share capital	303	—
Ordinary share premium	10 465	—
Preference share capital	1	—
Preference share premium	4 643	—
Other reserves	2 434	—
Retained earnings	28 529	—
Total equity	46 375	—
Total equity and liabilities	654 851	2 533

		31 December 2008		
Reclassified	As previously reported	Reclassifications	Reclassified
Rm	Rm	Rm	Rm
15 442	16 524	—	16 524
33 943	33 019	—	33 019
32 992	41 510	231	41 741
47 377	73 029	—	73 029
2 558	3 139	—	3 139
6 821	8 484	—	8 484
98	—	—	—
—	2 495	—	2 495
481 856	502 748	675	503 423
13 585	15 845	—	15 845
12 504	11 003	—	11 003
206	1 729	—	1 729
3 570	2 933	—	2 933
367	130	—	130
5 996	5 402	—	5 402
69	41	—	41
657 384	718 031	906	718 937
40 260	59 705	(17)	59 688
36 957	68 119	—	68 119
565	1 080	—	1 080
8 250	6 891	—	6 891
1 481	1 888	—	1 888
—	310	—	310
—	408	—	408
343 354	367 631	923	368 554
164 852	152 402	—	152 402
—	646	—	646
13 530	12 143	—	12 143
1 760	2 730	—	2 730
611 009	673 953	906	674 859
303	303	—	303
10 465	9 415	—	9 415
1	1	—	1
4 643	4 643	—	4 643
2 434	3 609	—	3 609
28 529	26 107	—	26 107
46 375	44 078	—	44 078
657 384	718 031	906	718 937

Notes to the Company financial statements

For the year ended 31 December

	Company 2010 Rm	Company 2009 Rm
2. Cash, cash balances and balances with central banks		
Balances with the SARB	**12 912**	10 983
Coins and bank notes	**4 431**	4 459
	17 343	15 442
Portfolio analysis		
Loans and receivables		
Balances with the SARB	**12 912**	10 983
Coins and bank notes	**4 431**	4 459
	17 343	15 442
3. Statutory liquid asset portfolio		
Land Bank bills	**50**	493
Republic of South Africa (RSA) government bonds	**34 602**	25 467
Reverse repurchase agreements (refer to note 41 of the Bank's financial statements)	**2 685**	1 941
SARB debentures	**—**	223
Treasury bills	**10 878**	5 819
	48 215	33 943
Portfolio analysis		
Available-for-sale financial assets	**26 656**	17 904
Land Bank bills	**50**	493
RSA government bonds	**15 728**	11 369
SARB debentures	**—**	223
Treasury bills	**10 878**	5 819
Available-for-sale financial assets in fair value hedging relationship		
RSA government bonds	**18 096**	12 403
Financial assets designated at fair value through profit or loss	**3 463**	3 636
Reverse repurchase agreements	**2 685**	1 941
RSA government bonds	**778**	1 695
	48 215	33 943

RSA government bonds, SARB debentures and treasury bills valued at R3 000 million (2009: R2 011 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 2010 Rm	Company 2009 Rm	Company 2008 Rm
4. Loans and advances to banks			
Other loans and advances to banks	**18 060**	24 060	24 494
Reverse repurchase agreements (refer to note 41 of the Bank's financial statements)	**5 572**	8 932	17 247
	23 632	32 992	41 741
Portfolio analysis			
Financial assets designated at fair value through profit or loss	**7 047**	2 403	16 632
Other loans and advances to banks	**1 475**	629	—
Reverse repurchase agreements	**5 572**	1 774	16 632
Loans and receivables	**16 585**	30 589	25 109
	23 632	32 992	41 741

Comparatives have been reclassified, refer to note 1.1.

4. Loans and advances to banks *(continued)*

Loans with variable rates are R16 827 million (2009: R23 740 million; 2008: R24 235 million) and fixed rates are R6 805 million (2009: R9 252 million; 2008: R17 506 million).

Included above are loans and advances to banks with a carrying value of R1 445 million (2009: R3 814 million; 2008: R2 462 million) that have been pledged as security, which excludes reverse repurchase agreements as disclosed in note 41 of the Bank's financial statements. The amounts pledged are 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 Rnil (2009: R7 309 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 41 of the Bank's financial statements).

	Company	
	2010 Rm	2009 Rm
5. Trading and hedging portfolio assets		
Commodities	**654**	631
Debt instruments	**11 694**	10 715
Derivative assets (refer to note 46.3)	**43 440**	31 777
Commodity derivatives	**301**	2 901
Credit derivatives	**118**	282
Equity derivatives	**858**	2 049
Foreign exchange derivatives	**12 909**	8 734
Interest rate derivatives	**29 254**	17 811
Equity instruments	**47**	125
Money market assets	**1 960**	4 129
Total trading portfolio assets	**57 795**	47 377
Hedging portfolio assets (refer to note 46.3)	**4 662**	2 558
	62 457	49 935
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**3 813**	1 946
Derivatives designated as fair value hedging instruments	**849**	612
Financial assets held for trading	**57 141**	46 746
Debt instruments	**11 694**	10 715
Derivative assets	**43 440**	31 777
Equity instruments	**47**	125
Money market assets	**1 960**	4 129
Non-financial instruments	**654**	631
	62 457	49 935

Included above are financial instruments related to the Company's interest rate economic hedging programme with a notional value of R5 734 million (2009: R8 225 million) and a fair value of R639 million (2009: R282 million). Trading portfolio assets with a carrying value of R8 249 million (2009: R10 297 million) have been pledged as security for repurchase agreements (refer to note 41 of the Bank's financial statements). In addition, trading portfolio assets with a carrying value of R742 million (2009: R418 million) have been pledged as security for deposits. These assets are pledged for the duration of the respective agreements.

Including within debt instruments are financial assets traded in the debt capital market with an original maturity of more than one year such as government and corporate bonds.

Included within money market assets are highly liquid financial assets with an original maturity of one year or less, such as floating rate notes, negotiable certificates of deposits, treasury bills, promissory notes, commercial paper and bankers acceptance notes.

Notes to the Company financial statements

For the year ended 31 December

	Company 2010 Rm	Company 2009 Rm
6. Other assets		
Accounts receivable and prepayments	**3 491**	4 789
Collateral	**4 171**	740
Deferred costs	**51**	29
Inventories	**459**	377
Cost	**548**	441
Write-down	**(89)**	(64)
Retirement benefit fund surplus (refer to note 39 of the Bank's financial statements)	**705**	616
Settlement accounts	**3 706**	270
	12 583	6 821
Portfolio analysis		
Loans and receivables	**10 949**	5 639
Accounts receivable	**3 072**	4 629
Collateral	**4 171**	740
Settlement accounts	**3 706**	270
Non-financial assets	**1 634**	1 182
	12 583	6 821
7. Current tax		
Current tax assets		
Amount due from revenue authorities	**—**	98
Current tax liabilities		
Amount due to revenue authorities	**942**	—

	Company		
	2010 Rm	2009 Rm	2008 Rm
8. Loans and advances to customers			
Cheque accounts	**21 084**	27 055	26 337
Corporate overdrafts and specialised finance loans	**15 442**	13 482	10 294
Credit cards	**15 258**	14 774	15 040
Foreign currency loans	**5 602**	6 659	11 775
Instalment credit agreements (refer to note 8.1)	**52 774**	54 149	61 261
Gross advances	**62 832**	64 519	77 359
Unearned finance charges	**(10 058)**	(10 370)	(16 098)
Reverse repurchase agreements (refer to note 41 of the Bank's financial statements)	**3 063**	1 988	7 072
Loans to associates and joint ventures	**6 825**	7 878	8 290
Microloans	**1 766**	2 411	3 412
Mortgages	**302 593**	302 219	299 453
Other advances[1]	**2 958**	2 406	3 615
Overnight finance	**7 331**	12 340	11 821
Personal and term loans	**25 262**	18 706	18 154
Preference shares	**2 788**	4 102	2 987
Wholesale overdrafts	**29 608**	25 532	32 291
	492 354	493 701	511 802
Impairment losses on loans and advances (refer to note 9)	**(12 567)**	(11 845)	(8 379)
	479 787	481 856	503 423
Portfolio analysis			
Financial assets designated at fair value through profit or loss	**9 190**	8 462	7 720
Corporate overdrafts and specialised finance loans	**593**	711	915
Foreign currency loans	**703**	884	—
Reverse repurchase agreements	**3 063**	1 988	1 543
Mortgages	**1 161**	1 388	1 673
Preference shares	**461**	—	—
Wholesale overdrafts	**3 209**	3 491	3 589
Amortised cost items held in a fair value hedging relationship			
Corporate overdrafts and specialised finance loans	**118**	24	—
Loans and receivables	**483 046**	485 215	504 082
	492 354	493 701	511 802

Comparatives have been reclassified, refer to note 1.1.

Included above are loans and advances to customers with a carrying value of R589 million (2009: R989 million; 2008: Rnil) that have been pledged as security, which excludes reverse repurchase agreements as disclosed in note 41 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 and working capital solutions.*

Notes to the Company financial statements

For the year ended 31 December

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

8.1 Instalment credit agreements

Maturity analysis

	Company		
	2010		
	Gross investment in finance leases Rm	**Unearned finance charges Rm**	**Net investment in finance leases Rm**
Less than one year	**21 246**	**(3 311)**	**17 935**
Between one and five years	**40 344**	**(6 526)**	**33 818**
More than five years	**1 242**	**(221)**	**1 021**
	62 832	**(10 058)**	**52 774**
	2009		
	Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
Less than one year	19 187	(3 035)	16 152
Between one and five years	43 958	(7 087)	36 871
More than five years	1 374	(248)	1 126
	64 519	(10 370)	54 149
	2008		
	Gross investment in finance leases Rm	Unearned finance charges Rm	Net investment in finance leases Rm
Less than one year	23 035	(4 711)	18 324
Between one and five years	52 661	(11 002)	41 659
More than five years	1 663	(385)	1 278
	77 359	(16 098)	61 261

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

A significant portion of 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 reporting date are R5 056 million (2009: R4 632 million; 2008: R5 768 million).

The accumulated allowance for uncollectable lease payments receivable included in the allowance for impairments at the reporting date is R1 308 million (2009: R1 531 million; 2008: R773 million).

	Company 2010 Rm	Company 2009 Rm
9. Impairment losses on loans and advances		
Balance at the beginning of the year	**11 845**	8 379
Amounts written off during the year	**(4 581)**	(4 356)
Exchange differences	**(2)**	(3)
Interest on impaired assets (refer to note 26)	**(761)**	(936)
	6 501	3 084
Impairments raised during the year (refer to note 9.1)	**6 066**	8 761
Balance at the end of the year (refer to note 8)	**12 567**	11 845
Comprising:		
Identified impairments	**11 693**	10 825
Unidentified impairments	**874**	1 020
	12 567	11 845
9.1 Statement of comprehensive income charge for impairment losses on loans and advances		
Impairments raised during the year	**6 066**	8 761
Identified impairments	**6 213**	9 005
Unidentified impairments	**(147)**	(244)
Recoveries of loans and advances previously written off	**(572)**	(399)
	5 494	8 362

	Company 2010 Rm	Company 2009 Rm
10. Loans to Absa Group companies		
Fellow subsidiaries	**8 998**	13 568
Holding company	**—**	17
	8 998	13 585
Portfolio analysis		
Loans and receivables	**8 998**	13 585

Notes to the Company financial statements

For the year ended 31 December

	Company	
	2010 Rm	2009 Rm
11. Investment securities		
Debt instruments	**4 338**	5 088
Listed equity instruments	**952**	1 465
Unlisted equity and hybrid instruments	**5 561**	5 951
	10 851	12 504
Market value and directors' valuation		
Directors' valuation of unlisted equity and hybrid instruments	**5 561**	5 951
Market value of debt instruments	**4 338**	5 088
Market value of listed equity instruments	**952**	1 465
	10 851	12 504
Portfolio analysis		
Available-for-sale financial assets (refer to note 11.1)	**574**	716
Debt instruments	**419**	522
Listed equity instruments	**19**	44
Unlisted equity and hybrid instruments	**136**	150
Financial assets designated at fair value through profit or loss	**10 277**	11 788
Debt instruments	**3 919**	4 566
Listed equity instruments	**933**	1 421
Unlisted equity and hybrid instruments	**5 425**	5 801
	10 851	12 504
11.1 Available-for-sale financial assets		
Carrying value at the beginning of the year	**716**	1 199
Cost plus fair value movements	**828**	1 275
Impairments[1]	**(112)**	(76)
Movement in investment securities	**(117)**	(447)
Net disposals	**(115)**	(203)
Fair value movements	**(2)**	(244)
Movement in impairments (refer to note 33)	**(25)**	(36)
Carrying value at the end of the year	**574**	716
Cost plus fair value movements	**711**	828
Impairments[1]	**(137)**	(112)

Note

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

	Company 2010 Rm	Company 2009 Rm
12. Investments in associates and joint ventures		
Listed investments	**51**	112
Unlisted investments	**76**	94
	127	206
12.1 Movement in carrying value		
Balance at the beginning of the year	**206**	1 729
Net movement resulting from acquisitions, disposals and transfers (refer to note 12.4)	**(32)**	(196)
Change in loans to/(from) associates and joint ventures, at cost	**—**	1
Impairment charge (refer to note 33)	**(47)**	(1 328)
Balance at the end of the year	**127**	206
12.2 Analysis of carrying value		
Listed investments		
Shares at book value	**51**	112
Shares at cost	**57**	1 440
Impairments	**(6)**	(1 328)
Unlisted investments		
Shares at cost	**76**	94
	127	206
A register of investments in associates and joint ventures is available for inspection at the registered office of the Company.		
12.3 Market value and directors' valuation		
Directors' valuation of unlisted investments[1]	**365**	373
Market value of listed investments	**55**	188
	420	561

Note

[1] *The directors' valuation of unlisted investments is measured at fair value.*

Notes to the Company financial statements

For the year ended 31 December

	Company			
	2010		2009	
	Effective holding (%)	Movement Rm	Effective holding (%)	Movement Rm
12. Investments in associates and joint ventures *(continued)*				
12.4 Net movement resulting from acquisitions, disposals and transfers				
Acquired during the current year at cost:				
Pinnacle Point Group Limited	**—**	**95**	27,5	—
Acquired during the previous year, at cost:				
Meadowood Investments 8 (Proprietary) Limited	**50,0**	**—**	50,0	0
Disposed during the current year:				
Pinnacle Point Group Limited	**—**	**(95)**	27,5	—
Virgin Money South Africa (Proprietary) Limited	**—**	**(0)**	50,0	—
Disposed during the previous year:				
Ambit Properties Limited	**—**	**—**	—	(647)
Transferred to subsidiaries during the current year:				
Sanlam Home Loans (Proprietary) Limited	**100,0**	**—**	50,0	—
Transferred (to)/from investment securities during the current and previous year:				
Blue Financial Services Limited	**6,7**	**(32)**	20,2	451
		(32)		(196)

	Company	
	2010 Rm	2009 Rm
12.5 Details of transfers and purchase consideration on net assets acquired		
Cash paid	**95**	61
Transfer from investment securities	**—**	390
	95	451

	Company 2010 Rm	2009 Rm

12. Investments in associates and joint ventures *(continued)*

12.6 Details of transfers and consideration received on net assets disposed

	Company 2010 Rm	2009 Rm
Cash consideration	**(95)**	—
Consideration in shares	**—**	(660)
Total consideration	**(95)**	(660)
(Loss)/profit on disposal	**(0)**	13
Transfer to investment securities	**(32)**	—
	(127)	(647)

Refer to note 39 for the full disclosure of the Company's investments in associates and joint ventures.

13. Subsidiaries

	Company 2010 Rm	2009 Rm
Loans to subsidiary companies	**2 437**	2 358
Shares at cost	**969**	1 212
	3 406	3 570

14. Intangible assets

	Company 2010 Cost Rm	2010 Accumulated amortisation and/or impairments Rm	2010 Carrying value Rm	2009 Cost Rm	2009 Accumulated amortisation and/or impairments Rm	2009 Carrying value Rm
Computer software development costs	**963**	**(475)**	**488**	759	(392)	367
Customer lists	**1**	**(1)**	**—**	—	—	—
Other	**2**	**(2)**	**—**	—	—	—
	966	**(478)**	**488**	759	(392)	367

Reconciliation of intangible assets

	2010 Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Amortisation Rm	Impairment charge Rm	Closing balance Rm
Computer software development costs	**367**	**257**	**—**	**(34)**	**(98)**	**(4)**	**488**
Customer lists	**—**	**—**	**1**	**—**	**(1)**	**—**	**—**
Other	**—**	**—**	**2**	**—**	**(2)**	**—**	**—**
	367	**257**	**3**	**(34)**	**(101)**	**(4)**	**488**

Notes to the Company financial statements

For the year ended 31 December

14. Intangible assets *(continued)*

Reconciliation of intangible assets

	2009						
	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Amortisation Rm	Impairment charge Rm	Closing balance Rm
Computer software development costs	130	299	—	—	(62)	—	367

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 computer software development costs is R229 million (2009: R31 million) relating to assets still under construction.

15. Property and equipment

	Company					
	2010			2009		
	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm
Computer equipment	**4 726**	**(3 145)**	**1 581**	4 715	(3 157)	1 558
Freehold property	**3 369**	**(203)**	**3 166**	2 313	(180)	2 133
Furniture and other equipment	**4 460**	**(2 297)**	**2 163**	4 256	(2 040)	2 216
Leasehold property	**417**	**(353)**	**64**	500	(411)	89
Motor vehicles	**4**	**(4)**	**—**	4	(4)	—
	12 976	**(6 002)**	**6 974**	11 788	(5 792)	5 996

Reconciliation of property and equipment

	2010							
	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	**1 558**	**727**	**—**	**(73)**	**—**	**(631)**	**—**	**1 581**
Freehold property	**2 133**	**1 072**	**—**	**(12)**	**(1)**	**(26)**	**—**	**3 166**
Furniture and other equipment	**2 216**	**342**	**—**	**(2)**	**—**	**(380)**	**(13)**	**2 163**
Leasehold property	**89**	**—**	**—**	**(2)**	**—**	**(23)**	**—**	**64**
	5 996	**2 141**	**—**	**(89)**	**(1)**	**(1 060)**	**(13)**	**6 974**

15. Property and equipment *(continued)*

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

The fair value of freehold property is determined by both external and internal valuers. The most recent valuation was performed during 2010 and indicated that the fair value of the freehold property amounted to R3 730 million (2009: R2 697 million).

Leasehold property and computer equipment with a carrying value of R132 million (2009: R228 million) are encumbered under finance leases (refer to note 19).

Included in the above additions is R583 million (2009: 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 745 million (2009: R1 162 million).

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

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..*

16. Deferred tax

16.1 Reconciliation of net deferred tax liability

	Company 2010 Rm	Company 2009 Rm
Balance at the beginning of the year	**1 691**	2 689
Deferred tax asset released/(raised) on STC credits (refer to note 16.3)	**4**	(28)
Deferred tax on amounts charged directly to other comprehensive income	**529**	(309)
Available-for-sale investments	**72**	(80)
Fair value measurement	**72**	(51)
Transfer to the profit and loss component of the statement of comprehensive income	**—**	(29)
Cash flow hedges	**449**	(258)
Fair value measurement	**(60)**	(475)
Transfer to the profit and loss component of the statement of comprehensive income	**509**	217
Retirement benefit asset	**8**	29
Charge to the profit and loss component of the statement of comprehensive income (refer to note 35)	**(481)**	(701)
Tax effect of translation and other differences	**95**	40
Balance at the end of the year	**1 838**	1 691

Notes to the Company financial statements

For the year ended 31 December

	Company 2010 Rm	Company 2009 Rm
16. Deferred tax *(continued)*		
16.2 Deferred tax liabilities/(assets)		
Tax effects of temporary differences between tax and book value for:		
Accruals and provisions	**1 737**	2 389
Fair value adjustments on investment securities	**(274)**	(463)
Impairment of advances	**5**	(727)
Lease and rental debtor allowances	**274**	463
Other temporary differences	**(2)**	—
Property allowances	**(35)**	(74)
Retirement benefit assets	**198**	172
Deferred tax liabilities	**1 903**	1 760
Deferred tax asset		
Deferred tax asset – STC credit (refer to note 16.3)	**(65)**	(69)
Net deferred tax liability	**1 838**	1 691
16.3 Secondary taxation on companies (STC)		
Accumulated STC credits	**654**	688
Deferred tax asset raised at 10% (refer to note 16.2)	**65**	69
Movement in deferred tax asset for the year (refer to note 16.1)	**(4)**	28

If the total reserves of R34 979 million (2009: R30 963 million) as at the reporting date were to be declared as dividends, the STC impact at a rate of 10% would be R3 498 million (2009: R3 096 million).

	Company 2010 Rm	Company 2009 Rm	Company 2008 Rm
17. Deposits from banks			
Call deposits	**6 537**	990	7 282
Fixed deposits	**4 680**	3 933	2 228
Foreign currency deposits	**1 704**	1 882	6 119
Other deposits	**4 766**	9 244	16 285
Repurchase agreements (refer to note 41 of the Bank's financial statements)	**4 214**	24 211	27 774
	21 901	40 260	59 688
Portfolio analysis			
Financial liabilities at amortised cost	**16 402**	32 246	50 686
Financial liabilities designated at fair value through profit or loss	**5 499**	8 014	9 002
Fixed deposits	**4 282**	1 160	698
Foreign currency deposits	**3**	20	—
Other deposits	**—**	—	297
Repurchase agreements	**1 214**	6 834	8 007
	21 901	40 260	59 688

Comparatives have been reclassified, refer to note 1.1.

Deposits with variable rates are R11 343 million (2009: R11 898 million; 2008: R29 686 million) and fixed rates are R10 558 million (2009: R28 362 million; 2008: R30 002 million).

	Company 2010 Rm	Company 2009 Rm
18. Trading and hedging portfolio liabilities		
Derivative liabilities (refer to note 46.3)	**43 519**	36 957
Commodity derivatives	**154**	2 899
Credit derivatives	**131**	245
Equity derivatives	**1 962**	6 130
Foreign exchange derivatives	**12 464**	9 529
Interest rate derivatives	**28 808**	18 154
Short positions	**11**	—
Total trading portfolio liabilities	**43 530**	36 957
Hedging portfolio liabilities (refer to note 46.3)	**1 881**	565
	45 411	37 522
Portfolio analysis		
Derivatives designated as cash flow hedging instruments	**94**	132
Derivatives designated as fair value hedging instruments	**1 787**	433
Financial liabilities held for trading	**43 530**	36 957
Derivative liabilities	**43 519**	36 957
Short positions	**11**	—
	45 411	37 522

Included above are financial instruments related to the Company's interest rate economic hedging programme with a notional value of R1 771 million (2009: R2 518 million) and a fair value of R102 million (2009: R180 million).

	Company 2010 Rm	Company 2009 Rm
19. Other liabilities		
Accruals	**987**	493
Audit fee accrual	**26**	38
Creditors	**3 469**	4 515
Deferred income	**153**	365
Liabilities under finance leases (refer to note 19.1)	**621**	800
Settlement balances	**1 868**	1 899
Share-based payment liability (refer to note 49 of the Bank's financial statements)	**286**	140
	7 410	8 250
Portfolio analysis		
Financial liabilities at amortised cost	**5 958**	6 940
Creditors	**3 469**	4 241
Liabilities under finance leases	**621**	800
Settlement balances	**1 868**	1 899
Financial liabilities designated at fair value through profit or loss	**—**	274
Non-financial liabilities	**1 452**	1 036
	7 410	8 250

Notes to the Company financial statements

For the year ended 31 December

19. Other liabilities *(continued)*

19.1 Liabilities under finance leases

	Company 2010 Minimum lease payments due Rm	Interest Rm	Principal Rm
Less than one year	**262**	**(90)**	**172**
Between one and two years	**274**	**(57)**	**217**
Between two and three years	**204**	**(21)**	**183**
Between three and four years	**50**	**(1)**	**49**
	790	**(169)**	**621**

	2009 Minimum lease payments due Rm	Interest Rm	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

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

19.1.1 Terms and conditions of finance leases

Description	Address	Details
Absa Towers	160 Main Street, Johannesburg 170 Main Street, Johannesburg 10 Troye Street, Johannesburg	Original term of 18 years with negotiable escalation clauses and a renewal date of 31 March 2014.
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.
Wide area network	Various branches across clauses or South Africa	Original term of 30 months with no escalation renewal options. Contract ends on 31 March 2011.

19. Other liabilities *(continued)*

19.1 Liabilities under finance leases *(continued)*

19.1.2 Minimum future income receivable from subleasing

	Company	
	2010 Rm	2009 Rm
Receivable within one year	**6**	40
Receivable within two to five years	**1**	2
	7	42

20. Provisions

	Company			
	2010			
	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	**—**	**745**	**736**	**1 481**
Additions	**—**	**883**	**305**	**1 188**
Amounts used	**—**	**(815)**	**(36)**	**(851)**
Reversals	**—**	**(9)**	**(283)**	**(292)**
Balance at the end of the year	**—**	**804**	**722**	**1 526**
	2009			
	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	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

Provisions expected to be recovered or settled within no more than 12 months after the reporting date were R1 149 million (2009: R841 million). Sundry provisions are made with respect to fraud cases, litigation and insurance claims.

Notes to the Company financial statements

For the year ended 31 December

	Company 2010 Rm	2009 Rm	2008 Rm
21. Deposits due to customers			
Call deposits	**54 686**	61 980	62 978
Cheque account deposits	**106 884**	90 087	96 510
Credit card deposits	**1 830**	1 868	2 051
Fixed deposits	**113 217**	105 927	123 752
Foreign currency deposits	**7 942**	7 211	10 035
Notice deposits	**11 365**	10 293	7 148
Other deposits[1]	**1 565**	1 596	6 881
Repurchase agreements with non-banks (refer to note 41 of the Bank's financial statements)	**7 035**	1 712	2 217
Saving and transmission deposits	**66 021**	62 680	56 982
	370 545	343 354	368 554
Portfolio analysis			
Financial liabilities at amortised cost	**353 690**	332 851	357 135
Financial liabilities designated at fair value through profit or loss	**16 855**	10 503	11 419
Fixed deposits	**9 820**	8 791	9 202
Repurchase agreements with non-banks	**7 035**	1 712	2 217
	370 545	343 354	368 554

Comparatives have been reclassified, refer to note 1.1.

Note

[1]*Included in other deposits are partnership contributions received, deposits due on structured deals, preference investments on behalf of customers and unclaimed deposits.*

	Company 2010 Rm	2009 Rm
22. Debt securities in issue		
Credit linked notes	**6 360**	8 024
Floating rate notes	**75 259**	84 925
Negotiable certificates of deposit	**64 460**	59 690
Other debt securities in issue	**—**	15
Promissory notes	**3 759**	4 742
Replica bonds	**1 220**	1 534
Senior notes	**9 190**	5 922
	160 248	164 852
Portfolio analysis		
Amortised cost items held in a fair value hedging relationship	**5 274**	6 046
Floating rate notes	**5 188**	5 959
Negotiable certificates of deposit	**86**	87
Financial liabilities at amortised cost	**151 430**	154 158
Financial liabilities designated at fair value through profit or loss	**3 544**	4 648
Credit linked notes	**—**	192
Negotiable certificates of deposit	**34**	7
Other debt securities in issue	**—**	15
Promissory notes	**2 290**	2 900
Replica bonds	**1 220**	1 534
	160 248	164 852

			Company	
			2010	2009
			Rm	Rm

23. 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*	**2010 Rm**	2009 Rm
10,75%	26 March 2015	i	**—**	1 100
8,75%	1 September 2017	ii	**1 500**	1 500
8,80%	7 March 2019	iii	**1 725**	1 725
8,10%	27 March 2020	iv	**2 000**	2 000
10,28%	3 May 2022	v	**600**	—
Three-month JIBAR + 0,75%	26 March 2015	vi	**—**	400
Three-month JIBAR + 2,10%	3 May 2022	vii	**400**	—
CPI-linked notes, fixed at the following coupon rates:				
6,25%	31 March 2018	viii	**1 886**	1 886
6,00%	20 September 2019	ix	**3 000**	3 000
5,50%	7 December 2028	x	**1 500**	1 500
Accrued interest			**826**	575
Fair value adjustment			**212**	(156)
			13 649	13 530
Portfolio analysis				
Amortised cost financial liabilities held in a fair value hedging relationship			**5 470**	5 591
Financial liabilities designated at fair value through profit or loss			**739**	718
Financial liabilities held at amortised cost			**7 440**	7 221
			13 649	13 530

i The 10,75% fixed rate notes were redeemed in full on 26 March 2010. Interest was paid semi-annually in arrear on 26 March and 26 September of each year.

ii The 8,75% fixed rate notes may be redeemed in full at the option of the Company 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 the Company 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.

iii The 8,80% fixed rate notes may be redeemed in full at the option of the Company on 7 March 2014. 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 2014. If the Company 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.

iv The 8,10% fixed rate notes may be redeemed in full at the option of the Company 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 the Company 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 10,28% fixed rate notes may be redeemed in full at the option of the Company on 3 May 2017. Interest is paid semi-annually in arrear on 3 May and 5 November of each year, provided that the last date for payment shall be 3 May 2017. If the Company does not exercise the redemption option, interest is payable thereafter at a floating rate of three-month JIBAR plus 4,10% quarterly in arrear on 3 August, 3 November, 3 February and 3 May.

vi The three-month JIBAR plus 0,75% floating rate notes were redeemed in full on 26 March 2010. Interest was paid quarterly in arrear on 26 March, 26 June, 26 September and 26 December of each year.

vii The three-month JIBAR plus 2,10% floating rate notes may be redeemed in full at the option of the Company on 3 May 2017. Interest is paid quarterly on 3 August, 3 November, 3 February and 3 May of each year, provided that the last date for payment shall be 3 May 2017. If the Company does not exercise the redemption option, then the coupon rate payable after 3 May 2017 reprices from three-month JIBAR plus 2,10% to three-month JIBAR plus 4,10%.

Notes to the Company financial statements

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23. Borrowed funds *(continued)*

viii The 6,25% CPI-linked notes may be redeemed in full at the option of the Company 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 the Company 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.

ix The 6,00% CPI-linked notes may be redeemed in full at the option of the Company 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 for payment shall be 20 September 2014. If the Company does not exercise the redemption option, a coupon step-up of 150 bps shall apply.

x The 5,50% CPI-linked notes may be redeemed in full option of the Company 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 the Company does not exercise the redemption option, a coupon step-up of 150 bps shall apply.

All the above notes are listed on the BESA.

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

	Company	
	2010 Rm	2009 Rm
24. Share capital and premium		
24.1 Ordinary share capital		
Authorised		
320 000 000 (2009: 320 000 000) ordinary shares of R1,00 each	**320**	320
250 000 000 (2009: 250 000 000) 'A' ordinary shares of R0,01 each	**3**	3
	323	323
Issued		
302 609 359 (2009: 302 609 359) ordinary shares of R1,00 each	**303**	303
71 502 632 (2009: 65 066 161) 'A' ordinary shares of R0,01 each	**0**	0
	303	303
Total issued capital		
Share capital	**303**	303
Share premium	**11 465**	10 465
	11 768	10 768

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 reporting 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 27 August 2010, 6 436 471 'A' ordinary shares were issued at R155,36 per share, being R0,01 par value and R155,35 share premium to Absa Group Limited.

Shares issued during the previous 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.

All shares issued by the Company were paid in full.

	Company	
	2010	2009
	Rm	Rm

24. Share capital and premium *(continued)*

24.2 Preference share capital and premium

	Company 2010 Rm	Company 2009 Rm
Authorised		
30 000 000 (2009: 30 000 000) non-cumulative non-redeemable listed preference shares of R0,01 each	**1**	1
Issued		
4 944 839 (2009: 4 944 839) non-cumulative non-redeemable listed preference shares of R0,01 each	**1**	1
Total issued capital		
Share capital	**1**	1
Share premium	**4 643**	4 643
	4 644	4 644

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

25. Other reserves

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 instrument 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.

Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

General credit risk reserve

Total impairments, calculated in terms of IAS 39 – Financial instruments: recognition and measurement, should exceed the provisions calculated for regulatory purposes. When the IAS 39 impairment provision is less than the regulatory provision it results in a shortfall. An additional general credit risk reserve has been created and maintained through a transfer of distributable reserves to non-distributable reserves, which eliminates the shortfall.

Share-based payment reserve

The reserve comprises the credit to equity for equity-settled share-based payment arrangements in terms of IFRS 2. 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 (i.e. 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.

Notes to the Company financial statements

For the year ended 31 December

	Company 2010 Rm	Company 2009 Rm
26. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central bank	**2**	10
Fair value adjustments on hedging instruments	**1 023**	781
Investment securities	**179**	—
Loans and advances to banks	**1 198**	2 299
Other loans and advances to banks	**918**	1 225
Reverse repurchase agreements	**280**	1 074
Loans and advances to customers	**45 036**	55 217
Cheque accounts	**2 699**	3 021
Corporate overdrafts and specialised finance loans	**1 254**	1 102
Credit cards	**2 069**	2 395
Foreign currency loans	**167**	542
Instalment credit agreements	**5 619**	7 041
Interest on impaired financial assets (refer to note 9)	**761**	936
Reverse repurchase agreements	**—**	258
Loans to associates and joint ventures	**486**	645
Microloans	**651**	890
Mortgages	**24 904**	30 819
Other advances[1]	**787**	468
Overnight finance	**571**	1 108
Personal and term loans	**2 900**	2 789
Preference shares	**282**	314
Wholesale overdrafts	**1 886**	2 889
Other interest	**612**	948
Statutory liquid asset portfolio	**2 983**	1 781
	51 033	61 036
Portfolio analysis		
Fair value adjustments on amortised cost and available-for-sale items held in a fair value hedging relationship (refer to note 46.2)	**462**	(768)
Loans and advances to customers	**135**	—
Statutory liquid asset portfolio	**327**	(768)
Fair value adjustments on hedging instruments	**1 023**	781
Cash flow hedges (refer to note 46.2)	**1 485**	244
Fair value hedges (refer to note 46.2)	**(369)**	690
Economic hedges	**(93)**	(153)
Interest on financial assets held at amortised cost and available-for-sale	**48 630**	60 354
Interest on financial assets designated at fair value through profit or loss	**918**	669
Investment securities	**149**	—
Loans and advances	**490**	423
Statutory liquid asset portfolio	**279**	246
	51 033	61 036

Note

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

	Company 2010 Rm	Company 2009 Rm
27. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	**1 584**	1 008
Debt securities in issue	**12 438**	15 388
Deposits due to customers	**16 695**	24 589
Call deposits	**3 231**	4 649
Cheque account deposits	**3 194**	3 993
Credit card deposits	**13**	30
Fixed deposits	**7 112**	10 630
Foreign currency deposits	**128**	534
Notice deposits	**456**	582
Other deposits	**230**	1 095
Savings and transmission deposits	**2 331**	3 076
Deposits from banks	**534**	702
Call deposits	**219**	535
Fixed deposits	**281**	132
Other	**34**	35
Fair value adjustments on hedging instruments	**(1 107)**	(222)
Interest incurred on finance leases	**108**	130
Other interest	**19**	67
	30 271	41 662
Portfolio analysis		
Fair value adjustments on amortised cost items held in a fair value hedging relationship (refer to note 46.2)	**504**	(410)
Borrowed funds	**291**	(223)
Debt securities in issue	**213**	(187)
Fair value adjustments on hedging instruments	**(1 107)**	(222)
Cash flow hedges (refer to note 46.2)	**(644)**	(512)
Fair value hedges (refer to note 46.2)	**(463)**	290
Interest on financial liabilities designated at fair value through profit or loss	**1 215**	1 589
Debt securities in issue	**630**	786
Deposits due to customers	**585**	803
Interest on financial liabilities held at amortised cost	**29 659**	40 705
	30 271	41 662

Notes to the Company financial statements

For the year ended 31 December

	Company 2010 Rm	Company 2009 Rm
28. Net fee and commission income		
Fee and commission income		
Asset management and other related fees	**102**	100
Consulting and administration fees	**118**	123
Credit-related fees and commissions	**12 368**	12 064
Cheque accounts	**3 156**	3 168
Credit cards[1]	**1 788**	1 710
Electronic banking	**3 823**	3 490
Other[2]	**1 195**	1 408
Savings accounts	**2 406**	2 288
Insurance commission received	**385**	323
Other fees and commissions	**81**	88
Project finance fees	**205**	268
Trust and other fiduciary services	**38**	26
Portfolio and other management fees	**26**	10
Trust and estate income	**12**	16
	13 297	12 992
Fee and commission expense	**(955)**	(738)
Cheque processing fees	**(173)**	(193)
Debt collection fees	**(105)**	(66)
Other	**(333)**	(179)
Transaction-based legal fees	**(178)**	(135)
Valuation fees	**(166)**	(165)
	12 342	12 254

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.

Notes

[1]*Includes merchant, acquiring and issuing fees.*

[2]*Includes service, commission and credit-related fees on mortgage loans and foreign exchange transactions.*

28.1 Included above are net fees and commissions linked to financial instruments not at fair value

	Company 2010 Rm	Company 2009 Rm
Fee and commission income		
Cheque accounts	**3 156**	3 168
Credit cards	**865**	811
Electronic banking	**3 823**	3 490
Other	**1 005**	1 031
Savings accounts	**2 406**	2 288
	11 255	10 788
Fee and commission expense	**(173)**	(193)
	11 082	10 595

	Company 2010 Rm	Company 2009 Rm
29. Gains and losses from banking and trading activities		
Associates and joint ventures	**45**	60
Dividends received	**45**	45
Profit realised on disposal	**—**	15
Available-for-sale unwind from reserve	**(92)**	115
Investment securities: unlisted equity and hybrid instruments	**—**	219
Statutory liquid asset portfolio	**(92)**	(104)
Financial instruments designated at fair value through profit or loss	**(737)**	98
Debt securities in issue	**(83)**	(125)
Deposits from banks and due to customers	**(1 618)**	(434)
Investment securities	**148**	35
Debt instruments	**16**	(14)
Listed equity instruments	**57**	450
Unlisted equity and hybrid instruments	**75**	(401)
Loans and advances to banks and customers	**809**	610
Statutory liquid asset portfolio	**7**	12
Financial instruments held for trading		
Derivatives and trading instruments	**2 465**	2 373
Ineffective hedges	**98**	(19)
Cash flow hedges (refer to note 46.2)	**115**	(3)
Fair value hedges (refer to note 46.2)	**(17)**	(16)
	1 779	2 627
30. Gains and losses from investment activities		
Financial instruments designated at fair value through profit or loss		
Investment securities	**22**	46
Listed equity instruments	**21**	34
Unlisted equity and hybrid instruments	**1**	12
Subsidiaries		
Dividends received	**398**	345
	420	391
31. Other operating income		
Exchange differences	**34**	13
Profit on disposal of property and equipment	**26**	57
Profit on disposal of repossessed properties	**6**	8
Gross sales	**141**	107
Cost of sales	**(135)**	(99)
Rental income	**96**	97
Sundry income[1]	**45**	218
	207	393

Note

[1]*Includes service fees levied on sundry non-core business activities.*

Notes to the Company financial statements

For the year ended 31 December

	Company 2010 Rm	Company 2009 Rm
32. Operating expenses		
Amortisation of intangible assets (refer to note 14)	**101**	62
Auditors' remuneration	**126**	111
Audit fees	**85**	77
Audit fees – under provision from previous years	**6**	8
Other fees[1]	**35**	26
Cash transportation	**625**	370
Depreciation (refer to note 15)	**1 060**	1 050
Equipment costs	**206**	199
Rentals	**116**	121
Maintenance	**90**	78
Information technology[2]	**1 966**	1 641
Marketing costs[3]	**940**	796
Operating lease expenses on properties	**873**	814
Other operating costs[3]	**1 655**	1 492
Printing and stationery	**232**	236
Professional fees[2]	**933**	801
Staff costs	**10 795**	9 230
Bonuses	**951**	517
Current service costs on post-retirement benefits	**524**	542
Other staff costs[4]	**465**	297
Salaries	**8 333**	7 502
Share-based payments (refer to note 49 of the Bank's financial statements)	**280**	211
Training costs	**242**	161
Telephone and postage	**677**	674
	20 189	17 476

Notes

[1]*Includes fees paid for assurance reports performed on behalf of various regulatory bodies.*

[2]*Included above are research and development costs of R133 million (2009: R146 million).*

[3]*Includes accommodation, travel and entertainment costs.*

[4]*Includes recruitment costs, membership fees to professional bodies, staff parking, redundancy fees, study assistance, staff relocation and refreshment costs.*

	Company 2010 Rm	Company 2009 Rm
33. Other impairments		
Financial instruments	**85**	36
Amortised cost instruments	**60**	—
Available-for-sale financial assets (refer to note 11.1)	**25**	36
Other	**127**	1 363
Computer software development costs (refer to note 14)	**4**	—
Equipment (refer to note 15)	**13**	9
Investments in associates and joint ventures (refer to note 12.1)	**47**	1 328
Repossessed properties	**25**	26
Subsidiaries	**38**	—
	212	1 399

33. Other impairments *(continued)*

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

- » Impairments on investments in associates and joint ventures are reported in the 'Absa Capital' and 'ABB' segments.
- » Impairments on available-for-sale financial assets are reported in the 'Absa Capital' segment.
- » Impairments on amortised cost financial instruments are reported in the 'Other' segment.
- » Impairments on computer software development costs are reported in the 'Other' segment.
- » Impairments on equipment are reported in the 'Absa Capital' segment.
- » Impairments on repossessed properties are reported in the 'Retail Banking' segment.

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

- » Impairments on available-for-sale financial assets are reported in the 'Absa Capital' segment.
- » Impairments on equipment are reported in the 'ABB' segment.
- » Impairments on goodwill are reported in the 'Other' segment.
- » Impairments on investments in associates and joint ventures are reported in the 'Absa Capital' and 'ABB' segments.
- » Impairments on repossessed properties are reported in the 'Retail Banking' segment.

During the previous year, indications existed that the carrying amount of the investments in associates, that arose as a result of customer 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 of these investments. These investments were consequently impaired.

	Company	
	2010 Rm	2009 Rm
34. Indirect taxation		
Training levy	**79**	75
Value added tax net of input credits	**551**	687
	630	762
35. Taxation expense		
Current		
Foreign taxation	**285**	798
South African current tax	**2 678**	1 140
South African current tax – previous year	**6**	105
STC	**—**	62
	2 969	2 105
Deferred		
Deferred taxation (refer to note 16.1)	**(481)**	(701)
Accelerated tax depreciation	**(153)**	43
Allowances for loan losses	**732**	(234)
Other provisions	**307**	129
Other temporary differences	**(1 385)**	(660)
Retirement benefit asset	**18**	21
	2 488	1 404
Reconciliation between operating profit and the taxation expense		
Operating profit before income tax	**8 985**	7 040
Tax calculated at a tax rate of 28%	**2 516**	1 971
Effect of different tax rates in other countries	**98**	(308)
Expenses not deductible for tax purposes	**103**	56
Income not subject to tax	**(493)**	(389)
Other	**264**	12
STC	**—**	62
	2 488	1 404

The effective STC rate is lower than the statutory rate of 10% due to STC being provided for dividends declared net of dividends received and unutilised STC credits from previous years.

Notes to the Company financial statements

For the year ended 31 December

	Company 2010 Rm	Company 2009 Rm
36. Earnings per share		
Basic and diluted 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 ordinary equity holder of the Company	**6 177**	5 215
Weighted average number of ordinary shares in issue (millions)	**369,9**	362,1
Issued shares at the beginning of the year (millions)	**367,7**	359,1
Effect of shares issued during the year (weighted millions)	**2,2**	3,0
Basic earnings per share (cents)	**1 669,9**	1 440,2
Diluted earnings per share (cents)	**1 669,9**	1 440,2

37. Headline earnings

	Company 2010 Gross Rm	Company 2010 Net[1] Rm	Company 2009 Gross Rm	Company 2009 Net[1] Rm
Headline earnings is determined as follows:				
Profit attributable to the ordinary equity holder of the Company		**6 177**		5 215
Adjustments for:				
IFRS 3 – Gain on bargain purchase (refer to note 49)	**(1)**	**(1)**	(150)	(150)
IAS 16 – Profit on disposal of property and equipment (refer to note 31)	**(26)**	**(22)**	(57)	(51)
IAS 21 – Recycled foreign currency translation reserve, disposal of investments in foreign operations	**—**	**—**	(15)	(15)
IAS 28 and 31 – Net profit on disposal of investments in associates and joint ventures (refer to note 29)	**—**	**—**	(15)	(13)
IAS 28 and 31 – Impairment of investments in associates and joint ventures (refer to note 33)	**47**	**37**	1 328	956
IAS 36 – Impairment of equipment and subsidiary (refer to note 33)	**51**	**46**	9	6
IAS 38 – Impairment and net profit on disposal of intangible assets (refer to note 33)	**4**	**3**	—	—
IAS 39 – Release of available-for-sale reserves[2] (refer to note 29)	**92**	**66**	(115)	(115)
IAS 39 – Impairment and net profit on disposal of available-for-sale assets[2]	**25**	**18**	25	16
Headline and diluted headline earnings		**6 324**		5 849
Headline earnings per share (cents)		**1 709,7**		1 615,3
Diluted headline earnings per share (cents)		**1 709,7**		1 615,3

Notes

[1] *The net amount is reflected after tax.*

[2] *The comparative year includes a portion of profit realised on disposal of MasterCard Incorporated shares.*

	Company	
	2010	2009
	Rm	Rm

38. Dividends per share

Dividends paid to the ordinary equity holder during the year		
16 February 2010 final dividend number 47 of 244,8 cents per ordinary share (9 February 2009: 429,6 cents)	**900**	1 300
4 August 2010 interim dividend number 48 of 326,4 cents per ordinary share (3 August 2009: 139,3 cents)	**1 200**	500
4 August 2010 special dividend to the ordinary and 'A' ordinary shareholder (1 September 2009)	**1 000**	1 050
	3 100	2 850
Dividends paid to the ordinary equity holder relating to income for the year		
4 August 2010 interim dividend number 48 of 326,4 cents per ordinary share (3 August 2009: 139,3 cents)	**1 200**	500
4 August 2010 special dividend to the ordinary and 'A' ordinary shareholder (1 September 2009)	**1 000**	1 050
15 February 2011 final dividend number 49 of 360,9 cents per ordinary share (16 February 2010: 244,8 cents)	**1 350**	900
	3 550	2 450

The STC payable by the Company in respect of the dividend approved and declared subsequent to the reporting date, amounts to R135 million (2009: R90 million). No provision has been made for this dividend and the related STC in the financial statements at the reporting date.

Dividends paid to preference equity holders during the year		
16 February 2010 final dividend number 8 of 3 280,3 cents per preference share (9 February 2009: 4 734,5 cents)	**162**	234
4 August 2010 interim dividend number 9 of 3 197,5 cents per preference share (3 August 2009: 3 799,0 cents)	**158**	187
	320	421
Dividends paid to preference equity holders relating to income for the year		
4 August 2010 interim dividend number 9 of 3 197,5 cents per preference share (3 August 2009: 3 799,0 cents)	**158**	187
15 February 2011 final dividend number 10 of 2 887,6 cents per preference share (16 February 2010: 3 280,3 cents)	**143**	162
	301	349

The STC payable by the Company in respect of the dividend approved and declared subsequent to the reporting date amounts to R14 million (2009: R16 million). No provision has been made for this dividend and the related STC in the financial statements at the reporting date.

39. Related parties

Refer to note 43 of the Bank's financial statements for the full disclosure of related party transactions.

39.1 Balances and transactions with subsidiaries

The following are balances with and transactions entered into with, subsidiaries:

Balances		
Trading and hedging portfolio assets	**56**	(62)
Deposits from banks	**(3 822)**	(682)
Trading and hedging portfolio liabilities	**(42)**	3
Debt securities in issue	**(2 144)**	(3 236)
Transactions		
Interest and similar income	**(574)**	(843)
Interest expense and similar charges	**478**	77
Net fee and commission income	**(441)**	(403)
Gains and losses from banking and trading activities	**423**	(47)
Operating expenses	**(553)**	(425)

Notes to the Company financial statements

For the year ended 31 December

	Company 2010 Rm	Company 2009 Rm
40. Assets under management and administration		
Other	—	959
Portfolio management	**4 779**	2 917
Unit trusts	**119**	122
	4 898	3 998
41. Financial guarantee contracts		
Financial guarantee contracts	**5 102**	4 393

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.

	Company 2010 Rm	Company 2009 Rm
42. Commitments		
Authorised capital expenditure		
Contracted but not provided for	**882**	728

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 2010 Rm	Company 2009 Rm
Operating lease payments due		
No later than one year	**1 029**	1 149
Later than one year and no later than five years	**1 965**	2 131
Later than five years	**386**	307
	3 380	3 587

The operating lease commitments comprise a number of separate operating leases in relation to property 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.

	Company 2010 Rm	Company 2009 Rm
43. Contingencies		
Guarantees	**11 052**	11 844
Irrevocable debt facilities	**48 901**	54 352
Irrevocable equity facilities	**750**	—
Letters of credit	**4 653**	4 581
Other contingencies	**43**	5
	65 399	70 782

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.

Legal proceedings

The Company has been party to proceedings against it during the year, and as at the reporting date the following cases need further disclosure:

» the Company received a claim for R201 million from the curators of the Ovation Group (OG) for allegedly opening an incorrectly designated bank account for a company in the OG, which account was later used for fraudulent purposes. The basis of the claim is that the Company owed a duty of care, both in opening and monitoring the account, to all the companies in the OG. The curators wish to amend the particulars of claim and reduce the amount claimed by R70 million to R129,5 million. The Company is opposing the amendment on the basis that the claim does not sustain a cause of action.

There are a number of other legal or potential claims against the Company, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or a group basis. Provision is made for all liabilities which are expected to materialise.

43. Contingencies *(continued)*

Regulatory matters

The scale of regulatory change remains challenging and the global financial crisis is resulting in a significant tightening of regulation and changes to regulatory structures globally, especially for companies that are deemed to be of systemic importance. Concurrently, there is continuing political and regulatory scrutiny of the operation of the banking and consumer credit industries globally which, in some cases, is leading to increased regulation. The nature and impact of future changes in the legal framework, policies and regulatory action cannot currently be fully predicted and are beyond the Company's control, but especially in the area of banking regulation, are likely to have an impact on the Company's businesses and earnings.

The Company is continuously evaluating its compliance programmes and controls in general. As a consequence of these compliance programmes and controls, including monitoring and review activities, the Company has also adopted appropriate remedial and/or mitigating steps, where necessary or advisable, and made disclosures on material findings as and when appropriate.

	Company 2010 Rm	2009 Rm
44. Cash and cash equivalents		
Cash, cash balances and balances with central banks	**4 431**	4 460
Loans and advances to banks	**343**	860
	4 774	5 320

45. Fair value of financial instruments

The table below summarises the carrying amounts and fair values of those financial instruments not held at fair value:

	Company 2010 Carrying value Rm	2010 Fair value Rm	2009[1] Carrying value Rm	2009[1] Fair value Rm
Financial assets				
Balances with the SARB	**12 912**	**12 912**	10 983	10 983
Coins and bank notes	**4 431**	**4 431**	4 459	4 459
Cash, cash balances and balances with central banks (refer to note 2)	**17 343**	**17 343**	15 442	15 442
Loans and advances to banks (refer to note 4)	**16 585**	**16 584**	30 589	30 587
Other assets (refer to note 6)	**10 949**	**10 949**	5 639	5 639
Retail Banking	**310 683**	**311 370**	307 487	308 013
Cheque accounts	**1 917**	**1 917**	2 080	2 080
Credit cards	**13 455**	**13 455**	12 672	12 672
Instalment credit agreements	**36 727**	**37 105**	35 787	36 087
Loans to associates and joint ventures	**4 827**	**4 827**	6 187	6 187
Microloans	**1 359**	**1 482**	2 044	2 202
Mortgages	**240 596**	**240 782**	239 467	239 535
Other	**20**	**20**	66	66
Personal and term loans	**11 782**	**11 782**	9 184	9 184
Absa Capital	**42 000**	**42 137**	47 988	48 146
Absa Business Bank	**117 524**	**117 899**	117 548	117 814
Corporate	**21 989**	**22 059**	19 248	19 248
Large and Medium	**74 088**	**74 324**	74 409	74 556
Other	**16 380**	**16 433**	18 940	19 059
Small	**5 067**	**5 083**	4 951	4 951
Other	**272**	**272**	347	347
Loans and advances to customers – net of impairment (refer to note 8)	**470 479**	**471 678**	473 370	474 320
Loans to Absa Group companies (refer to note 10)	**8 998**	**8 998**	13 585	13 585
Total	**524 354**	**525 552**	538 625	539 573

Note

[1]*Comparatives have been reclassified, refer to note 1.1.*

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45. Fair value of financial instruments *(continued)*

	Company			
	2010		2009[1]	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Financial liabilities				
Deposits from banks (refer to note 17)	**16 402**	**16 403**	32 246	32 286
Other liabilities (refer to note 19)	**5 958**	**5 958**	6 940	6 940
Call deposits	**54 686**	**54 808**	61 981	61 982
Cheque account deposits	**106 884**	**106 884**	90 087	90 087
Credit card deposits	**1 830**	**1 830**	1 868	1 868
Fixed deposits	**103 397**	**103 821**	97 136	97 383
Foreign currency deposits	**7 942**	**7 942**	7 211	7 211
Notice deposits	**11 365**	**11 371**	10 293	10 296
Other deposits	**1 565**	**1 565**	1 595	1 595
Saving and transmission deposits	**66 021**	**66 021**	62 680	62 680
Deposits due to customers (refer to note 21)	**353 690**	**354 242**	332 851	333 102
Debt securities in issue (refer to note 22)	**151 430**	**152 209**	154 158	155 628
Borrowed funds (refer to note 23)	**7 440**	**8 109**	7 221	7 436
Total	**534 920**	**536 921**	533 416	535 392

Note

[1]*Comparatives have been reclassified, refer to note 1.1.*

46. 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 reporting date, the Company did not have any compound financial instruments with multiple embedded derivatives in issue.

46.1 Derivatives held for trading

As part of the Company's trading activities, it enters into derivative transactions in the normal cause of business.

46.2 Derivatives held for hedging

As part of the Company's hedging activities, it enters into derivative transactions which are designated 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 instruments 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.

46. Derivatives *(continued)*

46.2 Derivatives held for hedging *(continued)*

The Company recognised the following gains and losses on hedging instruments and hedging items:

	Company 2010 Rm	Company 2009 Rm
Gains/(losses) on hedged items (assets) (refer to note 26)	**462**	(768)
(Losses)/gains on hedging instruments (assets) (refer to note 26)	**(369)**	690
(Losses)/gains on hedged items (liabilities) (refer to note 27)	**(504)**	410
Gains/(losses) on hedging instruments (liabilities) (refer to note 27)	**463**	(290)

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 2010 Rm	Company 2009 Rm
Ineffectiveness (outside range) (refer to note 29)	**(17)**	(16)
Ineffectiveness (inside range)	**(107)**	(197)

Derivatives designated as cash flow hedges

The objective of cash flow hedges is to protect against changes in future 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.

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 reporting date is as follows:

Company 2010	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	**1 695**	**1 049**	**528**	**220**	**62**	**9**	**3 563**
Forecast payable cash flow	**(46)**	**(12)**	**(12)**	**(14)**	**(13)**	**(49)**	**(146)**
Net cash flow before taxation	**1 649**	**1 037**	**516**	**206**	**49**	**(40)**	**3 417**

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	863	555	317	110	22	2	1 869
Forecast payable cash flow	(31)	(9)	(7)	(10)	(10)	(56)	(123)
Net cash flow before taxation	832	546	310	100	12	(54)	1 746

Notes to the Company financial statements

For the year ended 31 December

46. Derivatives *(continued)*

46.2 Derivatives held for hedging *(continued)*

The following net gains/(losses) on cash flow hedges were recycled from other comprehensive income to the profit and loss component of the statement of comprehensive income:

	Company	
	2010 Rm	2009 Rm
Interest and similar income (refer to note 26)	**1 485**	244
Interest expense and similar charges (refer to note 27)	**644**	512
Gains and losses from banking and trading activities (refer to note 29)	**115**	(3)
	2 244	753

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	
	2010 Rm	2009 Rm
Ineffectiveness (outside range) (refer to note 29)	**115**	(3)
Ineffectiveness (inside range)	**(95)**	(65)

46.3 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 (i.e. fixed rate for floating rate) or a combination of all these (i.e. 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.

46. Derivatives *(continued)*

46.3 Detailed breakdown of derivatives *(continued)*

	Company					
	2010				2009	
	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 forwards	**22 703**	**802**	**1 256**	**(454)**	303 205	(348)
Currency swaps	**310 804**	**(655)**	**11 023**	**(11 678)**	10 232	(645)
Over-the-counter (OTC) foreign exchange options	**18 469**	**298**	**630**	**(332)**	17 042	206
OTC foreign exchange options purchased	**9 517**	**630**	**630**	**—**	8 975	525
OTC foreign exchange options written	**8 952**	**(332)**	**—**	**(332)**	8 067	(319)
Other OTC foreign exchange derivatives	**—**	**—**	**—**	**—**	27 278	(9)
Exchange traded derivatives	**285 747**	**—**	**—**	**—**	121 618	1
Eurodollar futures	**285 718**	**—**	**—**	**—**	—	—
Exchange traded futures	**29**	**—**	**—**	**—**	121 618	1
	637 723	**445**	**12 909**	**(12 464)**	479 375	(795)
Interest rate derivatives						
Forward rate agreements (FRAs)	**1 316 018**	**(454)**	**1 301**	**(1 755)**	1 217 162	116
Currency interest rate swaps	**131 495**	**(616)**	**4 480**	**(5 096)**	172 536	(596)
Swaps	**31 628**	**(82)**	**6**	**(88)**	38 014	49
Interest rate swaps	**1 178 790**	**1 508**	**23 011**	**(21 503)**	1 149 922	99
OTC options on FRAs and swaps	**158 715**	**56**	**379**	**(323)**	270 239	(40)
OTC options on FRAs and swaps purchased	**88 010**	**379**	**379**	**—**	108 261	276
OTC options on FRAs and swaps written	**70 705**	**(323)**	**—**	**(323)**	161 978	(316)
OTC bond option contracts	**—**	**—**	**—**	**—**	3 702	(1)
OTC bond options purchased	**—**	**—**	**—**	**—**	2 002	10
Other bond options written	**—**	**—**	**—**	**—**	1 700	(11)
Other OTC interest rate derivatives	**296**	**33**	**74**	**(41)**	643	31
Exchange traded derivatives	**10 904**	**1**	**3**	**(2)**	10 880	(1)
Exchange traded options on FRAs and swaps purchased	**10 027**	**2**	**3**	**(1)**	—	—
Exchange traded options on FRAs and swaps written	**877**	**(1)**	**—**	**(1)**	10 880	(1)
	2 827 846	**446**	**29 254**	**(28 808)**	2 863 098	(343)
Balance carried forward	**3 465 569**	**891**	**42 163**	**(41 272)**	3 342 473	(1 138)

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46. Derivatives *(continued)*

46.3 Detailed breakdown of derivatives *(continued)*

	Company					
	2010				2009	
	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	**3 465 569**	**891**	**42 163**	**(41 272)**	3 342 473	(1 138)
Equity derivatives						
OTC options purchased	**11 606**	**422**	**422**	**—**	13 785	1 436
OTC options written	**16 062**	**(1 239)**	**—**	**(1 239)**	18 409	(4 860)
Equity futures	**5 936**	**(47)**	**188**	**(235)**	230	(191)
Other OTC equity derivatives	**45 519**	**(287)**	**136**	**(423)**	10 782	(406)
OTC equity derivatives	**79 123**	**(1 151)**	**746**	**(1 897)**	43 206	(4 021)
Exchange traded derivatives	**16 292**	**47**	**112**	**(65)**	84 120	(1)
Exchange traded options purchased	**7 942**	**112**	**112**	**—**	23 444	—
Exchange traded options written	**8 350**	**(65)**	**—**	**(65)**	37 045	—
Exchange traded futures	**—**	**—**	**—**	**—**	23 631	(1)
Other exchange traded equity derivatives	**—**	**—**	**—**	**—**	148	(59)
	95 415	**(1 104)**	**858**	**(1 962)**	127 474	(4 081)
Commodity derivatives						
Agricultural forward	**104**	**6**	**12**	**(6)**	5	—
OTC agricultural options	**154**	**(10)**	**1**	**(11)**	109	9
OTC agricultural options purchased	**27**	**1**	**1**	**—**	3	9
OTC agricultural options written	**127**	**(11)**	**—**	**(11)**	106	—
OTC options on gold	**226**	**(1)**	**8**	**(9)**	9 640	(4)
OTC gold options purchased	**142**	**5**	**8**	**(3)**	4 860	2 310
OTC gold options written	**84**	**(6)**	**—**	**(6)**	4 780	(2 314)
Other OTC commodity derivatives	**3 000**	**119**	**247**	**(128)**	5 557	(14)
OTC commodity derivatives	**3 484**	**114**	**268**	**(154)**	15 311	(9)
Exchange traded agricultural derivatives	**16 396**	**33**	**33**	**—**	11 485	—
Exchange traded agricultural derivatives purchased	**185**	**—**	**—**	**—**	637	—
Exchange traded agricultural derivatives written	**256**	**—**	**—**	**—**	635	—
Exchange traded agricultural futures	**15 955**	**33**	**33**	**—**	10 213	—
Exchange traded gold derivatives purchased	**—**	**—**	**—**	**—**	13 166	11
	19 880	**147**	**301**	**(154)**	39 962	2
Credit derivatives						
Credit derivatives purchased (swaps)	**—**	**—**	**—**	**—**	1 694	45
Credit derivatives written (swaps)	**—**	**—**	**—**	**—**	8 514	(30)
OTC credit derivatives purchased (options)	**2 197**	**(58)**	**4**	**(62)**	—	—
OTC credit derivatives written (options)	**6 884**	**70**	**90**	**(20)**	—	—
Embedded derivatives	**5 781**	**(25)**	**24**	**(49)**	2 413	22
	14 862	**(13)**	**118**	**(131)**	12 621	37
Total trading	**3 595 726**	**(79)**	**43 440**	**(43 519)**	3 522 530	(5 180)
Balance carried forward	**3 595 726**	**(79)**	**43 440**	**(43 519)**	3 522 530	(5 180)

46. Derivatives *(continued)*

46.3 Detailed breakdown of derivatives *(continued)*

	Company					
	2010				2009	
	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	**3 595 726**	**(79)**	**43 440**	**(43 519)**	3 522 530	(5 180)
Hedging						
Cash flow hedges						
Interest rate swaps	**126 962**	**3 719**	**3 813**	**(94)**	105 975	1 852
Forward foreign exchange	**—**	**—**	**—**	**—**	117	(38)
	126 962	**3 719**	**3 813**	**(94)**	106 092	1 814
Fair value hedges						
Currency swaps	**6 966**	**(556)**	**—**	**(556)**	6 004	121
Interest rate swaps	**31 919**	**(382)**	**849**	**(1 231)**	2 359	58
	38 885	**(938)**	**849**	**(1 787)**	8 363	179
Total hedges	**165 847**	**2 781**	**4 662**	**(1 881)**	114 455	1 993
Total derivative instruments	**3 761 573**	**2 702**	**48 102**	**(45 400)**	3 636 985	(3 187)

Derivative assets and liabilities subject to counterparty netting agreements amounted to R30 522 million (2009: R20 059 million). Additionally, the Company held R990 million (2009: R999 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 therefore the aggregate fair values of derivative financial instruments can fluctuate significantly from time to time.

Fair value

The amounts disclosed represent the fair value as at the reporting date of all derivative financial instruments held. Positive amounts reflect positive fair values, while amounts indicated in brackets reflect negative fair values.

Notes to the Company financial statements

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47. Fair value hierarchy disclosures

47.1 Valuation methodology

The table below shows the Company's financial instruments 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.

	Company			
	2010			
	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)	26 656	—	—	26 656
Investments securities (refer to note 11)	479	—	95	574
Financial assets designated at fair value through profit or loss				
Statutory liquid asset portfolio (refer to note 3)	778	2 685	—	3 463
Loans and advances to banks (refer to note 4)	—	7 047	—	7 047
Loans and advances to customers (refer to note 8)	—	4 212	4 978	9 190
Investment securities (refer to note 11)	2 475	3 095	4 707	10 277
Financial assets held for trading (refer to note 5)				
Derivative assets	158	43 184	98	43 440
Trading assets	10 746	1 989	966	13 701
Hedging assets	—	4 662	—	4 662
Total financial assets	**41 292**	**66 874**	**10 844**	**119 010**
Financial liabilities designated at fair value through profit or loss				
Deposits from banks (refer to note 17)	—	5 499	—	5 499
Other liabilities (refer to note 19)	—	—	—	—
Deposits due to customers (refer to note 21)	32	8 324	8 499	16 855
Debt securities in issue (refer to note 22)	—	3 471	73	3 544
Borrowed funds (refer to note 23)	739	—	—	739
Financial liabilities held for trading (refer to note 18)				
Derivative liabilities	—	42 928	591	43 519
Trading liabilities	11	—	—	11
Hedging liabilities	—	1 881	—	1 881
Total financial liabilities	**782**	**62 103**	**9 163**	**72 048**

Notes

[1] *The nature of the valuation techniques is summarised in note 47.2.*

[2] *The nature of the valuation techniques is summarised in note 47.3.*

	Company			
	2009			
	Valuations with reference to observable prices	Valuations based on observable inputs	Valuations based on un-observable inputs	
	Level 1[1]	Level 2[1]	Level 3[2]	Total
	Rm	Rm	Rm	Rm
	17 904	—	—	17 904
	499	42	175	716
	3 636	—	—	3 636
	—	2 403	—	2 403
	—	3 958	4 504	8 462
	3 702	2 996	5 090	11 788
	30	30 954	793	31 777
	11 872	3 097	—	14 969
	—	2 558	—	2 558
	37 643	46 008	10 562	94 213
	—	8 014	—	8 014
	—	—	274	274
	—	2 118	8 385	10 503
	—	4 402	246	4 648
	718	—	—	718
	19	35 820	1 118	36 957
	—	—	—	—
	—	565	—	565
	737	50 919	10 023	61 679

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47.2 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 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.

47.3 Valuations based on unobservable inputs

Valuations based on unobservable inputs include:

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 investments.

47. Fair value hierarchy disclosures *(continued)*

47.3 Valuations based on unobservable inputs *(continued)*

(vii) Discount rates

Discount rates are key inputs in the valuation of certain private equity investments. Discount rates are unobservable for some 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 instruments

Equity 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 by using valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs.

Also included in equity instruments 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 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 instruments. 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.

Notes to the Company financial statements

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47. Fair value hierarchy disclosures *(continued)*

47.4 Movements on financial instruments subsequently measured at fair value using valuations based on unobservable inputs (level 3)

Company

2010

	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss		Financial assets held for trading		Financial liabilities designated at fair value through profit or loss			Financial liabilities held for trading	
	Investment securities Rm	Loans and advances to customers Rm	Investment securities Rm	Trading assets Rm	Total financial assets excluding derivatives Rm	Other liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Net derivatives Rm	Total financial liabilities including net derivatives Rm
Opening balance	175	4 504	5 090	—	9 769	274	8 385	246	325	9 230
Net interest income	—	(227)	—	—	(227)	—	—	—	—	—
Gains and losses from banking and trading activities	3	(276)	34	—	(239)	—	867	6	(23)	850
Other comprehensive income	(21)	—	—	—	(21)	—	—	—	—	—
Purchases	—	1 781	2 449	966	5 196	376	—	—	(11)	365
Sales	—	(116)	(2 810)	—	(2 926)	—	—	—	—	—
Issues	—	—	—	—	—	—	619	3	101	723
Settlements	(104)	(1 212)	—	—	(1 316)	(650)	(1 102)	(5)	14	(1 743)
Movement in/(out) of level 3[1]	42	524	(56)	—	510	—	(270)	(177)	87	(360)
Closing balance	95	4 978	4 707	966	10 746	—	8 499	73	493	9 065

2009

	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss		Financial assets held for trading		Financial liabilities designated at fair value through profit or loss			Financial liabilities held for trading	
	Investment securities Rm	Loans and advances to customers Rm	Investment securities Rm	Trading assets Rm	Total financial assets excluding derivatives Rm	Other liabilities Rm	Deposits due to customers Rm	Debt securities in issue 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.*

47. Fair value hierarchy disclosures *(continued)*

47.5 Total unrealised gains and losses for the year on the level 3 positions held at the reporting date

Company

2010

	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 securities Rm	Loans and advances to customers Rm	Investment securities 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
Net interest income/(charges)	—	(112)	—	(112)	—	—	—	—	—
Gains and (losses) from banking and trading activities	142	179	77	398	—	(861)	4	(261)	(1 118)
	142	67	77	286	—	(861)	4	(261)	(1 118)

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 securities Rm	Loans and advances to customers Rm	Investment securities 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
Net interest income/(charges)	9	398	—	407	—	(560)	(4)	—	(564)
Gains and (losses) from banking and trading activities	—	(326)	(775)	(1 101)	(133)	149	(5)	(286)	(275)
	9	72	(775)	(694)	(133)	(411)	(9)	(286)	(839)

Notes to the Company financial statements

For the year ended 31 December

47. Fair value hierarchy disclosures *(continued)*

47.6 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 a reasonable range of possible outcomes.

	Company				
	2010				
	Significant unobservable parameters[1]	Potential effect recorded in profit and loss		Potential effect recorded directly in equity	
		Favourable Rm	Unfavourable Rm	Favourable Rm	Unfavourable Rm
Loans and advances designated at fair value through profit or loss	i, iii, iv, v, vi, vii	140	454	—	—
Net derivatives	i, iii	10	9	—	—
Private equity	v, vi, vii	766	766	—	4
Structured notes and deposits designated at fair value through profit or loss	iv	46	51	—	—
Trading assets	i	7	7	—	—
		969	**1 287**	**—**	**4**

	2009				
	Significant unobservable parameters[1]	Potential effect recorded in profit and loss		Potential effect recorded directly in equity	
		Favourable Rm	Unfavourable Rm	Favourable Rm	Unfavourable Rm
Loans and advances designated at fair value through profit or loss	iii	84	240	—	—
Net derivatives	i, ii, iii, iv	9	11	—	—
Private equity	v, vi, vii	749	699	—	—
Structured notes and deposits designated at fair value through profit or loss	iv	59	64	—	—
		901	1 014	—	—

Note

Refer to note 47.3 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
Credit derivatives	Credit spreads	100 bps	–100 bps
Equity derivatives	Volatilities	10%	–10%
Foreign currency options	Volatilities	10%	–10%
Foreign currency swaps and foreign interest rate products	Basis risk and yield curve	100 bps	–100 bps
Loans and advances designated at fair value through profit or loss	Credit spreads	100 bps	–100 bps
Private equity	Future earnings and marketability discounts Comparator multiples Discount rates	15%	–15%
Structured notes and deposits designated at fair value through profit or loss	Yield curve	100 bps	–100 bps

48. 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 2010 Rm	Company 2009 Rm
Opening balance	**24**	—
New transactions	**84**	28
Amounts recognised in the profit and loss component of the statement of comprehensive income	**(35)**	(4)
Closing balance	**73**	24

49. Acquisitions and disposals of businesses

49.1 Acquisitions of businesses during the current year

On 30 June 2010, the VMSA joint venture arrangement was terminated. This was based on a contractually agreed arrangement whereby, depending on the financial performance of the joint venture, its future existence will be determined. Due to the underperformance of the joint venture, the arrangement was terminated and the Company acquired the underlying business. The termination resulted in the Company selling its 50% interest in VMSA for R1, while acquiring VMSA's credit and home loan business for R1. VMSA's credit card and home loan business contributed a net profit before tax of R40 million and revenue of R57 million to the Company for the period from 30 June 2010 to 31 December 2010. If the acquisition occurred on 1 January 2010, the Company's revenue would have been R116 million higher and the net profit before tax for the year would have been R21 million higher.

Details of the net assets acquired and gain on bargain purchase are as follows:	Company 2010 Fair value recognised on acquisition Rm
Intangible assets	**3**
Other liabilities	**(1)**
Deferred tax liabilities	**(1)**
Net assets acquired	**1**
Satisfied by:	
Fair value of net assets acquired	**(1)**
Gain on bargain purchase	**(1)**

This bargain purchase gain arose primarily due to the underperformance of the underlying VMSA credit card and home loan portfolio. No contingent liabilities were recognised as a result of the acquisition and no contingent consideration is payable. No identifiable assets were identified of which the fair values could not be reliably measured. No material receivables were acquired as part of the transaction.

Notes to the Company financial statements

For the year ended 31 December

49. Acquisitions and disposals of businesses

49.2 Acquisitions of businesses during the previous 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 net assets acquired and gain on bargain purchase are as follows:	Company 2009 Fair value recognised on acquisition 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
Gain on bargain purchase	(150)

50. Financial risks

Refer to note 56 of the Bank's financial statements.

Shareholder information

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Shareholder information

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Important shareholder information.

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Ordinary shareholders

As at 31 December

	2010 Number of shares held	2010 %	2009 Number of shares held	2009 %
Major ordinary shareholders				
» Absa Group Limited (including "A" ordinary shares)	**374 111 991**	**100,0**	367 675 520	100,0
Shareholder type				
» Principal shareholder (Absa Group Limited)	**374 111 991**	**100,0**	367 675 520	100,0
» Private Investors	**—**	**—**	—	—
Total	**374 111 991**	**100,0**	367 675 520	100,0

Ordinary shareholders – Public and non-public shareholders

As at 31 December

	2010 Number of share-holders	2010 Number of shares held	2010 %	2009 Number of share-holders	2009 Number of shares held	2009 %
Public shareholders	**—**	**—**	**—**	—	—	—
Non-public shareholders						
» Absa Group Limited	**1**	**374 111 991**	**100,0**	1	367 675 520	100,0
Total	**1**	**374 111 991**	**100,0**	1	367 675 520	100,0

Major preference shareholders

As at 31 December

	2010 Number of shares held	2010 %	2009 Number of shares held	2009 %
Liberty Group	**377 579**	**7,64**	442 997	8,96
Coronation Fund Managers	**318 046**	**6,43**	415 607	8,41
Real Return Focus Fund	**143 758**	**2,91**	—	—
Corolife Absolute Portfolio	**98 999**	**2,00**	98 999	2,00
Outsurance Insurance Company Limited	**94 533**	**1,91**	77 311	1,56
Sanpref (Proprietary) Limited (Sanlam)	**90 000**	**1,82**	—	—
Nedbank Inflation Beater Fund	**89 872**	**1,82**	—	—
Capital Alliance Shareholder Fund	**89 275**	**1,81**	89 275	1,81
RMA Life Assurance Company Limited	**88 218**	**1,78**	—	—
URD Beleggings (Sanlam)	**78 250**	**1,58**	—	—
Grindrod Diversified Preference Share Fund	**77 660**	**1,57**	—	—
Absa Absolute Fund	**75 000**	**1,52**	—	—
Stanlib Multi-Manager Flexible Property Fund	**69 925**	**1,41**	69 925	1,41

Public and non-public preference shareholders

As at 31 December

	2010 Number of share-holders	2010 Number of shares held	2010 %	2009 Number of share-holders	2009 Number of shares held	2009 %
Public shareholders	**4 770**	**3 950 993**	**79,94**	4 738	493 577	99,97
Non-public shareholders						
» Directors and associates of the company (direct and indirect)	**4**	**2 942**	**0,03**	3	1 262	0,03
» Strategic holdings	**1**	**990 904**	**20,03**	—	—	—
Total	**4 775**	**4 944 839**	**100,00**	4 741	4 944 839	100,00

Distribution of preference shareholders

As at 31 December

	2010		2009	
	Number of shares held	**%**	Number of shares held	%
Mutual funds	**1 698 110**	**34,34**	1 739 856	35,19
Individuals	**1 164 145**	**23,54**	1 071 844	21,68
Nominees and trusts	**815 478**	**16,49**	799 564	16,17
Private companies	**454 157**	**9,18**	468 945	9,48
Insurance companies	**416 069**	**8,41**	439 073	8,88
Pension funds	**161 334**	**3,26**	260 740	5,27
Close corporations	**78 326**	**1,58**	39 150	0,79
Investment companies	**50 321**	**1,02**	20 296	0,41
Medical schemes	**30 028**	**0,61**	34 219	0,69
Endowment funds	**28 763**	**0,58**	33 817	0,68
Other corporations	**22 487**	**0,45**	15 883	0,32
Public companies	**21 196**	**0,43**	17 394	0,35
Brokers	**2 671**	**0,05**	1 090	0,02
Banks	**1 254**	**0,03**	2 468	0,05
Share trusts	**500**	**0,01**	500	0,01
Total	**4 944 839**	**100,00**	4 944 839	100,00

Preference dividends

The following preference dividends were declared for the year ended 31 December 2010:

	Dividend number	Dividend amount (cents per share)
1 March 2010 – 31 August 2010	9	3 197,5
1 September 2010 – 28 February 2011	10	2 887,6

Shareholders' diary

Financial year-end	**31 December 2010**
Announcements	
Announcement of final results	**15 February 2011**
Announcement of interim results[1]	**2 August 2011**

Dividend dates

Dividend	**Declaration date**	**Last day to trade**	**Ex dividend date**	**Record date**	**Payment date**
Final December 2010	**15 Feb 2011**	**4 Mar 2011**	**7 Mar 2011**	**11 Mar 2011**	**14 Mar 2011**
Interim June 2011[1]	**2 Aug 2011**	**19 Aug 2011**	**22 Aug 2011**	**26 Aug 2011**	**29 Aug 2011**

Note

[1]*Subject to change.*

Reference tools

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Reference tools

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Reference tools to assist the reader.

Glossary

Abbreviations and acronyms used in the Absa Bank annual report for the year ended 31 December 2010

A

Abacas Asset Backed Collaterised Securities (Proprietary) Limited

ABB Absa Business Bank

AbCap Absa Capital

AEaR annual earnings at risk

AGM annual general meeting

AIRB Advanced Internal Ratings Based

Alco Group Alco and Balance Sheet Management Committee

AMA Advanced Measurement Approach

AMP Advanced Management Programme

Amrich Amrichprop 49 Properties (Proprietary) Limited

B

Basel II Basel II Capital Accord

BBBEE broad-based black economic empowerment

BESA Bond Exchange South Africa

BFC Board Finance Committee

bps basis points

BU business unit

C

CA Companies Act, 2008

CAPM capital asset pricing model

Cars Collateralised Auto Receivables Securitisation (Proprietary) Limited

CE Chief Executive

CEM Current Exposure Method

CGU cash generating unit

CODM chief operating decision maker

CoE cost of equity

CoRC Concentration Risk Committee

CPF Commercial Property Finance

CPI consumer price index

CRC Credit Risk Committee

CRES Corporate Real Estate Services

CRM credit risk mitigation

CRO Chief Risk Officer

D

DAC Directors' Affairs Committee

DAP Deferred Award Plan

DG default grade

Devco Absa Development Company Holdings (Proprietary) Limited

DVaR daily value at risk

E

EAD exposure at default

EC economic capital

ECSAFA Eastern, Central and Southern African Federation of Accountants

EL expected loss

EPS earnings per share

ESAS Executive Share Award Scheme

EVE economic value of equity

EWL early warning lists

Exco Executive Committee

Glossary

F	
FAIS	Financial Advisory and Intermediary Services Act, No 37 of 2002
FASSA	Fellow of the Actuarial Society of South Africa
FIA	Financial Intermediaries Association
FIRB	Foundation Internal Ratings Based
FSA	Financial Services Authority
FSB	Financial Services Board

G	
GAAP	Generally Accepted Accounting Practice
GACC	Group Audit and Compliance Committee
GIC	Group Investment Committee
GMSLA	Global Master Securities Lending Arrangement
GRCMC	Group Risk and Capital Management Committee
GRHRC	Group Remuneration and Human Resources Committee

H	
HEPS	headline earnings per share
HIV	human immunodeficiency virus
Homes	Home Obligors Mortgage Enhanced Securities (Proprietary) Limited

I	
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAAP	internal capital adequacy assessment process
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretation Committee
IFRS	International Financial Reporting Standards
IMA	Internal Models Approach
Insurance	Short-term Insurance
IRB	Internal Ratings Based
ISDA	International Swaps and Derivatives Association
IT	information technology

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	Code of Governance Principles for South Africa, 2009

L	
LERC	Legal Entity Review Committee
LGD	loss given default
LTV	loan-to-value

M	
MRC	Market Risk Committee
MTM	mark-to-market

N	
NCDs	Negotiable certificates of deposits

O

OG	Ovation Group
OTC	over-the-counter

P

PD	probability of default
PIT	point-in-time
PLC	public listed company
PRO	Principal Risk Owner
PRP	principal risks policy
PSP	Performance Share Plan

R

R	rand
RC	regulatory capital
RoEC	return on average economic capital
RoRC	return on regulatory capital
RSA	Republic of South Africa
RWAs	risk-weighted assets

S

SA	Standardised Approach
SAICA	South African Institute of Chartered Accountants
Sanlam	Sanlam Life Insurance Limited
SARB	South African Reserve Bank
SHL	Sanlam Home Loans
SIC	Standard Industry Classification or Standing Interpretations Committee
SME	small and medium enterprises
SPE	special purpose entity
STC	secondary taxation on companies

T

TPRR	Trading Position Risk Review Forum
TRC	Trading Risk Committee
TTC	through-the-cycle

U

UK	United Kingdom
UK Code	UK Corporate Governance Code

V

VAF	Vehicle and Asset Finance
VAT	value added tax
VMSA	Virgin Money South Africa (Proprietary) Limited

Z

ZAR	South African rand

Administration and contact details

Absa Bank Limited

Authorised financial services and registered credit provider (NCRCP7)
Registration number: 1986/004794/06
JSE share code: ABSP
ISIN: ZAE000079810

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Reporting fraud and corruption

Absa Fraud Hotline: 0860 557 557